asian-oceanian standard-setters group

29 July 2022

Mr Emmanuel Faber
Chair
International Sustainability Standards Board
7 Westferry Circus
Canary Wharf
London, E14 4HD
United Kingdom

Dear Mr. Faber,

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the Exposure Draft *ED/2022/S2 Climate-related Disclosures* (ED IFRS S2) proposed by the International Sustainability Standards Board ("the ISSB" or "the Board"). In formulating these comments, the views of the constituents within each jurisdiction were sought and considered.

The AOSSG currently has 27 member standard-setters from the Asian-Oceanian region: Australia, Bangladesh, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam. To the extent feasible, this submission to the ISSB reflects in broad terms the collective views of AOSSG members. The intention of the AOSSG is to enhance the input to the ISSB from the Asia-Oceania region and not to prevent the ISSB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their comments. In responding to ED IFRS S2, AOSSG members have provided their responses to the questions as described in Appendix of this submission.

All AOSSG member standard-setters appreciate the ISSB's great and continuous efforts in improving the IFRS Sustainability Disclosure Standards, and have identified several comments or suggestions to each question as following:

Question 1—Objective of the Exposure Draft

All AOSSG members agree with the objective. They also believe the objective focuses 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 and the disclosure requirements are sufficient.

However, some members have the following considerations:

- A few members point out some definition should be clarified, such as the scope of "climate-related risks and opportunities" in BC49 and four attributes of "input", "activities", "outputs" and "outcomes" in paragraph 1(b).
- One member suggests the ISSB provide more guidance on "enterprise value".
- One member recommends the ISSB note the different situation of each jurisdiction and points out quantifying GHG effects on an entity's enterprise value is still difficult as the cause and effect and how it works are not yet fully established.
- One member recommends redrafting aspects of the paragraph to provide clarity and to avoid duplication within the [draft] standard.

Question 2—Governance

All AOSSG members agree with the proposed disclosure requirements for governance processes, controls, and procedures. In additional, some of them have the following suggestions:

- Two members believe the requirement is duplicated between ED IFRS S1 and ED IFRS S2 and recommend the ISSB shall avoid the duplication.
- Two members suggest additional disclosure of the performance of the governance team based on its own terms of reference will provide information on the execution of the ToR.
- One member recommends the ISSB provide guidance on the criteria used to assess the skills of the entities' management or committees.
- One member recommends that the ISSB require additional disclosures regarding the continuous re-assessment of material climate risks and opportunities.
- One member suggests including information on how the board of entities would act on the information they receive about climate-related risks and opportunities.

Question 3—Identification of climate-related risks and opportunities

In terms of the applicability of disclosure topics, all AOSSG members raise their concerns. Especially, one member disagrees with the proposed requirement. Meanwhile, four members recommend Appendix B should be a non-mandatory guideline or an illustrative guidance, and one member believes the leniency of those standards should be given to each national standard setter. Besides, there are some other suggestions as below:

- Three members suggest ED IFRS S2 should provide guidance of what constitutes the "short, medium and long term" to help foster consistency.
- Two members recommend the ISSB provide more guidance on identifying when climate-related risks and opportunities are considered significant.

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

All AOSSG members generally 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 while recommend a limited and easier to implement, basic set of mandatory principles and requirements or to change the disclosure from mandatory requirements to a voluntary basis.

The members have different opinions on the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative or quantitative:

- Three members agree with the disclosure should be qualitative.
- One member recommends the ISSB to consider requiring entities to disclose quantitative information over significant concentration of risks and opportunities where such information can be obtained without undue costs and effort.
- One member believes that it needs to be mixed as certain measurements need to be measured quantitatively and others need to be measured qualitatively.

Question 5—Transition plans and carbon offsets

There are diverse views on the transition plan:

- Five members generally agree with the requirement for the transition plan.

- One member foresees inconsistencies between this requirement and IFRS Accounting Standards and recommends additional disclosure of certainties associated to these transition plans and disclosures of the relationship between the transitional plans and the financial statement numbers will be useful.
- One member suggests requiring disclosure on the rationale behind the transition plan implemented.

Additionally, two members also ask the ISSB to consider whether the terms relating to water and the definition of "legacy assets" in ED IFRS S2 is appropriate.

The members generally agree with proposed disclosures on carbon offsetting and believe it appropriately balance cost for preparers. Moreover, there are some suggestions as below:

- One member suggests the requirements of disclosing the time interval of the emission offset by the carbon offset to conducive to the prevention of greenwashing and the ISSB should provide detailed guidance on carbon offset disclosures.
- One member recommends the source of carbon offsets and how an entity's carbon reduction activities affect other sustainability topics (e.g., water usage and biodiversity) should be disclosed to enhance transparency of an entity's commitment to reduce its carbon footprint and connectivity between different sustainability topics.
- Two members suggest more guidance on carbon offsetting is needed such as the concept of it and one member suggests clarifying the requirement for an entity to assess the credibility through avoided emissions.

Question 6—Current and anticipated effects

There are diverse views on this proposed disclosure requirements. Four members generally 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, and 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. Two members disagree with the proposal, as one member believes that it is extremely challenging and costly to disclose quantitative information on climate-related risks and opportunities, and another member points out that qualitative disclosures seems more reasonable and proposed disclosure requirements for the financial effects is already be disclosed as part of an entity's financial statements. Meanwhile the members also suggest as below:

- One member suggests an additional disclosure explaining why it is unable to disclose quantitative information (comply or explain) to be provided.
- Two members suggest the ISSB clarify what is meant by "unable to do so".
- One member suggests including a requirement to verify this information with the information that is disclosed in the financial statements relating to the financial effects of climate-related risks and opportunities.

All AOSSG members have some concerns about disclosure of anticipated effects:

- Three members concern about the reliable of quantitative data on the anticipated effects of climate-related risks and opportunities on an entity as the methodologies are highly sensitive to the inputs and assumptions used.
- Two members concern that an entity would not be able to isolate the anticipated effects of climate or other sustainability-related risks and opportunities to the extent that produce disclosures.

- Three members suggest an additional clarification on short, medium and long term as mentioned in Question 3.

Question 7—Climate resilience

Most members believe there are practical challenges in obtaining data and using many assumptions that may or may not happen would create misleading information. Therefore, they suggest scenario analysis should be implement by a phased approach or not mandatory or even not as the preferred method. Two members believe more detailed guidance or illustrative examples on the methods or techniques for analysing climate resilience is necessary.

However, one member disagrees with the proposal that permits the use of alternative methods or techniques instead of scenario analysis to assess the climate resilience of an entity's strategy. Because permitting the use of alternative methods will create complexity for users and likely result in inconsistent and incomparable information about an entity's climate resilience.

Question 8—Risk management

All AOSSG members 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. Additionally, there are also some suggestions as below:

- Enhance the structure of existing risk management disclosure requirements to make it more logical and align with the order of identification, assessment and then management.
- Limit the disclosure requirements on risk management only to those that are significant climate-related risks and opportunities.
- Exempt entities from disclosing information that is commercially-sensitive without affecting the fairness and integrity of the information.
- Combine the risk management requirements ED IFRS 1 and ED IFRS 2 to avoid duplication of information.

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

All AOSSG members generally agree with the cross-industry metric categories of ED IFRS S2 and believe they are sufficient. Additionally, they also suggest the ISSB as below:

- Two members recommend the ISSB elaborate on the requirement for "internal carbon prices".
- Three members recommend the ISSB clarify some definition such as "internal carbon price", "assets", "business activities" and "vulnerable "in paragraphs 21(b), (c) and (d).
- One member recommends the ISSB modify the GHG emissions information and internal carbon prices to voluntary disclosures.
- Two members suggest not to disclose quantitative data. One member believes remuneration could not be the only evaluation method to assess management performance towards climate considerations other than remuneration. Another member points out detailed remuneration information has already been reported.
- One member recommends the cross-industry metric categories relating to climate-related risks and opportunities should be considered in the context of qualitative information.

Although GHG Protocol is generally accepted and globally recognized, most of the members would like to suggest that the definition and measurement of Scope 1, Scope 2 and Scope 3 emissions should not be mandatory within the proposed standard. In addition, there are some suggestions as below:

- Recommend that ED IFRS S2 provides options for companies to apply other established international protocols or those national protocols that have been developed in accordance with established international protocols.
- Require explicit disclosure of the methodologies, significant inputs, assumptions and estimates used in determining Scopes 1, 2 and 3 emissions e.g., the emissions factors used, and the limitations of methodologies used.
- Clarify that the GHG Protocol Corporate Standard refers to the 'GHG Protocol Corporate Accounting and Reporting Standard' as there are several standards issued by GHG Protocol Initiative. It should also clarify the application authority of those guidance (industry best practice or mandatory).
- Clarify what is meant by "or otherwise brought into entities boundary" under the definition of Scope 2 emissions in Appendix A.

Most members believe it is difficult to obtain emission data from associates, joint ventures, unconsolidated subsidiaries, and affiliates. One member recommends the ISSB to modify the Scope 1 and Scope 2 emissions information to voluntary disclosures, unless disclosures are mandated by jurisdictions. One member recommends that the ISSB should consider requiring the use of consistent methodologies as the reporting entity by non-controlling investments, similar to IFRS Accounting Standards requiring associates and joint ventures to use consistent accounting policies as the group.

For Scope 3 emissions, some members agree on this proposal. Two members strongly recommend that modify the mandatory disclosure of Scope 3 emissions information to a voluntary. Two members strongly recommend that the ISSB consider a phased approach for requiring quantitative Scope 3 emissions data to allow time for the market to build up capacity in the collection and recording of such data to ensure the ultimate disclosures provide meaningful information to investors. Most members point out the boundary is not clear and suggest guidance to assist entities in determining how many levels up and down the value chain they should disclose for Scope 3 emissions or refer stakeholders to relevant existing literature. Furthermore, the ISSB should consider providing additional guidance and related disclosure requirements on how to ensure the inputs and factors used in emissions disclosures are relevant for the entity.

Question 10—Targets

All AOSSG members generally agree with the proposed disclosure about climate-related targets with the following additional observations:

- Two members believe entities shall disclose comparability between their target and the latest international agreement stated in Paragraph 23 (e) is unreasonable. One member recommends the ISSB remove the requirement on 'how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party' set out in the paragraph 23(e).
- One member points out the definition of 'sectoral decarbonisation approach' in paragraph 23(f) should be clarified. One member recommends the ISSB to modify the disclosure requirements in paragraph 23(f) to be a voluntary one. One member concerns about the sectoral decarbonisation approach for the oil and gas sector.

- One member recommends to modify the term 'latest international agreement on climate change' to 'the United Nations Framework Convention on Climate Change and the Paris Agreement'. One member points out the definition of 'latest international agreement on climate change' should be further clarified.

Question 11—Industry-based requirements

Certain metrics in Appendix B might still not be applicable in many jurisdictions even though attempts have been made to internationalize them. Therefore, jurisdiction-specific measurement bases should be considered when improve the applicability of this appendix. What's more, the members have raised the following suggestions for consideration of the ISSB:

- Five members suggest changing Appendix B into a non-mandatory disclosure requirement, not as a part with the same authority as the main text of S2, but only as a guide or reference material.
- One member recommends that entities of different regions and countries can either apply other recognized international standards or those national standards formulated in accordance with internationally-recognized standards.
- Two members point out some of the metrics in Appendix B are beyond climate-related disclosure which will result in the inconsistency between ED IFRS S2 and Appendix B. The ISSB should clarify whether disclosure of the other topics is needed for an entity to comply with ED IFRS S2.

For the financed and facilitated emissions, the members have diverse views as below:

- Three members do not have recommendation or supplement on the proposal of financed and facilitated emissions.
- Two members concern there would be significant challenge on Scope 3 GHG emissions disclosure emissions.
- One member notes it is not necessary because the duplication with the cross-industry requirement to disclose Scope 3 GHG emissions.
- One member recommends disclosures for both financed emissions and facilitated emissions be modified from mandatory disclosures to voluntary ones.

In terms of industry-specific requirements, most members concern the appropriateness of the proposed industry descriptions and industry-based requirements in certain countries and believe different industry classifications and descriptions all over the world should be considered.

Question 12—Costs, benefits and likely effects

Almost all AOSSG members expect the likely implementation cost of these proposals to be significant because of data readiness, systems integration, necessary skills and expertise etc. There are diverse views about the costs and benefits:

- Three member believe the costs and benefits assessment of sustainability reporting should not be limited to purely a financial analysis and suggests that the ISSB adapt a proportionality approach in terms of timing and extent of application by the SMEs (e.g., a lighter version with fewer disclosure requirements).
- One member recommends the ISSB make guidance on the internal control processes and the improvements to be done on the resources to minimize the implement cost.

- One member points out the benefits would not outweigh the costs under certain situation like disclosure requirement of Scope 3 emissions in the Targets and Metrics and climate-related scenario analysis in the Climate resilience section.

Question 13—Verifiability and enforceability

The members identify several challenges as below:

- Auditors could verify well-defined quantitative information with appropriate internal controls and safeguards, but it is difficult to issue an opinion on the information is (a) quantitative, (b) forward-looking and (c) only expresses a vision.
- There could be challenges on source data and a reasonable timeframe an auditor takes in verifying Scope 3 emissions, in particular those arising from an entity's upstream and downstream activities as well as financed and facilitated emissions.
- It is difficult for auditors and regulators to derive their respective opinions when entities do not disclosure some information according to their application of materiality. Including an additional requirement for entities to mention their respective judgements and assumptions on materiality may be considered.
- Most requirements in ED IFRS S2 far exceed the current knowledge and technical skillsets for auditors and experts know environmental science will be needed. A developing country may not bear the cost to hire a handful of experts.
- It is challenging for auditors to perform work on sustainability-related financial disclosures and the related financial statements within a short duration as the ISSB require both sets released at the same time.

Question 14—Effective date

There are diverse views about whether ED IFRS S1 and ED IFRS S2 should have the same effective date:

- Two members support both ED IFRS S1 and ED IFRS S2 should have the same effective date because of most of the requirements of ED IFRS S2 are a subset of the broader disclosure requirements proposed by ED IFRS S1.
- Stakeholders in two members' jurisdictions have different views, some of them suggest that both ED IFRS S1 and ED IFRS S2 should have the same effective date, others suggest that ED IFRS S2 could be implemented independently from and before ED IFRS S1 to address the urgent climate issue.
- Some stakeholders in one member's jurisdiction suggest that ED IFRS S2 should be effective later than ED IFRS S1.

Most members suggest entities need sufficient time to prepare for the implementation of ED IFRS S2. They have different definition of "sufficient time":

- One member suggests at least 12 months' time to set the effective date after the final standard is issued.
- One member recommends that the effective date of the ED IFRS S2 should be 2-3 years after the date of issue with early application permitted.
- Four members suggest an implementation period of at least 3 years after the final version issued and a phased approach should be considered so the implementation could be conducted in stages.

Question 15—Digital reporting

One member has two suggestions:

- Including a guideline for the users which will develop a specific platform which will be user-friendly and comfortable in nature to operate.
- Considering the laws and regulations in respective jurisdictions when drafting ED IFRS S2 that would facilitate the development of a taxonomy and digital reporting.

Three members recommend the global alignment of sustainability disclosure taxonomy should be considered.

Question 16—Global baseline

Most members believe ED IFRS S2 would not limit the ability of IFRS Sustainability Disclosure Standards to build up the comprehensive global baseline. However, two members point out that the proposed standard could be used as a global baseline by further improving its inclusiveness, enhancing its structure and promoting its universal-applicability, and the ISSB should explicitly consider proportionality and scalability in its standard-setting activity as ED IFRS S2 will be challenging to be implemented especially in emerging countries. One member points that the [draft] standard is comprehensive and, as such, doesn't leave room for jurisdictions to build upon it.

Question 17—Other comments

Two members strongly encourage the ISSB to collaborate with the US Securities and Exchange Commission and European Financial Reporting Advisory Group (EFRAG) in terms of their respective climate-related /sustainability disclosure standards to align them as much as possible to achieve global consistency and to reduce costs for preparers and other stakeholders.

Two members suggest that there be just one universal glossary that defines all the terms used in all IFRS Sustainability Disclosure Standards instead of including an appendix to each standard defining the terms used in that standard.

One member suggests the ISSB should gradually harmonize to the global setting and leave the detailed implementation to each country's national standard setter because of the different preparedness of industries and countries.

One member reiterates significant concerns on the mandatory application of Appendix B there is no "one size fits all" metrics that are applicable to all the jurisdictions around the world.

One member has several potential editorial suggestions.

If you have any questions regarding this submission, please contact either one of us.

Yours sincerely

Nishan Fernando
AOSSG Chair

Li Xianzhong
AOSSG Climate-related Disclosures Sub Working Group

asian-oceanian standard-setters group

Appendix - Comments from AOSSG members

Exposure Draft ED/2022/S2 Climate-related Disclosures

AOSSG Members' Comments

> Comments from some jurisdictions in this paper are based on staff's view. Therefore, these comments may not necessarily reflect the views of the official entity in each jurisdiction.

Questions for respondents

Question 1—Objective of the Exposure Draft
Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting: • to assess the effects of climate-related risks and opportunities on the entity's enterprise value. • to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and • to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities. Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (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?

AOSSG members' comments on Question 1

[Australia]

(a) & (b)

The AASB agrees with the objective that has been established in paragraph 1 of the [draft] standard.

We do, however, recommend redrafting aspects of the paragraph to provide clarity and to avoid duplication within the [draft] standard. For example, paragraphs 1(b) and 1(c) should be part of the assessment of enterprise value and paragraph 1(a) should be incorporated into the body of paragraph 1 of the [draft] standard.

(c) The AASB agrees that, excluding Appendix B to the [draft] standard, the disclosure requirements set out in the [draft] standard meet the objectives proposed in paragraph 1.

[China]

a) Agree.

b) It can be made clearer. Some stakeholders propose that different entities may have different judgments about what information belongs to 'enterprise value', which may make the disclosed information incomparable. We suggest that ISSB provide more guidance in this regard.

c) Yes.

[Dubai]

(a) We agree with the objective set out in paragraphs 1-2. These objectives are appropriate and reflect the ambitions of the TCFD recommendations.

(b) We agree that the objective of the Exposure Draft will support the disclosure of information that will enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value.

However, it is worth noting that BC49 in the basis for conclusion document does not define the scope of "climate-related risks and opportunities". The impacts are wide ranging and could lead to different entities disclosing varying information which may make comparison between entities difficult for investors. The approach of not defining climate-related risks and opportunities makes application too broad resulting in challenges. We recommend clarification / definition of climate-related risks and opportunities.

(c) The proposed disclosure requirements set out in the Exposure Draft meet the objectives outlined in paragraph 1.

[Hong Kong]

No comments.

[Indonesia]

(a) We agree with the objective as mentioned in Basis for Conclusions Climate-Related Disclosure paragraph BC21, which stated that "The Exposure Draft has its objective to require an entity to disclose information about its exposure to significant climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting". In our opinion, this is a very good step to start disclosing climate-related risks and opportunities. An entity needs to understand the use of its resources, activities, output and outcomes to support the entity's going concern in managing climate-related risks and opportunities concerning financial reporting. Therefore, that information can be an evaluation aspect for the entity to determine the right steps to be taken for the entity's going concern. However, please note that the capability of each entity to assess climate-related risks and opportunities, how its response and includes it in strategy and its ability varies and currently there is no fixed standard of assessment. Therefore, we recommend the harmonization of several issues that occur between countries.

(b) In our opinion, the objective which focuses on information can enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value. The entity will consider what kind of information is useful for the

users of general-purpose financial reporting. However, this objective can be achieved if there is an appropriate metrics that can be applied to the entities, there should be noted that each jurisdiction has a different kind of metrics, to achieve information that can be comparable for the users of the general-purpose reporting. Therefore, we recommend harmonizing every element in the jurisdiction of each country in stages. That is also what is being written in the objectives, how to relate and achieve the objectives is a different issue, because the correlation, cause and effect is not an exact science and it keeps changing.

(c) As mentioned earlier in line with the answer in point (a), in our opinion the disclosure requirements set in the Exposure Draft meet the objectives described in paragraph 1. In addition, we think that there is still no clarity regarding the GHG effect on enterprise value, as the cause and effect and how it works are not yet fully established. The market for CER (Certified Emission Reduction) is not fully established, so quantifying its effects on an entity's enterprise value is still difficult. For example, fossil fuel usage was not preferred, still, when there is an energy crisis due to Russia and Ukraine war, the enterprise value went up. We are not sure if the price of renewable energy went up at the same time or not.

[Malaysia]

We agree with the proposed objective of the [draft] IFRS S2 that focuses on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities.

The proposed paragraph 1(b) uses four attributes of "input", "activities", "outputs" and "outcomes" in explaining the objective of the [draft] IFRS S2. Although our stakeholders noted that these attributes are also common in Integrated Reporting Framework, they have suggested for these terminologies to be defined in the [draft] IFRS S2 to help with consistent application.

[Sri Lanka]

(a) CA Sri Lanka agrees with the statement.

We believe that the objective that has been established in this exposure draft is in line with the objectives set out in IFRS S1-General Requirements for Disclosure of Sustainability-related Financial Information, paragraph 1, which is to disclose information about its significant sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity.

(b) CA Sri Lanka agrees with the statement.

In paragraph 1 of the Exposure Draft, it is clearly mentioned the purpose of the information to be disclosed as follows:

- to assess the effects of significant 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 significant climate-related risks and opportunities; and
- to evaluate the entity's ability to adapt its planning, business model, and operations to significant climaterelated risks and opportunities.

Hence, we believe that these areas would enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value. Therefore, the objective is adequately focused on information pertaining to sustainability.

(c) CA Sri Lanka believes that the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1.

Through each section of this exposure draft, it is clearly explained the nature of the information to be disclosed about its exposure to significant climate-related risks and opportunities to provide an avenue for investors to assess the entity's enterprise value. Furthermore, Appendix B of the Exposure Draft sets out industry-based disclosure requirements for identifying, measuring, and disclosing information related to an entity's significant climate-related risks and opportunities that are associated with specific business models, economic activities, and other common features characterized by participation in an industry.

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?

AOSSG members' comments on Question 2

[Australia]

The AASB agrees with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities.

However, we question the need to duplicate these requirements in [Draft] IFRS S2. That is, we question the need to duplicate such requirements in each thematic standard issued by the

ISSB in the future. Such an approach facilitates the application of a single standard independently from [Draft] IFRS S1 and other IFRS Sustainability Disclosure Standards. Furthermore, as is the case with IFRS Accounting Standards, such an approach makes it more complex than necessary to maintain the standards, especially if, for example, these requirements are duplicated in each subsequent thematic standard. Consequently, we recommend that the ISSB avoids duplication where possible and provide only a reference to [Draft] IFRS S1 where relevant.

[China]

Generally agree. However, some stakeholders in China point out that entities may adopt other performance evaluation methods in addition to including related performance metrics in remuneration policies only to monitor their climate-related risks and opportunities. We recommend paragraph 5 (f) of the ED be refined to 'including whether and how related performance metrics are included in remuneration polices or <u>other appropriate</u> performance <u>evaluation methods;</u>'. In addition, we also recommend that paragraph 5(g) be refined to 'a description of management's role in assessing and managing climate-related risks and opportunities, <u>including the detailed and specific responsibilities of that role,...</u>' such that users can have a more comprehensive understanding of management's responsibilities.

[Dubai]

We agree with the proposed governance requirements and support the close alignment with the TCFD Recommendations. However, additional disclosure of the performance of the governance team based on its own terms of reference will provide information on the execution of the ToR.

[Hong Kong]

We recommend that the ISSB require additional disclosures regarding the continuous re-assessment of material climate risks and opportunities.

[Indonesia]

We agree with the proposed disclosure requirements for governance as mentioned in paragraphs 4 to 6. Those requirements' objective is to obtain transparency information about the governance in the entities concerning determining and assessing the climate-related risk and opportunity. However, in our opinion several issues need to be clarified or request further information as follows:

- What kind of criteria will be used to assess the skills of management or committees that are responsible for identifying climate-related risks and opportunities. This criterion should be accepted either from a global perspective or each jurisdiction to achieve the same objectives.
- Request for any application guidance to determine how to avoid the duplication following the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

[Malaysia]

No comments.

[Sri Lanka]

CA Sri Lanka agrees with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities.

CA Sri Lanka believes that paragraph 5 of this Exposure Draft clearly explains the nature of the information which should be disclosed 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 information about management's role in those processes.

However, in addition to the information reported in paragraph 5, we would like to suggest including information on how the board would act on the information they receive about climate-related risks and opportunities.

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?

AOSSG members' comments on Question 3

[Australia]

(a) The AASB agrees that the proposed requirements to identify and disclose a description of significant climate-related risks and opportunities are sufficiently clear. However, as noted in our response to question 2, we recommend the ISSB avoid duplicating the disclosure requirements in [Draft] IFRS S2.

(b) The AASB disagrees with the proposed requirement to consider the applicability of disclosure topics in identifying and describing climate-related risks and opportunities. In particular, we strongly disagree with the mandatory nature of Appendix B to the [draft] standard for the reasons discussed in our response to question 11. Furthermore:

  (i) the drafting of proposed paragraph 10 makes the industry descriptions and industry-based metrics proposed in Appendix B compliance requirements rather than a consideration of the applicability of disclosure topics identified in Appendix B to the [draft] standard; and

(ii) Appendix B is inconsistent with a principles-based standard-setting approach. In addition, Appendix B makes the assessment that all disclosure topics identified are material, rather than allowing management to apply judgement in determining what information is material and should be disclosed. In our view, it should be management making this assessment.

We also recommend removing duplication of the requirements in [Draft] IFRS S1.

[China]

(a) It could be made clearer. We recommend that the ISSB clearly defines the principle of how entities identify significant climate-related risks and opportunities instead of only referring to the disclosure topics defined in Appendix B. In addition, some stakeholders in China propose that different entities may have different understandings and judgments about 'the short, medium or long term'. We recommend that the ISSB provide more guidance in this regard so as to improve the comparability of the disclosed information between different entities.

(b) See our response to Question 11 (a) for more detailed recommendations about the industry requirements. We also recommend that the ISSB could provide more detailed guidance on how to identify climate-related risks and opportunities, the criteria for materiality judgments, and format of disclosures. In addition, we recommend that the ISSB should provide illustrative examples on best practices to enhance relevance and comparability of such disclosures.

[Dubai]

(a) The proposed requirements to identify and disclose significant climate-related risks and opportunities are clear. However, clarity on how entities should determine which climate-related risks and opportunities are considered significant is required. A definition of "significant" will help provide clarity and ensure consistent disclosures across entities.

(b) We 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. It will be beneficial to clarify if these are mandatory or non-mandatory requirements.

[Hong Kong]

Even though Appendix B to the [draft] IFRS S2 provides a rich source of potential industry-specific climate disclosure topics, similar to our concerns over how to determine material sustainability information, we recommend that the ISSB provide more guidance on identifying whether climate risk itself and which of the disclosure topics in Appendix B are significant to the entity.

We also note that time horizon plays an important role in assessing the impact of climate-related risks and opportunities. The ED, however, does not provide any guidance of what constitutes the "short, medium and long term". We acknowledge that what constitutes a meaningful time band depends on an entity's business model and nature of operations and that the ISSB has deliberately left this open for preparers to decide. Nevertheless, EFRAG's draft ESRS E1 *Climate Change* stipulates specific timeframes viz. less than 5 years, between 5 to 10 years and over 10 years for short-, medium- and long-term respectively for disclosing transition risk information.

The ISSB should consider whether there is any merit in providing an indicative timeframe in IFRS S2 to help foster consistency amongst entities as entities will look to other frameworks in the absence of specific guidance. For example, some respondents referred to the Intergovernmental Panel on Climate Change (IPCC) projections of short-, medium- and long-term as 2030, 2050 and 2100 respectively[1], which is very different from the EFRAG's requirement. Not only will this impair consistency in application, it will also be burdensome for group companies with multiple jurisdictional reporting obligations.

[Indonesia]

(a) In our opinion, the proposed requirements to identify and disclose a description of significant climate-related risks and opportunities are sufficiently clear based on paragraphs 9 to 13 in IFRS S2. However, we notice that several words should be defined specifically as follows:

- The word "significant" in Appendix A both IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information and also IFRS S2 Climate-related Disclosure need further clarification. We request a further explanation regarding the definition of "significant" related to the sustainability-related risk and opportunities, also related to the climate-related risks and opportunities. We think that it can be helpful if there is some kind of guidance to indicate the information that is categorized as significant since it can be defined differently by each entity (parties) or stakeholders and also it depends on the user's perspective.
- The specific time frame is indicated by short, medium and long-term. There could be a possibility for the different definitions of short, medium and long-term. For example, from the finance perspective, the short term is usually defined as less than 1 year, then medium term are usually defined as between 1 – 3 years and the long term is usually defined as more than 5 years. But as we know, this time frame is different from the climate or sustainability perspective. For example, the short terms are usually defined as 1 – 3 years, the medium terms are usually defined as 5 – 10 years and the long terms are usually more than 10 years. We think that it would be better if there is a specific definition to achieve the same perspective for the users/stakeholder regarding climate-related disclosures.

(b) We agree with the proposed requirements to consider the applicability of disclosure topics, which are being defined in the industry requirements. It should be represented minimum requirements or become a benchmark that can be applied to each entity. However, we noted that some topics refer to the standards which are from Europe or American Standards and the implementation will be different as per country. These standards should be considered and assessed whether they can be fully used in other jurisdictions for example in Asia. The standards should also be considered to be adjusted with local regulation since each jurisdiction can also develop some kind of metrics to measure the component of climate-related information in the local jurisdiction and cannot be applied globally. In our opinion, the leniency of those standards should be given to each national standard setter. It will be best to leave this issue to each national standard setter, therefore the government of that country as a stakeholder can also benefit from the implementation of this standard.

[Malaysia]

[1] Refer to section of 'New approaches in the assessment' on page 8 of Summary for Policymakers issued by IPCC.

(a) The [draft] IFRS S1 seems to use the term “material” and “significant” interchangeably. This is not helpful and may create confusion particularly when the term “significant climate-related risks and opportunities” is not defined in the proposed Appendix A of [draft] IFRS S2. Therefore, we suggest providing additional explanations on their meanings or using one terminology consistently throughout the [draft] Standards.

We take note that the Illustrative Guidance accompanying [draft] IFRS S1 on materiality should be read together with the [draft] IFRS S1 and that the determination of materiality is highly judgmental. Therefore, by providing additional explanation or defining those words would be helpful to ensure consistent application of the proposed requirements among entities.

(b) We agree with the proposed requirements and are of the view that the disclosure topics identified in the industry-based requirements serve as a useful starting point for an entity to consider the specific risks and opportunities it may need to address.

However, we are concerned on the applicability of the required information or metrics in Appendix B which may not be applicable across all jurisdictions. In this regard, some flexibilities for the implementation of Appendix B are necessary for a transitional period so as not to hinder global adoption on the onset, including either in the form of allowance for some degree of ‘national’ metrics that could serve the same disclosure objectives or a differentiated timeline for implementation of the requirements. See also our response to Question 11 regarding the proposed industry-based requirements.

[Sri Lanka]

(a) The proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities are sufficiently clear.

CA Sri Lanka believes that paragraph 9 of the Exposure Draft would provide a clear vision to the entities to identify and disclose a comprehensive description of significant climate-related risks and opportunities in a comprehensive manner, including all the required details for the investors.

However, similarly to the comments made on IFRS S1 Exposure Draft, we would like to suggest providing a clear and more comprehensive definition of the word "significant". We believe that it will enhance the objective of this proposed standard.

(b) CA Sri Lanka agrees 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.

We believe that these disclosure topics set out in appendix B are helpful for entities as specific guidance when identifying and describing the risks and opportunities they are exposed to. However, we would like to suggest that these industry-based disclosure requirements should be implemented as a non-mandatory guideline for the entities since it will bring more comfortability to the entities to adhere to the disclosure requirements of these proposed standards for their entities specifically.

CA Sri Lanka believes that this will lead to improve relevance and comparability of disclosures. Because the industry-based disclosure requirements in this proposed standard provide a basis and guidelines for the entities to disclose their significant climate-related risks and opportunities that are associated with specific business models, economic activities, and other common features characterized by participation in an industry.

Hence, entities across such an industry can maintain the comparability of the disclosures. However, by predefining a list of disclosures for a particular industry, it may limit the entities from applying their own practices and controls to identify the risks and opportunities. Hence, as CA Sri Lanka, we would like to suggest that it would be more idyllic if these requirements were referred to as non-mandatory guidance.

There are no additional requirements since the disclosure requirements proposed in this Exposure Draft comprise the necessary requirements to improve the relevance and comparability of the disclosures.

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?

AOSSG members' comments on Question 4

[Australia]

The AASB agrees with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain. We also agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative.

However, we note that paragraph 12 of the [draft] standard duplicates paragraph 20 of [Draft] IFRS S1. In the absence of specific or additional guidance on the application of paragraph 20 of [Draft] IFRS S1 to climate-related risks and opportunities, we recommend removing the duplication.

[China]

(a) We agree that entities should disclose how significant climate-related risks and opportunities influence their business model. Nonetheless, the disclosure requirements on information from value chain is too broad. It is far too challenging for entities to disclose information relating to its entire supply chain, especially for information from its upstream and downstream entities. Hence, we recommend that the ISSB consider changing disclosures of climate-related information for other entities alongside the value chain from mandatory requirements to a voluntary basis. Meanwhile, the ISSB should consider changing paragraph 12 (a) of the ED to 'a description of the current and anticipated effects of significant climate-related risks and opportunities on significant components of its value chain and describe the basis of judgement used by the entity to make its materiality judgements'. Furthermore, we recommend that the ISSB should provide more guidance and examples on the methodologies for preparers and auditors, to help them make materiality judgements and disclose or audit climate-related information.

(b) Agree.

[Dubai]

(a) We 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. However, the definition of value chain in BC66 to include the full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates makes the climate-related risks and opportunities required to be disclosed broad. This poses a challenge especially when considering the completeness of the disclosures made. We therefore recommend a limited and easier to implement, basic set of mandatory principles and requirements. This may be supported by non-mandatory requirements.

(b) We agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative. Further we agree that there are practical measurement challenges with requiring quantitative disclosures.

[Hong Kong]

Paragraph 12 does not specify whether qualitative or quantitative disclosure is required. We consider quantitative disclosures could be very useful in certain cases, for example, percentage of production facilities in areas at risk of flooding. The ISSB could consider requiring entities to disclose quantitative information over significant concentration of risks and opportunities where such information can be obtained without undue costs and effort.

[Indonesia]

(a) We 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, which is mentioned in paragraph 12. We noted as mentioned in paragraph BC66, *[Draft] IFRS S1 proposes a definition of the value chain which applies to the Exposure Draft: "the full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates". This definition further clarifies that a value chain encompasses the activities, resources and relationships an entity use and relies on to create its products or services from conception to delivery, consumption and end-of-life. This definition is intentionally broad. However, that doesn't mean an entity has to provide information about all of the climate-related risks and opportunities affecting the entity's value chain*. Based on these statements, we request further clarification for the requirements and request further information such as

guidance on how to separate between the significant climate-related risk and opportunities in an entity's business model and also value chain. We think that the business model and value chain are quite linked and they should be treated separately. We also think that the standards require the disclosure of information but do not explain how an entity should deal with instances where the third party providing the information is not itself required to comply with the IFRS Sustainability Disclosure Standards.

We recommend for the Board amend the paragraph to give specific information about the disclosure for the business model and value chain.

Regarding the materiality determination, we need to consider the different perspectives between preparer and user. These differences can lead to differences in the information that wanted to be achieved by both parties. Materiality, in this case, needs to be measured by considering both quantitative and qualitative.

(b) We agree that the information about an entity's concentration of climate-related risks and opportunities should be qualitative. Qualitative is better than quantitative because the measurement use so many assumptions that sometimes are misleading. Many methods of measurement are based on developed countries' conditions in Europe and USA, which is sometimes misleading when applied to developing countries where infrastructure (and pollution) is not as advanced as countries in Europe or US. However, in our opinion, it needs to be mixed as certain measurements need to be measured quantitatively and others need to be measured qualitatively.

[Malaysia]

No comments.

[Sri Lanka]

No comments.

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

Question 5—Transition plans and carbon offsets
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?

AOSSG members' comments on Question 5

[Australia]

(a) The AASB agrees with the proposed disclosure requirements for transition plans as:

(i) transition plans are a critical element of understanding an entity's strategy in responding to significant climate-related risks and opportunities; and

(ii) these requirements provide a useful way for entities to communicate with primary users of general purpose financial reporting how they plan to transition to a lower-carbon economy.

However, we also observe that paragraph 13 of the [draft] standard is complicated to read and, therefore, difficult to understand and apply. We recommend simplifying proposed paragraph 13 by separating the requirements into individual paragraphs where possible rather than creating lists of requirements within lists of requirements.

(b) The AASB have not identified any additional disclosures related to transition plans that are so significant as to require inclusion in the [draft] standard. Nor have we identified any of the proposed requirements related to transition plans that are irrelevant and, therefore, should be removed from the [draft] standard.

(c) The AASB agrees that the proposed carbon offset disclosures will assist users of general purpose financial reporting in understanding an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets.

In particular, feedback from Australian stakeholders on these disclosures indicated that carbon offsetting is viewed as a critical part of transitioning to a lower-carbon economy in the short to medium-term. Accordingly, it is an important part of an entity's strategy when considering its response to climate change. However, it is noted that carbon offsetting is not an adequate long-term approach to mitigating climate-related risks. We recommend that the disclosure requirements addressing carbon offsetting are revisited as part of a post-implementation review to help ensure the disclosures remain relevant.

(d) Given the limited time for public consultation on the proposed standards, we cannot quantify the likely benefits, costs and effects of this [draft] standard or the proposed disclosure requirements (see also our response to question 12). However, as discussed in our response to question 5(c), feedback from Australian stakeholders indicated overall support for the proposed requirements related to carbon offsetting as part of an entity's transition plans to a lower-carbon economy.

We recommend that the ISSB field test the proposals in the Exposure Drafts to better understand and quantify the costs, benefits and likely effects of applying them.

[China]

(a) Agree.

(b) We regard certain disclosure requirements in paragraph 13 (a)(i)(1) of the ED unnecessary. We refer to the paragraph on ‘This information includes plans and critical assumptions for legacy assets, including strategies to manage carbon-energy – and water-intensive operations, and to decommission carbon-energy and water-intensive assets.’ With respect to these requirements, we recommend that 1) the ISSB should clearly refine the definition of ‘legacy assets’, as the current definition is too broad, covering not only carbon-energy and water-intensive assets, but also other assets that are not relevant to the entity's coping plan to climate-related risks and opportunities. 2) as the ISSB is soon to issue thematic standards specific for water, biodiversity and other material themes, the ISSB should remove the terms relating to water in the current requirements of this ED.

(c) We generally agree. We recommend that:

- the ISSB should modify paragraph 13 (b)(iii) of the ED to ‘the intended use of carbon offsets in achieving emission targets. ~~In explaining the intended use of carbon offsets~~ If the entity uses carbon offsets, then the entity shall disclose information including…’. The reason is that not all entities will achieve their climate-related targets by utilizing carbon offsets. It is necessary to clarify that this requirement only applies to those entities that

use carbon offsets. Otherwise, it could be misinterpreted that the ED requires all entities to use carbon offsets.

- the ISSB should require time spans to be disclosed such that paragraph 13 (b)(iii)(4) reads 'any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset, the time span of which emissions were offset through the use of carbon offset)'. This reason is because carbon emission activities and carbon offset both have time attributes. The requirements of disclosing the time interval of the emission offset by the carbon offset is conducive to the prevention of greenwashing.

3) The ISSB should provide detailed guidance on carbon offset disclosures.

d) No comments.

[Dubai]

(a) We foresee inconsistencies between this requirement and IFRS Accounting Standards. The proposed disclosure requirements for transition plans will require disclosure of information that has not met the requirements for recognition under the current IFRS. For instance, IAS 37 requires there to be a present obligation as a result of past events for recognition of financial liabilities. The proposed standard however does not require such obligations and may increase the opportunities for greenwashing. We recommend the inclusion of certain criteria such as that required by current IFRSs for disclosure of transition plans to reduce instance of greenwashing.

Disclosure of transition plans will create challenges in reconciling whether the financial impacts of these disclosures have been reflected in the financial statements as required by IAS 37 – Provisions and contingent liabilities. A clarification of the connection between the transition plans information disclosed and the financial statement may be required. For instance, additional disclosures on certainty associated with the transition plans disclosed may be required for users to understand why provisions/liabilities have not been recognized for the transition plans.

(b) As noted above, additional disclosure of certainties associated to these transition plans and disclosures of the relationship between the transitional plans and the financial statement numbers will be useful.

(c) We agree with the proposed disclosure requirements on carbon offsetting and believe that additional transparency on this topic is helpful to primary users in understanding carbon reduction strategies and the credibility of carbon offsets.

(d) Yes, 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.

[Hong Kong]

We propose the following suggestions:

- Require disclosure on the rationale behind the transition plan implemented under paragraph 13(a)(i), such as a cost and benefit analysis, SWOT analysis or management discussion and analysis, so as to allow investors to understand the decision-making process and potential changes to the business model.

- Paragraph 13(a)(i)(1) mentions water-intensive operations and water-intensive assets. Although climate impacts water significantly, it also impacts other environmental aspects such as biodiversity. If the ISSB's intention is to link the impact of climate risk to other environmental risks, the ISSB could consider referring to other environmental risks instead of singling out water in this paragraph.

- We believe that the definition of legacy assets could unintentionally capture long-life assets near the end of their useful lives. Instead, 'stranded assets' may be a more appropriate term as it is commonly used in climate change literature and they refer to assets that will soon become obsolete because of climate change, e.g. laws and regulations prohibit their usage.

- Require disclosure in paragraph 13(b) of (i) the source of carbon offsets and (ii) how an entity's carbon reduction activities affect other sustainability topics (e.g. water usage and biodiversity) to enhance transparency of an entity's commitment to reduce its carbon footprint and connectivity between different sustainability topics.

[Indonesia]

(a) We agree with the proposed disclosure requirements for transition plans as mentioned in paragraph 13. In our opinion, the entity should disclose its transition plan and consider it to be in line with the entity's vision and mission. Therefore, the entity can focus on the transition plan to achieve the entity's objective overall. We noted that there are similarities information between in paragraph 13(b) and paragraph 23. Paragraph 13(b) stated information regarding climate-related targets for the transition plans, while paragraph 23 stated the requirements that an entity shall disclose its climate-related targets. In our opinion, we think that information can be combined to avoid duplication of information when the entities prepare the reports. Therefore, we recommend for the Board amend paragraph 13.

(b) Regarding the additional disclosure related to transition plans, we think that the topics should not only focus on the carbon offset and GHG emission, but it will be better if it can include other topics such as water management, waste management, and other (according to the Appendix B – industry-based), in addressing physical risk, transition risk and another risk that can arise.

(c) In our opinion, as stated in Basis for Conclusion Climate-related Disclosure paragraph B76 to BC85 is quite clear to help the users/stakeholders to understand how the entity's approach to reducing carbon emissions, also the role played by carbon offsets and the credibility of the carbon offsets.

(d) In our opinion, the proposed carbon offset requirements appropriately balance costs for preparers and increase the credibility of the carbon offset in line with the entity's strategy. It is the most direct relationship between cost and CER (Certified emission reduction). The government of Indonesia has assigned the certification of the CER to the Ministry of Environment and Forestry.

[Malaysia]

We broadly agree that the proposed disclosure requirements appropriately balance costs for preparers. However, carbon offsets is a complex topic and the application might not be well developed in countries where sustainability reporting is at an early stage. In this regard, our

stakeholders have expressed concerns on the proposed disclosure requirements. In particular, they noted:

(i) the need to provide additional materials such as by way of illustration guidance on the concepts of carbon offsetting and to illustrate how the proposed disclosure requirements work, for example on the relationship between carbon offsets and net-zero emission and the required disclosures to be provided to explain the relationship.

The additional guidance or clarification in [draft] IFRS S2 is expected to improve the consistent application and comparability of information to be provided on carbon offsets.

(ii) lack of clarity on the requirement for an entity to assess the credibility of carbon offsets through avoided emissions. Since this method is criticised for its challenges to meet the additionality tests, (refer paragraph BC84) clarification is needed on whether the certification scheme (as required by the proposed paragraph 13(b)(iii)(2)) would also be applicable to emission avoidance.

[Sri Lanka]

(a) CA Sri Lanka agrees with the proposed disclosure requirements for transition plans.

In paragraph 13 of the proposed standard, it is clearly mentioned that information should be disclosed regarding the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans.

(b) The proposed requirements in the Exposure Draft, specifically on the transition plans, are sufficient, and we do not believe any additional requirements are needed.

(c) CA Sri Lanka thinks 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.

We believe that the requirements in this exposure draft are helpful in describing the disclosure requirements and the challenges associated with considering the credibility and integrity of carbon offset schemes.

(d) CA Sri Lanka thinks 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.

The requirements that have been proposed in this Exposure Draft are necessarily addressed, and those requirements will assist the transparency and reliability of the use of offsets within carbon reduction strategies. Furthermore, we would like to suggest including additional information in this paragraph to support the users in evaluating the credibility of the entities which they are considering.

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;

Question 6—Current and anticipated effects

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

Question 6—Current and anticipated effects
and why?

AOSSG members' comments on Question 6

[Australia]

(a) The AASB disagrees 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 particular, outreach with Australian stakeholders indicated that entities cannot currently isolate and quantify the effects of climate on their financial position, financial performance and cash flows, and it was not clear whether such capability would be developed in the short to medium-term. That is, stakeholders (including users and preparers) noted that such disclosure would be ideal but were concerned that entities would be unable to comply with the requirement and would, as a result, default to providing qualitative disclosures.

Furthermore, we note that the current effects on the financial position, financial performance and cash flows should already be disclosed as part of an entity's financial statements and question the need to duplicate or isolate such disclosure outside the financial statements.

While we understand what the ISSB is aiming to achieve with these proposed disclosure requirements, we are of the view that they should be drafted to permit more flexibility and accompanied by:

(i) a definition of what is meant by 'climate' in the context of the [draft] standard; and

(ii) guidance (or illustrative examples) which demonstrate the process required to isolate current and anticipated effects of climate-related and other emerging risks and opportunities.

(b) The AASB disagrees 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. Such disclosures should already be disclosed as part of an entity's financial statements.

While we acknowledge that such disclosure is currently not ideal, we are of the view that matters relating to the general purpose financial statements should remain in the purview of the International Accounting Standards Board (IASB) and be disclosed in the financial statements and not duplicated or isolated outside the financial statements.

Furthermore, many different risks can affect an entity's financial position, financial performance and cash flows. Where an entity is subject to multiple significant risks, some of which may not necessarily relate to climate or sustainability, we question:

(i) how an entity can isolate those effects that relate only to climate or some other sustainability-related matter to the extent that is makes a clear and unreserved statement on those effects; and

(ii) how an entity can quantify those effects when it is unable to isolate them.

We recommend that:

(i) the paragraph is re-drafted in a way that provides entities with more flexibility in meeting those requirements—for example, by permitting the use of quantitative or qualitative disclosures rather than requiring quantitative disclosures only,

(ii) they are accompanied by guidance that clearly demonstrates how the ISSB expects these requirements to be applied, and

(iii) an explicit reference to information disclosed in an entity's financial statements is made.

(c) The AASB agrees 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.

However, as discussed in our response to question 6(b), we question how an entity would be able to isolate the anticipated effects of climate or other sustainability-related risks and opportunities to the extent that could produce disclosures that meet the qualitative characteristics of useful information as required by the *Conceptual Framework* and [Draft] IFRS S1.

[China]

(a) The majority of the stakeholders in China respond that it is extremely challenging and costly to disclose quantitative information on climate-related risks and opportunities. This is especially true when there is no specific method on how to assess climate-related impact. Under this circumstance, it is difficult to ensure the disclosures from different entities are reliable and comparable and may mislead investors. Hence, we recommend that the ISSB should 1) modify paragraph 14 to ‘~~if an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range.~~ If the entity discloses information that involves quantitative data, the method of calculating the quantitative data and the limitations of that method should be disclosed’; 2) delete paragraph 14 (e) in its entirety. We acknowledge that reliable quantitative data could provide useful information to users when making decisions. Therefore, we recommend the ISSB should actively research on the appropriate methods to assess climate-related impact and only require entities to disclose relevant quantitative information after sufficiently scientific and rigorous processes have been conducted.

(b) See our response to Question 6 (a) for more detailed recommendations. Meanwhile, we recommend that the ISSB should strengthen its collaboration with the IASB in the area of how climate-related risks and opportunities will influence the entities’ financial performance, financial position, and cash flow to provide the basis for the entity to disclose high-quality quantitative information within its reporting period.

(c) See our response to Question 6 (a) for more detailed recommendations.

[Dubai]

(a) Yes, we agree with the proposal that entities 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. However, we recommend an additional disclosure explaining why it is unable to disclose quantitative information (comply or explain) to be provided.

(b) We 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. Additional disclosure of the connections between the climate-related risks and opportunities quantitative financial statements and the financial statements should be disclosed to enable users identify similarities or differences in for example, impairment assumptions or ECL assumptions which are also forward-looking information. For instance, where forward looking information in the financial statements is based on point estimates whereas climate related disclosures are based on a range of estimates.

(c) We 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. However, an additional clarification as to what time period is short, medium and long term. Also these time periods should be consistent with the entities timelines for executing it's strategies and information disclosed in other sections of the financial statements.

[Hong Kong]

Unable to do so

We recommend the ISSB clarify what is meant by "unable to do so" (paragraphs 14 and 15). For example, would entities that do not have the in-house competency (although they can solicit the service of third party consultants) or that are unwilling to undertake quantitative/scenario analysis be able to claim they are 'unable to do so'? It is unclear how high the threshold is for 'unable to do so', e.g. is it similar to the IFRS Accounting Standard concepts of undue cost or effort or impracticable? Different entities, auditors, regulators and stakeholders will have a different interpretation of what constitutes inability. The ISSB should provide a clear definition of the term or alternatively follow the 'impracticable' concept and definition in IAS 1.

Current effects

We generally agreed with the proposed disclosures on current period information because the proposals:

- would hold the entity accountable for addressing climate-related issues;
- can provide the much needed linkage between financial statements and sustainability-related financial information; and
- would promote greater transparency, enable more accurate pricing of an entity as well as incentivize low-emissions investment in the long run.

Anticipated effects

We have heard from many stakeholders that in practice it is difficult to isolate one assumption/input to estimate the effect of climate-related risk on an entity's financial performance, financial position and cash flows since climate-related risks interact with other risks and factors (e.g. economic factors). Isolation of climate-related risk may be subject to a significant degree of judgement and could potentially be misleading.

We suggest the following in relation to the disclosure of the anticipated effects of climate-related risks and opportunities:

- It may be appropriate to provide quantitative information for the short and medium terms; however, it may be more appropriate to provide qualitative information for the long term. This is because it is already difficult to estimate the effects of transition risks in the short term as government policy and regulations may change every 3 to 5 years particularly in the coming decade; developing an expectation for a longer period would necessitate a high degree of subjectivity and judgement that may border on speculation. In particular, one respondent from the marine transportation industry commented that its decarbonisation journey relies on the availability of green energy, green marine fuels, advancement and deployment of technologies for more energy-efficient cargo ships, as well as their interaction with evolving environmental regulations. There are many permutations on how these aspects will evolve in the medium to long term and so it will be challenging to estimate the effects of these factors for that time horizon.
- The ISSB should require disclosure of the basis of preparation, the methodologies used, as well as the significant assumptions used and judgements made in determining the anticipated effects of climate risks and opportunities.
- Inserting a disclaimer when quantitative information is provided.

[Indonesia]

(a) We agree with the proposal that entities shall disclose quantitative information as mentioned in Basis for Conclusion on Climate-related Disclosure paragraph BC97. Paragraph 97 states "information that 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". We also noted that there will be many estimations, therefore a standard disclaimer that the actual result may be different than the estimation due to the various factors that should be added.

(b) We 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. As mentioned in paragraph 14(b), this paragraph is in line with the IAS 1 paragraph 125. However, we noted that there should have some kind of baseline to measure the anticipated effect of climate-related risk and opportunities concerning the financial statements for the reporting period.

(c) We 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. In our opinion, the anticipated effects of climate-related risk and opportunities can affect the entity's budget projections, which can also affect the entity's strategy to achieve the financial statements projection over the short, medium and long term. However, as we mentioned in comment for question number 3 point (a) about definition of the short, medium and long term should be defined specifically to avoid different perspectives from many stakeholders, and it would be better to add a standard disclaimer that the actual result may be different than the estimation.

[Malaysia]

(a) We agree with the proposal. It allows for the flexibility to adapt to the requirements taking into consideration the aspect of readiness and a phased approach as well as

allowing time for entities to organise internal mechanisms and systems to a reasonable level of disclosure.

We also wish to highlight that in our jurisdiction, modelling techniques for quantitative disclosures are still developing and necessary data sets are evolving in the market. As such, the interpretation of "unable to do" might differ from one entity to another depending on management judgements. The "loose" reading of "unable to do" might be challenging from an audit (or external review) perspective and might further impair the intended comparability of information.

In this regard, it might be useful for the ISSB to consider providing examples to better illustrate the meaning of "unable to do" in a way similar to how paragraph 18 of IFRS 8 *Operating Segments* is drafted, whereby it states (emphasis added):

> *If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the criteria for reportability in paragraph 13 in the prior period, unless the necessary information is not available and the cost to develop it would be excessive.*

(b) We agree with the proposed disclosure requirements on financial effects and suggest the drafting of the proposed paragraph 14(c) be improved to state clearly what "over time" means; i.e., whether "over time" refers to changes from the preceding reporting period to the current reporting period or it refers to the time horizon of "short, medium and long term".

(c) We agree with the proposal and on the same note with our response in (b) above, for the purpose of providing disclosures of the future anticipated impacts of climate-related risks and opportunities, it would be helpful for the [draft] IFRS S2 to provide an indication of the time bands for "short, medium and long term".

[Sri Lanka]

(a) CA Sri Lanka agrees with the proposal.

In paragraph 14 of this proposed standard, it is clearly stated the requirement to disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities. Furthermore, in paragraph 14 (e), it is required to disclose an explanation if the entity is unable to disclose quantitative information. Hence, the entities are required to disclose qualitative information.

Therefore, we believe that this proposal in the exposure draft provides a clear basis for the current and anticipated effects of climate-related risks and opportunities.

(b) CA Sri Lanka agrees with the proposal.

The proposed requirement to disclose the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position, and cash flows for the reporting period is appropriately addressed in this exposure draft. However, at this point, we would like to suggest including a requirement to verify this information with the information that is disclosed in the financial statements relating to the financial effects of climate-related risks and opportunities since the investors are highly concentrated on building up a linkage between the other disclosure and the financial information.

(c) CA Sri Lanka does not agree with the proposal.

We believe that the requirement to make disclosures about 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 will generate issues for entities. Because the entities need to anticipate the effects of a future period which has not yet occurred. Further, in paragraph 14 (b), the requirement states 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. However, by nature, climate related risks and opportunities will last for more than one year and it is long term.

Therefore, we would like to suggest reconsidering this disclosure requirement. Hence, this forward-looking climate-related information is highly sensitive in nature.

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

Question 7—Climate resilience

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.

Question 7—Climate resilience
(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?

AOSSG members' comments on Question 7

[Australia]

(a) & (b)

The AASB agrees that the items listed in paragraph 15(a) of the [draft] standard reflect what users need to understand about the climate resilience of an entity's strategy. However, we disagree with the proposal that permits the use of alternative methods or techniques instead of scenario analysis to assess the climate resilience of an entity's strategy.

Feedback from Australian stakeholders (including preparers and users) indicated that, while complex, climate-related scenario analysis is the most useful way for entities to communicate with users about the resilience of their strategy. These stakeholders also noted that permitting the use of alternative methods:

(i) will create complexity for users; and

(ii) will likely result in inconsistent and incomparable information about an entity's climate resilience.

We recommend that the ISSB removes this optionality from paragraph 15 of the [draft] standard and instead develop guidance aimed at assisting entities of varying sizes to perform climate-related scenario analysis.

The AASB agrees that in some rare and exceptional circumstances, it would be impracticable for an entity to use climate-related scenario analysis to assess the climate resilience of its strategy. We also agree that in such circumstances, an entity is required to disclose that fact and how it reached that conclusion.

(c) The AASB agrees with the proposed disclosures about an entity's climate-related scenario analysis. However, as noted in our response to question 5(a), listing requirements within lists of requirements makes the [draft] standard difficult to read and understand.

(d) As discussed in our response to question 7(b), we disagree with the proposal that permits the use of alternative methods or techniques instead of scenario analysis to assess the climate resilience of an entity's strategy. However, if the ISSB does not remove the optionality in paragraph 15 and permits entities to apply alternative methods and techniques to climate-related scenario analysis, we agree with the proposed disclosure about alternative techniques.

(e) As already discussed in our response to questions 5(d) and 12, given the limited time provided for public consultation, we are unable to quantify the likely benefits, costs and effects of this [draft] standard or specific disclosure requirements being proposed. However, feedback from Australian stakeholders indicated overall support for the proposed requirements related to using climate-related scenario analysis to assess climate resilience of an entity's strategy.

We recommend that the ISSB field test the proposals in the Exposure Drafts to better understand and quantify the costs, benefits and likely effects of applying them.

[China]

(a) We generally agree. Meanwhile, we recommend that the ISSB provide more detailed guidance or illustrative examples on the methods or techniques for analyzing climate resilience. In addition, we recommend that the ISSB should also exempt entities from disclosing information that is commercially-sensitive without affecting the fairness and integrity of the information.

(b) (i) At the present stage, it is extremely challenging for the majority of the entities when it comes to conduct climate-related scenario analysis. The main reasons include the lack of well-recognized methodologies, the lack of relevant underlying data, the shortage of talents to perform the climate-related scenario analysis, etc. We recommend the ISSB not to require scenario analysis as the preferred method to assess climate resilience because the outputs from scenarios analysis may not be as useful as expected due to the above reasons. We recommend that the ISSB should allow entities to choose applicable methods (including, but not only limited to, scenario analysis) for assessing the climate resilience based on their actual situations.

(ii) We do not agree with this proposal. We recommend the ISSB not to require scenario analysis as the preferred method. Entities should be allowed to make their own choices to determine the most appropriate approach for climate resilience assessment based on their actual situations. Therefore, an entity would not need to disclose the reason when failing to use climate-related scenario analysis for climate resilience assessment as proposed in the current ED.

(iii) we do not agree with this proposal. It is expected that entities will encounter the following difficulties and challenges when conducting climate-related scenario analysis. They are 1) the impact pathways of climate-related risks are usually complex, while only a limited number of established climate scenario analysis models or frameworks that are suitable to be used are available at this stage. When applying scenario analysis, entities lack successful prior practices that can guide them through the process; 2) entities lack basic data that are inputs to scenario analysis. Also, date quality could be an issue; 3) the outputs from climate-related scenario analysis from different entities may lack comparability due to highly subjective judgments being made; 4) climate-related scenario analysis should be conducted by professionals equipped with appropriate technical knowledge and skillsets. Currently, talents with the relevant skillsets are scarce in the

market; 5) it will result in significant additional costs in the short run for entities to (a) recruit or train talent (b) hire third-party consultants or even by (c) leaking commercially-sensitive information, etc. In addition, it may solicit uncertain market risks to entities due to disclosing information related to climate-related scenario analysis.

(c) We generally agree. We recommend that this disclosure is only required when entities already perform climate-related scenario analysis.

(d) We generally agree. Because we recommend the ISSB not to require scenario analysis as the preferred method, entities should be allowed to make their own choices to determine the most appropriate approach for climate resilience assessment based on their actual situations. Therefore, we recommend that climate-related scenario analysis, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests, etc. should all be considered as acceptable methods to assess climate resilience, don't differentiate between preferred and alternative methods.

(e) No comments.

[Dubai]

(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. We note however that there are practical challenges in obtaining data to enable entities to disclose information on their strategy's resilience to climate-related risks and opportunities and related uncertainties. As a result of these challenges, there is the risk of green washing.

(b) We agree that if an entity is unable to perform scenario analysis it should use an alternative method and explain why.

(c) We agree with the proposed disclosures about an entity's climate-related scenario analysis as this improves transparency into the assumptions used by management of the entity.

(d) We agree with the proposed disclosure about alternative techniques used for the assessment of the climate resilience of an entity's strategy as this ensures comparability between different entities.

(e) We believe that 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.

[Hong Kong]

Scenario-analysis

It is widely acknowledged that climate-related scenario analysis requires a large amount of data and resources and this is a significant challenge for many entities, especially SMEs and entities with limited manpower and knowledge on climate science. We strongly recommend that the ISSB allow a phased approach for presenting a scenario analysis (see response in Question 14 of ED IFRS S2).

We also suggest the following to improve consistency and to manage the scope of work when conducting a scenario analysis:

- To specify the number and type of scenarios that are required to be disclosed (e.g. weighted average outcome, most probable outcome, or base case).

- To cite some of the more common and publicly-available scenarios as examples. For examples, the scenarios from the Network for Greening the Financial System, International Energy Agency, IPCC, 30-60 goals of the People's Republic of China, etc.
- To include factors that each scenario analysis should consider to increase comparability between entities and facilitate application, including how to identify the relevant inputs and what methodologies are (and are not) acceptable. This should be accompanied by extensive examples illustrating how to apply appropriate models to different industries.
- It is possible that other thematic standards may also require scenario analysis. If so, guidance should be given on how the requirements for different scenario analyses under each thematic standard interact with one another.

[Indonesia]

(a) We agree with the proposed paragraph 15(a) reflects what users need to understand about the climate resilience of an entity's strategy. However, the climate-related scenario analysis will use many assumptions that may or may not happen, so we wonder if this information, especially a quantitative one will create misleading information, rather than useful information. In any case, the preparer can decide that the effect will not be material or significant or cannot be quantified, and therefore will not disclose it.

(b) We agree with the proposal that if an entity is unable to perform climate-related scenario analysis, entities can use alternative methods or techniques to assess the climate resilience of their strategy. The alternative methods can help an entity to provide the minimum information needs by the stakeholders instead of not disclosing any information which it can be material for particular stakeholders or users of general purpose financial reporting.

(c) We agree with the proposed disclosure about an entity's climate-related scenario analysis as mentioned in paragraph 15(b)(i). In our opinion, the proposed disclosure has to describe the minimum information that will be useful for the users/stakeholders.

(d) As mentioned in the comment above point (b), we agree with the proposed disclosure about alternative techniques that will be used for the assessment of the climate resilience of an entity's strategy.

(e) We noted that most entities that published sustainability reporting in Indonesia use the GRI Standard therefore we envisage that the requirements from this standard will create a high cost at the first implementation due to changes in the overall system, and internal control for the collection and production of relevant data. However, we have not carried out a cost-benefit analysis on the Exposure Draft therefore we could not conclude or predict whether the benefit will outweigh the cost.

[Malaysia]

We agree with the proposals which (i) allow for an entity to use climate-related scenario analysis or alternative techniques or methods to assess its climate resilience and (ii) require an entity to disclose the reasons why it was unable to use the climate-related scenario analysis. The proposed approach provides a "relief" to entities in coming up with their scenario analysis; taking into account the various details and challenges (data availability, human expertise, etc) to prepare entities to provide the required disclosures.

However, our stakeholders have mixed views on the proposal, as stated below:

(i) View 1 supports the proposal as the approach provides relief for entities to prepare themselves to provide "good" disclosures of climate-related scenario analysis. In other

words, entities would only start doing the climate-related scenario analysis when it is "ready to do so".

In this regard, it is suggested for the ISSB to consider including a requirement for an entity to disclose its timeline for disclosures of climate-related scenario analysis so as to avoid a "continuous relief".

(ii) View 2 suggests for climate-related scenario analysis be required in all circumstances and no alternative techniques should be permitted. This is largely due to the alignments with TCFD Recommendation and hence entities are expected to have the information required to meet the disclosure requirements relating to the climate-related scenario analysis.

We believe that entities should aim to move towards providing disclosures based on scenario analysis.

Given the issues surrounding the availability of reliable data, the ISSB may wish to consider providing transition relief for first-time adopters to be exempted from providing climate-related scenario analysis, similar to the proposed relief for first-time adopters to provide comparatives.

Alternatively, the ISSB to consider a phased approach, that is, to have different effective dates on requirements where there would be foreseeable challenges in obtaining quality data. Although this could arguably hamper the comparatives of information disclosed and might not meet the investors need for climate-related information immediately, we believe that in time, comparability would be achieved and investors would be provided with relevant and useful information to make informed investment decision-making.

[Sri Lanka]

(a) CA Sri Lanka does agree with the proposal.

The proposed standard very clearly explains all the information that users need to understand about the climate resilience of an entity's strategy

(b)

(i) CA Sri Lanka does agree with the proposal.
There can be many specific and jurisdictional reasons why an entity may not be able to perform climate-related scenario analysis. Therefore, there should be flexibility available when applying this standard within an entity or any jurisdiction. Hence, the alternative methods or techniques should be there for entities instead of scenario analysis to assess the climate resilience of their strategy.

(ii) CA Sri Lanka does agree with the proposal.

To maintain transparency in adhering to and applying this proposed standard within an entity, it is better to have a requirement to disclose the reason why an entity is unable to use climate-related scenario analysis to assess the climate resilience of its strategy.

(iii) No, there should not be a mandatory application requirement. Since there should be flexibility available for entities, because there can be entity-specific and jurisdictional reasons for entities to not undertake climaterelated scenario analysis to assess climate resilience. Hence, this should not be mandatory. And this would not affect the response to Question 14 (c).

(c) CA Sri Lanka agrees with the proposed disclosures.

The required information about an entity's climate-related scenario analysis in this proposed standard is very descriptive and includes all the relevant information that should be disclosed.

(d) CA Sri Lanka agrees with the proposed disclosure about alternative technique.

The proposed alternative techniques in paragraph 15 of this Exposure Draft will enable entities to maintain comparable disclosures for the assessment of the climate resilience of an entity's strategy when such entity is unable to use climate-related scenario analysis.

(e) We believe that 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.

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?

AOSSG members' comments on Question 8

[Australia]

The AASB agrees with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities. However, some duplication in the [draft] standard should be removed and wording of paragraph 16 aligned with paragraph 25.

[China]

We generally agree. We recommend that the ISSB should 1) reorder the existing risk management disclosure requirements to reflect the order of their occurrence - identification, assessment, then management. After the re-ordering, they could appear in the following manner: paragraph 17(a) - Risk identification process; paragraph 17(b) - Risk assessment process; paragraph 17(c) - Opportunity identification and assessment process; paragraph

17(d) - Risk and opportunity management processes; paragraphs 17(e) and 17(f) - Integrated into the entity's overall management process. After such re-ordering, the flow between the requirements of each paragraph would be more logical; 2) limiting the disclosure requirements on risk management only to those that are significant climate-related risks and opportunities. By doing so, it will be cost-beneficial and help readers focus on truly useful information. At the same time, we recommend that the ISSB should also exempt entities from disclosing information that is commercially-sensitive without affecting the fairness and integrity of the information.

[Dubai]

Broadly agree. No further comment on this section.

[Hong Kong]

No comments.

[Indonesia]

We agree with the proposed disclosure requirements for the risk management processes that an entity used to identify, assess, and manage climate-related risks and opportunities as mentioned in paragraphs 16 to 18. However, we are concerned about the overlap information of what was already mentioned in IFRS S1. We think that the risk management requirements IFRS 1 and IFRS 2 can be combined to avoid duplication of information. We also think that many companies have not implemented climate-related risk management into their risk management.

[Malaysia]

No comments.

[Sri Lanka]

CA Sri Lanka agrees with the proposed disclosure requirements for the risk management processes.

We believe that the risk management process disclosure requirements in paragraph 16-17 of the proposed standard and the paragraphs BC101–BC104 of the Basis for Conclusions comprehensively describe the important information that needs to be disclosed in order to enable users of general purpose financial reporting to understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.

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;

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

- 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

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

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 CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2))?

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:

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

AOSSG members' comments on Question 9

[Australia]

(a)

Greenhouse gas emissions

The AASB agrees with the cross-industry metric category relating to greenhouse gas (GHG) emissions. Overall, there was strong support from Australian stakeholders (including preparers and users) in relation to the requirements around the disclosure of an entity's Scope 1, Scope 2 and Scope 3 GHG emissions. These stakeholders also agreed that GHG emissions disclosures should be considered as part of cross-industry metric categories rather than addressed at industry level.

Only a few stakeholders disagreed with the requirement to disclose an entity's Scope 3 GHG emissions. Their reasons include limited usefulness due to the highly subjective nature of the information and the lack of control over Scope 3 GHG emissions, therefore questioning the usefulness of the information.

Transition and physical risks

The AASB agrees with the cross-industry metric categories relating to transition and physical risks. However, we note that the disclosure requirements relate only to quantitative information (being the amount and percentage of assets or business activities vulnerable to transition and physical risks). Such information is not useful when disclosed in isolation—rather, it should be considered in the context of qualitative information such as what transition and physical risks an entity is exposed to and how it is mitigating those risks.

Climate-related opportunities

The AASB agrees with the cross industry metric category relating to climate-related opportunities. However, we note that the disclosure requirement relates only to quantitative information (being the amount and percentage of assets or business activities aligned with climate-related opportunities). Such information is not useful when disclosed in isolation—rather, it should be considered in the context of qualitative information such as what climate-related opportunities the disclosure is referring to.

Capital development

The AASB agrees with the cross-industry metric category relating to capital deployment. However, we recommend that there be a specific requirement to link this information to other related disclosures required by the [draft] standard

Internal carbon prices

The AASB agrees with the cross-industry metric category relating to internal carbon prices. However, feedback from Australian stakeholders indicated there is some confusion over what is meant by 'internal carbon price'. We note that a definition and guidance for internal carbon price is located in Appendix A to the [draft] standard. Given the confusion, we recommend elevating and relocating that definition and explanatory paragraphs into the body of the [draft] standard.

Remuneration

The AASB disagrees with the cross-industry metric category relating to remuneration. Many jurisdictions, including Australia, already have detailed remuneration reporting requirements. In particular, in Australia remuneration reporting requirements for an entity's key management personnel (which includes both executive and non-executive management) are legislated in s300A of the Corporations Act 2001 and s2M.3.03 of the Corporations Regulations 2001 and include requirements under which an entity must include a discussion of the relationship between the remuneration policy and the entity's performance.

(b) The AASB has not identified any additional cross-industry metric categories related to climate-related risks and opportunities. However, we noted some disclosures that are duplicated across multiple industries in Appendix B to the [draft] standard. These could be considered as part of cross-industry metric categories and requirements.

(c) The AASB agrees that, as global baseline, the IFRS Sustainability Disclosure Standards should make reference to the GHG Protocol. However, to the extent possible, entities should be permitted to apply the jurisdictional GHG protocols or standards that are relevant to their operations. Many jurisdictions, including Australia, already legislate and regulate the regular reporting of GHG emissions. In the case of Australia, the National Greenhouse and Energy Reporting Act 2007 (NGER Act) is more stringent, and is also accompanied by more guidance and support, than the GHG Protocol. In particular, we are concerned that should such optionality not be permitted, entities would be required to report their GHG emissions under two different protocols depending on where those disclosures are being made. However, we also acknowledge that jurisdictional GHG protocols or standards, currently only address Scope 1 and Scope 2 GHG emissions

(d) The AASB agrees with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO_2 equivalent

(e) The AASB agrees with the proposal that entities be required to separately disclose Scope 1 and Scope 2 GHG emissions for the consolidated entity. However, we disagree with the proposed requirement for the reporting entity to separately disclose the Scope 1 and 2 GHG emissions for any associates, joint ventures, unconsolidated subsidiaries and affiliates. This is because such information should already be disclosed as part of an entity's Scope 3 GHG emissions.

(f) The AASB agrees with the proposed inclusion of absolute gross Scope 3 GHG emissions as a cross-industry metric category for disclosure by all entities, subject to materiality for those reasons discussed in response to question 9(a).

[China]

(a) Agree in part.

1. For paragraph 21(a), we recommend:

1) modify the mandatory disclosure of Scope 3 emissions information to a voluntary one, with reasons as follows: 1.1) It is very challenging for entities to obtain information from their supplies and clients in a timely and sufficient manner as they cannot exert control or influence over these upstream and downstream entities. The required information cannot be obtained from public sources either. And even if the information can be obtained, entities would not be able to ascertain that they are of quality. Inaccurate information disclosure may lead to unnecessary regulatory risks for entities; 1.2) for those entities with a large number of upstream and downstream entities in the value chain, if all of their information are captured for disclosure, undue costs and effort will need to be incurred. And if only those that are deemed to be material are required to be disclosed, then the basis for making consistent materiality judgement is lacking. 1.3) because upstream and downstream entities could be using different measurement protocols, Scope 3 emissions information may render the information to be inaccurate or non-comparable.

Even if the disclosure requirement of Scope 3 emissions is modified to become voluntary, the current proposal should still be further enhanced: 1) the specific scope for the disclosure of Scope 3 emissions and the specific criteria for entities to determine materiality of its Scope 3 emissions, i.e., how many levels up and down from the supply chain should be considered, and whether only direct suppliers and customers in their value chain needs to be considered; 2) include a 'safe harbor' provision to address concerns from entities when disclosing Scope 3 emissions information, entities will not be considered to have committed an act of fraud unless the disclosure of Scope 3 emissions information was made without any reasonable basis or without good faith.

2) Some of the entities (i.e., entities from the utilities sector) involved in the China national carbon emission trading market are required to disclose carbon emissions information as promulgated by the local regulatory authorities. However, in practice, a large proportion of other entities in China are experiencing difficulties in obtaining data related to the Scope 1 and Scope 2 emissions in the short term. This is especially true for associates and joint ventures. Therefore, we recommend the ISSB to modify the Scope 1 and Scope 2 emissions information to voluntary disclosures, unless disclosures are mandated by jurisdictions.

2. For paragraphs 21(b), (c) and (d), certain disclosure requirements can be clearer and more specific. We recommend the ISSB to clarify the definitions of 'assets' and 'business activities' in transition risks and physical risks, to what extent they would be regarded as 'vulnerable' to transition risks and physical risks, and the scope of the amount and percentage of assets or business activities 'aligned' with climate-related opportunities, etc. Once these are clarified, the quantification of amounts and percentages concerned could be made easier.

3. For paragraphs 21(f) – internal carbon prices, we recommend that this should be a voluntary disclosure. Our reasons are as follows: 1) because at present there is no unified and observable convention to determine internal carbon prices by industry, it is not possible to estimate internal carbon prices on a reasonable basis; 2) carbon trading markets in certain jurisdictions are still at their infancy. The trading prices are not references to be used by entities to compute their internal carbon prices; 3) the majority of the entities do not have sufficient capability to assess the internal carbon prices unless they invest in significant costs; 4) it is often challenging for entities to ascertain the

quality of the data, including fairness, accuracy and comparability; 5) the information related to internal carbon prices may be commercially-sensitive.

4. For paragraphs 21(g) – remuneration, we recommend that the following modifications be made: 1) because it is often difficult to directly correlate the exact percentage of executive management remuneration to climate-related considerations, we do not suggest disclosing quantitative data like ‘percentage of executive management remuneration’; 2) other than remuneration, entities could use other evaluation methods to assess management performance towards climate considerations. We suggest modifying paragraph 21 (g) to ‘remuneration and other performance evaluation methods: (i) the percentage of executive management remuneration recognised in the current period that is linked to climat-related considerations; and (ii) a description of how climate-related considerations are factored into executive remuneration and other performance evaluation methods (also see paragraph 5 (f)).’

5. Certain stakeholders in China pointed out that the S2 ED contains many disclosure requirements for non-financial information, such as greenhouse gas emissions on an absolute basis and on an intensity basis, as well as internal carbon pricing. Whether this non-financial information should be included as part of general purpose financial information remains to be determined. Similar issues may also arise in other upcoming thematic standards. Therefore, we recommend that the ISSB clarify and explain more about the connotation of ‘sustainability-related financial information’, and the scope of ‘general purpose financial reporting’.

(b) No comments.

(c) Certain stakeholders in China noted that, whilst this protocol is one of the commonly-used protocol, it is not the only protocol used world-wide and may differ from certain existing national protocols adopted by some countries in terms of measurement approach and scope. We recommend that S2 ED provides options for companies to apply other established international protocols or those national protocols that have been developed in accordance with established international protocols.

(d) We recommend that entities should only be required to disclose emissions by major types of greenhouse gas based on materiality principle. Besides, we recommend that the disclosures on Scope 1, Scope 2, and Scope 3 emissions be disaggregated by constituent greenhouse gas. Our reasons for proposing such disclosures are as follows: 1) If only CO2 equivalents are required to be disclosed, users would not be made aware of emissions of other types of greenhouse gases other than CO2. For example, non-CO2 emissions take up the majority of the total emissions in certain industries including chemical, agricultural, solid waste treatment, semi-conductors, etc. If CO2 equivalents are provided, investors would not be able to understand specific emissions as well as reduction Information. There would not be enough transparency for users. 2) Disclosing the greenhouse gas by its constituent is more helpful for users to compare the greenhouse gas emissions of different entities.

(e) See our response to Question 9 (a) for more detailed recommendations. The vast majority of our Chinese stakeholders responded that entities have limited control and influence over their associates, joint ventures, unconsolidated subsidiaries and affiliates. It is difficult to obtain emission data from associates, joint ventures, unconsolidated subsidiaries and affiliates. Even if the data is obtained, the entities cannot ascertain the data are timely, accurate, complete and verifiable. Many Chinese stakeholders interpret the current requirements in the ED as entities should disclose all emission data from their

associates, joint ventures, unconsolidated subsidiaries and affiliates. We recommend that further explanation should be provided in the main text of the standard to ensure proper interpretation of this requirement.

(f) See our responses to Question 9 (a) for more detailed recommendations.

[Dubai]

Broadly agree. No further comment on this section.

[Hong Kong]

We recommend that the ISSB elaborate on the requirement for "internal carbon prices", such as whether there is any benchmark that the entity should follow and the related disclosure requirements. Without this standardization, the impact of "internal carbon prices" on enterprise value may not be comparable as the internal carbon price and its underlying computation methodology could vary widely between different entities.

GHG Protocol

We have the following concerns and suggestions in respect of using the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions:

- Many local methodologies have been developed based on the GHG Protocol which achieves similar measurement outcomes. Certain jurisdictions also require entities to use their local measurement bases which would prevent such entities from asserting compliance with IFRS Sustainability Reporting Standards. The ISSB should consider allowing entities to use methodologies that achieve similar outcomes as the GHG Protocol to define and measure Scopes 1, 2, and 3 emissions. Hence, the ISSB should not limit the determination of GHG emissions to the use of the GHG Protocol only.
- The ISSB should require explicit disclosure of the methodologies, significant inputs, assumptions and estimates used in determining Scopes 1, 2 and 3 emissions e.g. the emissions factors used, and the limitations of methodologies used.
- Any reference to the GHG Protocol Corporate Standard should be clarified to refer to the 'GHG Protocol Corporate Accounting and Reporting Standard' as there are several standards issued by GHG Protocol Initiative.
- It is suggested that the ISSB clarify what is meant by "or otherwise brought into entities boundary" under the definition of Scope 2 emissions in Appendix A.

Scope 1 and Scope 2 emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates (non-controlling investments)

The wide range of methodologies, assumptions and emission factors used by different entities to compute carbon emissions could impair internal consistency of a group's reported emissions, for example, a non-controlling investee's using (i) a societal value approach; (ii) a method that is not 'GHG Protocol aligned' to compute emissions; (iii) operational control method while the reporting entity uses the equity share method; and (iv) having non-coterminous period ends. We recommend that the ISSB consider requiring the use of consistent methodologies as the reporting entity by non-controlling investments, similar to IFRS Accounting Standards requiring associates and joint ventures to use consistent accounting policies as the group.

We have several observations on paragraph 21(a)(iii)(2) mostly on the alignment of the terms used in IFRS Sustainability Disclosure Standards with those in IFRS Accounting Standards:

- The scope of this paragraph seems to be broader than paragraph 40(c) of [draft] IFRS S1 as it includes “unconsolidated subsidiaries or affiliates” in addition to associates and joint ventures. Is this the ISSB’s intention?
- Clarify what is meant by “unconsolidated subsidiaries” – does it refer to “unconsolidated structured entities” in IFRS 12 Disclosure of Interests in Other Entities?
- Clarify what is meant by ‘affiliates’ as it is not a term used in IFRS Accounting Standards.

Scope 3 emissions

It is difficult to obtain high-quality and reliable source data for Scope 3 emissions as they fall outside an entity’s direct management. Furthermore, as not many jurisdictions have regulations that require entities to provide carbon emissions data to their downstream customers or upstream suppliers, the completeness, availability and reliability of such data is a cause for major concern for our stakeholders. For example, a real estate industry stakeholder who is experienced in preparing Scope 3 emissions commented that they needed to work with a university to develop a model for calculating the emissions factor for constructing a building. Not everyone will have the means to conduct such a large scale exercise.

At present, most of the sustainability reporting standards require Scopes 1 and 2 disclosures only with Scope 3 being mainly a recommended disclosure (with the exception of the EU Corporate Sustainability Reporting Directive which also proposes to require Scope 3 disclosures but only for entities that meet certain size requirements).

We strongly recommend that the ISSB consider a phased approach for requiring quantitative Scope 3 emissions data to allow time for the market to build up capacity in the collection and recording of such data to ensure the ultimate disclosures provide meaningful information to investors. Furthermore, the ISSB should consider providing additional guidance and related disclosure requirements on how to ensure the inputs and factors used in emissions disclosures are relevant for the entity (e.g. the emissions factor used for rail transportation is appropriate for the entity in terms of the model and age of the train, the type of fuel used, routing, when the conversion data was last updated, etc.).

We recommend that the ISSB clarify or provide the following:

- Guidance to assist entities in determining how many levels up and down the value chain they should disclose for Scope 3 emissions or refer stakeholders to relevant existing literature.
- Paragraph 21(a)(vi)(4) requires an explanation for omitting Scope 3 emissions disclosure if the reporting entity is “unable to obtain a faithful measure”. Our concern and recommendation on “unable to obtain a faithful measure” are the same as “unable to do so” (see response in Question 7 of ED IFRS S2).
- Paragraphs 21(b) and 21(c) require entities to disclose the amount and percentage of assets or business activities vulnerable to transition and physical risks. The terms “assets”, “business activities” and “vulnerable” should be defined to pre-empt questions such as:
    - Whether assets mean total assets, total assets and liabilities or net assets, and whether the measurement is based on book value or fair value as of the reporting date.
    - Whether business activities refer to operating segment or cash generating units as defined in the IFRS Accounting Standards.

[Indonesia]

(a) We agree with all cross-industry metrics categories proposed, which already consider TCFD's criteria. As mentioned in TCFD implementation guidance issued in October 2021, these metrics help preparers to disclose consistently from year to year to facilitate comparative and trend analysis. Measuring the same metrics over time provides a way to track progress. Therefore, we believe these metrics will help users to assess and compare enterprise values across the industry.

However, in our opinion, some concerns need to be highlighted, as follows:

1. Calculation method for an internal carbon price

   Internal carbon price needs a more standardized method to compute.

2. Definition and measurement of the "vulnerable" term

   Paragraphs 21 (b) and (c) stated that an entity should disclose the amount and percentage of assets or business activities "vulnerable" to transition risks and physical risks. We consider it necessary to clarify the definition of vulnerable, how to measure it, and example tools that entities can use to assess such risks. This further explanation will be useful for preparers or management to understand and disclose that information.

(b) As mentioned earlier, in our opinion, the seven cross-industry metrics categories are already sufficient. Therefore, we think there is no other cross-industry metric category that should be considered.

(c) We agree with the GHG protocol as the methodology to define and measure GHG emissions. We understand that GHG Protocol is generally accepted and globally recognized. Moreover, GHG protocol can be used for private and public sector operations and already partnered with WRI, WBSCD, governments, industry associations, NGOs, businesses, and other organizations. Therefore, it will be very helpful for users to understand and compare entities' performance on GHG emissions across the industry or across the country.

However, Scope 3 does not have clear boundaries. For example, to produce a car, we will need spare parts and some chemicals that are being produced in various countries (imported), how can the automotive producer get to the GHG emission computation from all the spare parts producers? Including the marine transportation GHG? How can an auditor verify the figures? It can be done if there is an international system to compute all GHG emissions, but this system does not exist nowadays. Therefore, maybe the implementation of Scope 3 should be up to the entity. An entity should disclose what scope 3 emissions are measured, and which one is too complicated or has no data available. Therefore users of the report can compare Scope 1, Scope 2, and Scope 3 separately.

Currently in Indonesia, to achieve NDC 2030, the central bank of Indonesia (Bank Indonesia) together with Kementerian Koordinator Bidang Kemaritiman dan Investasi Republik Indonesia (Kemenko Marves) and Kementerian Lingkungan Hidup dan Kehutanan Republik Indonesia (KLHK) developed an application, named "Kalkulator Bijak", to help entities calculate carbon emissions. This tool is already considering GHG protocol as a measurement methodology. However, until today, this tool is not able to calculate carbon emissions in scope 3, but can only be used to calculate carbon gas emissions in scope 1 and scope 2.

(d) We recommend implementing the simple one first, which is CO2 equivalent, for certain industries that produce toxic gases a lot. Then, industry requirements may ask for disclosures of other gasses, such as CH4, N2O, HFCs, PFCs, and SF6. Calculations using CO2 can be used to reflect changes in emissions from year to year. Currently, Indonesia set the target on gas emission using CO2 equivalent (according to Peraturan Presiden Republik Indonesia Nomor 98 Tahun 2021). Moreover, as mentioned earlier in question 9 (c), Indonesia now developing a tool to calculate carbon emissions that also uses CO2 equivalent.

(e) We agree with the requirement to separately disclose this y' entity. However, associates, joint ventures, unconsolidated subsidiaries and affiliates are not under the entity's management control, and therefore the entity management should not be asked to be responsible for the disclosures of entities that are not under his or her control.

Moreover, regarding disclosures on the consolidated entities, the Board needs to consider the alignment between boundaries and requirements for consolidation required by the IFRS S2 and GHG protocol. For example, according to GHG protocol, two distinct approaches can be used to consolidate GHG emissions: the equity shares and the control approaches. We need further clarification, regarding the approach used by the IFRS S2. Because the consolidation of GHG emissions data will only result in consistent data if all levels of the organization follow the same consolidation policy. Once a corporate consolidation policy has been selected, it shall be applied to all levels of the organization.

(f) We agree for all entities should include absolute gross Scope 3 emissions as a cross-industry metric category in their disclosure. Because standards need to be applied across firms equally. With a materiality clause, it will be fair and reasonable for companies.

However, according to IFRS S1 Paragraph 61, "An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material". It means materiality applies to all information in the sustainability reporting, so the "subject to materiality" clause is not necessary to be added to that statement.

Moreover, as mentioned earlier, Scope 3 does not have clear boundaries. Therefore, maybe the implementation of Scope 3 should be up to the entity, to understand what data that available on the entity regarding this requirement. Therefore, users of the report can compare Scope 1, Scope 2, and Scope 3 separately.

[Malaysia]

We have concerns over the boundary of reporting entity for the purpose of meeting the disclosure requirements for greenhouse gas emissions.

As with the preparation of consolidated financial statements, holding companies will face challenges in obtaining information for the purpose of preparation of climate-related disclosures. The proposed disclosure requirements to provide information about Scope 1 and Scope 2 emissions separately for (i) the consolidated entity and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates might impose additional operational complexity on entities.

In addition, the proposed requirement in paragraph 21(a)(iii) for Scope 1 and Scope 2 emissions is clear with regard to the separate disclosures between the consolidated accounting group and others not included in the consolidated group's disclosures. This is not the case for Scope 3 emissions and hence we suggest the drafting of paragraph 21(a)(vi) to state clearly

the required scope/reporting boundary for Scope 3 emissions as currently, it is silent about information of associates, joint ventures, unconsolidated subsidiaries or affiliates.

We also noted the term "affiliate" is used to represent one of the types of unconsolidated entity. This term is neither defined in Appendix A of [draft] IFRS S2 nor in the Glossary of IFRS Accounting Standards. In this regard, we suggest to include the definition of "affiliate" in Appendix A *Defined terms* of [draft] IFRS S2.

With regard to the absolute gross scope 3 emissions, we agree with the proposal for Scope 3 emissions to be included as a cross-industry metric category. As noted in paragraph BC117, there is 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.

However, disclosures of Scope 3 emissions hinge a lot on enabling infrastructure and data and hence entities would require a longer time to prepare themselves for such disclosures, particularly for those who have just started with the process. In this regard, we suggest ISSB takes into consideration the challenges as acknowledged in paragraph BC109, and also the sectors and/or entities' readiness to be able to provide the Scope 3 emissions over a reasonable time frame of a phased approach.

[Sri Lanka]

(a) CA Sri Lanka agrees with the proposed cross-industry metric categories, including their applicability across industries and business models and their usefulness in the assessment of enterprise value.

We believe that these cross-industry requirements will enable the users to assess the enterprise value in a comprehensive manner since these metrics have been adopted from the 2021 updated TCFD implementation guide.

(b) We believe that the existing cross-industry metric categories related to climate-related risks and opportunities sufficiently and broadly facilitate cross-industry comparisons and assessments of enterprise value.

(c) CA Sri Lanka agrees that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions, because it is generally accepted and globally recognized. However, at this point, we would like to suggest that this requirement should not be mandatory within the proposed standard. Furthermore, the entities should be encouraged to describe the methodologies used to prepare the data that they have used in their disclosures.

(d) We agree that entities should provide aggregated data expressed in CO2 equivalent.

(e) We agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:

- the combined entity; and
- for any joint ventures, associates, unconsolidated subsidiaries, and affiliates

This separate disclosure will enhance the transparency of the financial statements along with the climate related disclosures.

(f) We agree that absolute gross scope 3 emissions should be included as a cross-industry metric category.

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?

AOSSG members' comments on Question 10

[Australia]

(a) The AASB agrees with the disclosures about climate-related targets as proposed in paragraph 23 of the [draft] standard.

(b) The proposed definition of 'latest international agreement on climate change' is not clear. Firstly, it's not made clear in the body of the [draft] standard that this term is defined. Secondly, the ISSB has referred directly to third-party standards and frameworks in Appendix B to the [draft] standard so we see no reason why the definition in Appendix A can't refer directly to the latest international agreement on climate change. We recommend:

(i) that the term 'latest international agreement on climate change' be italicised to be clearly identifiable as a defined term' and

(ii) that the definition in Appendix A to the [draft] standard refers directly to the latest international agreement on climate change

[China]

(a) We generally agree. We recommend the ISSB should remove the requirement on 'how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party' set out in the paragraph 23(e). Our reasons are as follows: 1) differences exist in the energy structure and emission reduction pathways for different jurisdictions. As a result, depending on the stage the country is in, emission reduction targets are formulated based on actual circumstances.

When setting emission reduction targets, entities are more likely to align with their national or regional-based targets or requirements on a case-by-case basis, and catering for specific circumstances (i.e., different business natures, scale and stages of development). If these targets have to be compared to that of the latest international agreements on climate change, it may bear little relevance and may not be practical; 2) should entities' targets be required to compare with those set out in the latest international agreements on climate change, complex climate-related scenario analysis would be involved. But due to the lack of data and desire to perform such analysis, the relevant requirements may not be practicable; 3) although the ED does not require entities to conduct third-party verification, but only requires entities to disclose whether their disclosures have been verified by third parties, this disclosure requirement may still exert pressure on entities, forcing them to solicit third-party institutions which would result in additional costs.

Also, due to the lack of a set of uniform criteria for determining whether the industry decarbonization method has been adopted, we recommend the ISSB to modify the disclosure requirements in paragraph 23(f) to be a voluntary one.

(b) It can be made clearer. We recommend modifying the term 'latest international agreement on climate change' to 'the United Nations Framework Convention on Climate Change and the Paris Agreement'. The reasons are as follows: The international community recognizes that the United Nations Framework Convention on Climate Change and the Paris Agreement are the main channel and the basic legal basis for the global response to climate change, and all parties and stakeholders should carry out actions under this framework. Therefore, 'the latest international agreement on climate change' means 'the United Nations Framework Convention on Climate Change and the Paris Agreement', and the relevant expression should be clearly stated in the main text of the standard.

[Dubai]

Broadly agree. No further comment on this section.

[Hong Kong]

The ISSB should clarify what is meant by the "sectoral decarbonisation approach" in paragraph 23(f): it is not clear whether the ISSB is referring to the approach developed by the *Science Based Targets initiative*.

[Indonesia]

(a) We agree with the proposed disclosure about climate-related targets. It already considers the latest international agreement (Paris Agreement) on climate change under UNFCCC, based on the best available science. If all entities use the same target, then strategies to achieve the long-term goal of lowering greenhouse gas emissions will be easier to develop.

However, some issues need to be considered which are as follows:

1. Climate-related target

   Paragraph 23 (e) stated that entities shall disclose comparability between their target and the latest international agreement. In our opinion, every county has its jurisdiction policy and faces different challenges regarding environmental issues. Therefore, the target for every country will be different. If entities require to achieve a target too high, it will be difficult and costly for entities. And in the end, it will increase

resistance from entities to apply this standard. In 2021, through the Long-Term Strategy for Low Carbon and Climate Resilience (LTS-LCCR) 2050, Indonesia already set an unconditional target of 29% and a conditional target of up to 41% compared to business as usual in 2030. Indonesia is one of the most vulnerable countries to the negative impact of climate change. Indonesia faces the risk of losing small islands and the narrowing of its coastal areas due to rising sea levels that will threaten cities located on the coastline. Due to this consideration, we need to use jurisdictional NDCs as a reference to compare the entity's targets regarding climate-related risk.

2. Alignment on disclosure of targets

   As mentioned earlier in the comment for question (5), we need to consider combining paragraphs 23 and 13 (b), to minimize confusion. Paragraph 13 (b)(i) stated that entities should disclose information regarding the process in place for review of the targets. "Targets" stated in this paragraph related climate-related targets to its strategy and decision-making. However, in paragraph 23, targets mean overall climate-related targets.

(b) We agree that this definition is clear enough. However, we need to consider additional details regarding this agreement, such as the bodies who created this agreement, how many countries that already agreed with this agreement, announcements, or statements for change, etc. We need to consider certain countries who does not support the UNFCC agreement. For example, the US did not agree to Paris Agreement until Biden became president. This information will help users and preparers to understand more detailed information regarding this agreement in other sources, without worrying to have different perceptions regarding the agreement.

[Malaysia]

In relation to the proposed paragraph 23(f), our stakeholders expressed concerns about the sectoral decarbonisation approach for the oil and gas sector. It was noted that currently companies in all sectors can set science-based targets, aligned with the SBTi criteria[2], except for those in the oil and gas sector. At this juncture, the SBTi is unable to accept commitments or validate targets for companies in the oil and gas or fossil fuels sectors. The SBTi is still developing a new methodology for the oil and gas sector to set science-based targets[3]. As there is no established methodology for the oil and gas sector, it would be difficult to comply with the proposed requirement in paragraph 23(f), which requires an entity to disclose "whether the target was derived using a sectoral decarbonisation approach".

In this regard, paragraph 23(f) might need to be drafted in a manner that allows entities not to disclose the sectoral decarbonisation approach if it is not applicable to them.

[Sri Lanka]

(a) CA Sri Lanka agrees with the proposed disclosure about climate-related targets.

   As per the proposed disclosure about climate-related targets, which is stated in paragraph 23, it will allow the users of the financial statements to realize whether the entity is aligned with the Paris Agreement.

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[2] The Science Based Targets initiative (SBTi) sector guidance, https://sciencebasedtargets.org/sectors

[3] https://sciencebasedtargets.org/sectors/oil-and-gas#what-is-the-sb-tis-policy-on-fossil-fuel-companies

(b) We believe the proposed definition of "latest international agreement on climate change" is sufficiently clear.

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.

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(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

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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?

AOSSG members' comments on Question 11

[Australia]

(a) The AASB disagrees with the approach taken to revising the SASB Standards to improve their international applicability. There was no approach to internationalisation other than to remove references to specific pieces of US-based legislation, regulations or guidance. Furthermore, the SASB Standards from which the metrics were taken have not previously been exposed for public consultation in Australia. We also note that insufficient time has been provided as part of this public consultation to ensure that the content proposed in Appendix B could be appropriately analysed and considered.

(b) The AASB agrees with the amendments made to the SASB Standards per Appendix B to the [draft] standard. However, these amendments have not gone far enough in ensuring the international applicability of the proposals in Appendix B to the [draft] standard.

(c) Very few entities in Australia apply SASB Standards however we assume, given none of the industry descriptions or industry-based metrics have actually been amended, that those entities that currently apply SASB Standards would not be affected by the amendments.

(d) The AASB agrees with the proposed industry-based disclosure requirements for financed and facilitated GHG emissions, however we note that this requirement duplicates the cross-industry requirement to disclose Scope 3 GHG emissions so is not necessary. We also note that due to concerns around data availability and quality, ISSB should provide sufficient time for systems to be developed and transitional relief through the development of first-time application standard.

(e) – (i)

See response to question 11(j).

(j) The AASB strongly disagrees with the proposed industry-based requirements in Appendix B to the [draft] standard. While we note that many Australian stakeholders said that industry-based metrics would be useful, based on the feedback from stakeholders and our own initial assessment, we are of the view that these are not currently appropriate for use in the Australian market because:

(i) the public consultation period of 120-days being insufficient for Australian stakeholders to be able to appropriately consider the proposals in Appendix B in addition to the body of the [draft] standard and also [Draft] IFRS S1;

(ii) the appropriateness of the proposed industry descriptions and industry-based requirements for use in Australia;

(iii) the volume of content being proposed in Appendix B to the [draft] standard;

(iv) how the proposed industry-based metrics relate to climate. Because of a lack of definition of 'climate' in the [draft] standard it is not clear what the boundary of the [draft] standard is.

Consequently, we recommend that Appendix B be removed from [Draft] IFRS S2 and referred to only as non-mandatory guidance outside the [draft] standard until the ISSB has the time to appropriately consult on, review and amend the proposed content. Otherwise we recommend that the proposals be accompanied by an explanation of how the resulting information would be used by primary users and how that information links to the assessment of an entity's enterprise value.

(k) – (l)

See our response to question 11(j).

[China]

(a) We are of the view that there are mainly following problems existing in Appendix B of S2 ED:

1) a large number of metrics are not global metrics. Appendix B of S2 ED is derived from standards formulated by the SASB. Despite efforts by the ISSB to internalize it, a significant amount of regional or national metrics still remain. These include specific metrics from Europe and North America, and those from a certain state of the United States of America, a certain industry association or a certain company in a certain country. These metrics cannot be regarded as metrics of international standing. We recommend that the metrics developed by non-international institutions and non-globally recognised international institutions be removed. Companies of different regions and countries can either apply other recognized international standards or those national standards formulated in accordance with internationally-recognized standards.

2) Some of the metrics in Appendix B are beyond climate-related disclosure which will result in the inconsistency between the Standard and Appendix B. For example, in addition to climate-related metrics, Appendix B of the S2 ED also includes metrics such as water resources and social responsibilities, etc., which are not directly related to climate change. These metrics are beyond the scope of the climate standard and may overlap with other upcoming thematic standards. We recommend that the ISSB rationalize the relationship of the themes of S2 ED and its appendices. Any metrics not related to climate change should be relocated to their respective thematic standards.

3) We also recommend the ISSB to enhance certain metrics and requirements listed out in Appendix B. For example, we think the disclosure requirements set out for commercial banks should not require entities to incorporate Environmental, Social and Governance (ESG) factors in Credit Analysis. The specific methodology for incorporating the above factors into the measurement of expected credit loss is still in its early research stage.

Meanwhile, we recommend to further clarify the types of economic activities that are related to transition risk exposure of financial institutions.

Furthermore, rule-based as Appendix B is, Appendix B may lack flexibility and adaptability to deal with the changing business activities and environment of different industries and different entities. Therefore, we recommend that rather than carrying the same authority as the main text of S2, Appendix B, in its entirety, should be non-mandatory industry guidance.

(b) See our responses to Question 11 (a) for more detailed recommendations.

(c) No comments.

(d) We recommend that disclosures for both financed emissions and facilitated emissions be modified from mandatory disclosures to voluntary ones. Our reasons are as follows: As for financial institutions, emissions data of this kind and scope this broad are often difficult to obtain as these data are far beyond financial institutions' normal data-collection scope. Significant dependencies would need to be placed on their clients' cooperation and measurement capabilities. In addition, it is also difficult to ascertain quality of information obtained. How the information is computed may also vary from one to another. This would result in a lack of comparability of the data disclosed by different financial institutions. When it comes to developing countries, the fundamentals that enable accurate carbon accounting are still at their rudiments. It is possible that for a relatively long period, internal and external conditions for obtaining reliable financed emissions information may not exist. In addition, taken the materiality principle into consideration, financed and facilitated emissions, we recommended that the ISSB should only require emissions information from key industry sectors or key investment and financing areas be disclosed.

(e) Agree.

(f) We recommend that the ISSB should modify the mandatory disclosure requirement of financed emissions into voluntary disclosure. Please refer to our response to Question 11 (d) for our reasons.

(g) Agree.

(h) Certain stakeholders in China noted that, whilst this protocol is one of the commonly-used protocol, it is not the only protocol used world-wide and may differ from certain existing national protocols adopted by some countries in terms of measurement approach and scope. We recommend that S2 ED provides options for companies to apply other established international protocols or those national protocols that have been developed in accordance with established international protocols.

(i) No comments.

(j) See our response to Question 11 (a) for more detailed recommendations.

(k) No comments.

(l) We do not agree with using the Global Industry Classification Standard (GICS) to classify industries. GICS is not consistent with the industry classification applied in many jurisdictions. It will be practically difficult for those jurisdictions to determine industry sectors using GICS. In addition, for those entities that operate in multiple industries, we recommend that the ISSB should provide further guidance on their disclosure.

[Dubai]

Broadly agree. No further comment on this section.

[Hong Kong]

Appendix B

The objective of the ISSB is to develop a comprehensive global baseline of sustainability-related disclosure requirements to meet the needs of capital markets. However, some respondents observed that certain metrics in Appendix B might still not be applicable in many jurisdictions even though attempts have been made to internationalize them. This might hinder international adoption of the standard as entities might be prevented from asserting compliance with IFRS S2 given Appendix B is an integral part of the standard.

We therefore recommend that the ISSB consider whether Appendix B should be mandatory guidance or should act as a reference only, akin to how the Climate Disclosure Standards Board's non-mandatory guidance currently applies. We also suggest that Appendix B may need further industry-wide consultation if it is mandatory guidance as industry metrics are still evolving. Otherwise, the ISSB may consider industry-specific exemptions from mandatory application until Appendix B has been sufficiently improved and internationalised.

Furthermore, a number of jurisdictions have established jurisdiction-specific emissions factors or other measurement bases which are publicly available and which arguably more accurately depict the local environment. We suggest that the ISSB require or allow an entity to use the jurisdiction-specific measurement bases before defaulting to what is specified in Appendix B (e.g. measurements established by the IPCC on pages 16, 27, 40).

In addition, we have the following observations and suggestions on Appendix B:

- Some requirements are included in both the main text of the [draft] IFRS S2 as well as in Appendix B. For example, the cross-industry requirement in paragraph 21 stipulates that strategies and plans to manage overall emissions (which includes Scopes 1, 2 and 3) be disclosed. However, using Coal Operations (page 42 of Appendix B) and Construction Materials (page 53 of Appendix B) as examples, the same requirement only applies to Scope 1 emissions. In order to avoid such internal inconsistency (which may beg the question of which requirement takes precedence), we recommend that the ISSB remove from Appendix B industry-specific requirements that are already captured by the cross-industry requirements.
- Appendix B covers not only climate-related topics but also other sustainability-related topics such as water and raw materials management. The ISSB should clarify whether disclosure of these other topics is needed in order for an entity to comply with IFRS S2.
- More guidance should be given to entities that do not fit into any particular industry on how to find the relevant disclosure topics e.g. entities in crypto-related business could potentially be subject to both Asset Management & Custody Activities and Software & IT Services disclosure requirements.

Specific comments on industry-specific requirements

Commercial Banks (B16 of Appendix B):

(i) Recent market research indicated that banks globally continue to commit a large amount of investments to green and sustainable financing but their medium- to long-term disclosures of climate-related opportunities is lacking in substance which reduces users'

ability to assess the robustness of their strategies. The ISSB can consider inserting relevant guidance to help banks identify which of their lending and investment portfolios have such opportunities.

(ii) Respondents from the banking industry suggested that the ISSB clarify the following:

- The definition and emissions calculation methodology of "derivatives" and "undrawn loan commitment". In particular, given the nature of and arrangements involving derivatives can be complex, for example, they are usually executed with a loan facility, including both products in the emissions calculation may lead to double counting.
- Whether trading book assets arising from securities financing transactions (i.e. reverse repos) are within the scope of financed emissions and how to calculate their emissions.
- How to treat securitisation assets and liabilities: for example, if both the assets (mortgage loans) and the liabilities (securitisation liabilities) are on the balance sheet, it implies that the bank does not directly fund the assets. In this case, it is not clear whether the securitised assets should be included in the bank's financed emissions calculation. If the bank discloses both the financed (the mortgage loans) and facilitated (the securitization liabilities) emissions, this would again result in double counting of Scope 3 emissions.

(iii)These respondents also raised the double-counting issues that exist in measuring Scope 3 emissions in financial products, e.g. those arising from syndicated loans, derivatives, exchange traded funds, sovereign bonds, loans for securitization, etc. The ISSB should consider providing more specific guidance on how to eliminate double-counting where possible and require disclosure of the techniques and policies used by the entity (similar to the disclosure requirements of IFRS 13 on fair value measurements). The ISSB should also consider consulting on the wider measurement issue in its upcoming agenda consultation.

Insurance (B17 of Appendix B): Respondents from the insurance industry had the following suggestions and concerns:

- B17 should include more life insurance disclosure topics and metrics as life insurance is a significant part of the insurance industry. For example, quantitative metrics related to the loss of life as well as morbidity and mortality rate in relation to physical climate risks. In addition, the ISSB may consider separating the requirements for life insurance from general insurance as their nature of business is sufficiently different.
- Despite the explanation in paragraph BC166, it is not clear whether the emissions from insurance underwriting activities should be included as financed emissions. The ISSB should consider clarifying the requirement and including it in B17 of Appendix B.
- If an entity includes emissions from insurance underwriting activities, the ISSB could suggest using the premium level or sum insured as the business metric (i.e. the denominator) for intensity targets of such facilitated emissions.
- As the ISSB proposes to allow entities to classify counterparties using standards apart from the Global Industry Classification Standard, the ISSB should include examples of such other standards e.g. International Standard Industrial Classification.

- The funds held under investment-linked policies form part of the asset portfolio of an insurance company. However, the investment choice of such assets depends on the risk appetite and investment strategy of the policyholder but not the insurance company. The ISSB should clarify whether the financed emissions of such funds should be reported under the insurance company, fund issuer and/or policyholder.

Mortgage Finance (B19 of Appendix B): Respondents from the banking industry would like to clarify whether financed emissions disclosure is required for the mortgage finance industry as no such metrics are required in B19.

Managed Care (B30 of Appendix B): Respondents from the insurance industry suggested that the ISSB add a metric on how the expected/foreseeable deterioration of claims experience or impact on the underwriting requirement of the policies due to extreme weather will be assessed and reflected in the product under the "Climate Change Impacts on Human Health" topic as part of "Discussion and Analysis".

Real Estate (B36 of Appendix B): The following metrics need to be internationalized/clarified to facilitate the application of the entities:

- Management of Tenant Sustainability Impacts – It is not common in Hong Kong lease agreements to have a cost recovery clause for resource efficiency-related capital improvements.

- Energy Management – There is no relevant energy efficiency standard (i.e. ENERGY STAR) or energy rating in Hong Kong. In addition, it is not clear how the portfolio area used to calculate the energy consumption intensity should be determined: potential measurements could include total gross floor area, saleable floor area, etc.

Marine Transportation (B66 of Appendix B): The activity metric of "operating days" should exclude off-hire days of the vessel due to regular dry-docking. The GHG emissions of the vessel on such off-hire days are much less than full-scale operations and should be excluded to avoid distorting the activity metric.

Financed emissions

It appears that the proposal assumes emissions information (either at the project level or at the entity level) at the point of due diligence or loan drawdown can be obtained (albeit with a certain time lag). However, if ongoing Scope 3 emissions from borrowers is to be reported by banks, it may not be practicable for them to provide such information for the same period and at the same time as the financial statements given the volume of data to be collected.

For example, if a bank's financial year-end is 31 December 202X and its deadline for financial reporting is 31 March 202X+1, it may not be practically possible for its borrowers to report (and for the bank to collect) their emissions information as of 31 December 202X by 31 March 202X+1. Under normal circumstances, greenhouse gas emissions will not change significantly for the same pool of borrowers within a short time. We recommend a window of at least one year from the end of the financial period for reporting sustainability information. Using the above example, the bank with a financial year end of 31 December 202X can report Scope 3 emissions using a cut-off date of December 202X-1 in their sustainability report to be filed with the securities regulators by 31 March 202X+1.

If this approach is adopted, the time lag (i.e. the one-year window) should be disclosed in the sustainability report as this can allow users to cross-check the sustainability-related financial information with the financial statements of the following year.

There are mixed views as to whether the ISSB should specify the methodology for disclosing financed emissions. While a specified methodology may promote consistency, entities may need more flexibility in the early years to explore different approaches and for best practice to emerge and evolve. Regardless of whether the ISSB specifies a methodology, we believe that it would be beneficial for entities to disclose some sort of data quality score for financed emissions such as that recommended by the Partnership for Carbon Accounting Financials for transparency and comparability purposes.

[Indonesia]

(a) We highly appreciate the Board's effort in ensuring the international applicability of the standards, especially by using three approaches as explained in the BC133 [(1) referring to an internationally applicable standard, (2) providing a general definition, (3) referring to jurisdictional requirements]. However, we envisage that the Board should consider only using Approach 2 and Approach 3. We understand that in Approach 1, the Board uses international applicable standards which "most jurisdictions abide", but the term "most jurisdiction" refers to European or American countries.

Currently, we have not carried out an applicability analysis to every international applicable standard (Approach 1) of the proposed standards in appendix B. However, we view that it might be easier for the entity if the requirement is revised using Approach 2 and Approach 3. The Government of each country and the national standard-setting body should determine the detailed arrangement of the requirements.

We also found that the revision approach is not completely applied to all the requirements. We found in Home Builders industry requirements:

- "The entity shall disclose the simple average score of all homes that obtained a certified HERS® Index Score."
- "The entity may disclose the number of homes delivered that are certified to ENERGY STAR® for Homes or equivalent certification programs."

While in the BC138-140 the requirement ENERGY STAR® is deleted (revision Approach 3). Therefore, we suggest the Board consider a more thorough review of the industry disclosure requirement to make sure the revision approach is applied consistently.

(b) We understand that this proposed standard is already considering the international applicability issue. As mentioned in Paragraph BC131, only 10% (36 out of 350) metrics were identified as requiring additional technical refinement to enhance their international applicability. Besides, according to Paragraph BC132, this standard also considers some questions to evaluate each metric, such as definitions, calculation methodologies, etc.

However, none of the questions is related to industry classification. In our opinion, we need to consider that the industry classification in Appendix B is still not internationalized. There will be a difference in perception regarding the definition and classification. For example, industries on Indonesia Stock Exchange (IDX) are classified into 12 sectors with 62 sub-sector. Meanwhile, according to Appendix B, industries are classified into 11 sectors with 68 sub-sector.

Moreover, we also need to consider, that jurisdictional standards as determined by the Government should be implemented above the international standards (that may not apply to specific situations in that related country).

(c) We agree that the proposed amendments will enable an entity to continue to provide information consistent with the equivalent disclosures in prior periods. Because the proposed revision is related to definition and calculation methodology.

(d) We agree with the proposed industry-based disclosure requirements for financed and facilitated emissions. However, we need to consider that this financed and facilitated emissions builds on the GHG Protocol Corporate Value Chain in Scope 3. As mentioned earlier, entities do not have control of the related entities. For example, is a textile manufacturer will not get financing because they use electricity that is produced by a coal-fired power generator?

(e) We agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities. It helps users to understand cross-industry contributions to carbon-related clients. We understand that commercial banks that fail to manage these transition risks and associated opportunities through their lending and investment management could face diminishing returns and reduced enterprise value. In our opinion, there are no other industries that must be included in this classification.

(f) We agree with the proposed requirement to disclose both absolute and intensity-based financed emissions. As mentioned in GHG protocol, an absolute target is usually expressed in terms of a reduction over time in a specified quantity of GHG emissions to the atmosphere, the unit typically being tonnes of $CO_{2\text{-}e}$. Meanwhile, an intensity target is usually expressed as a reduction in the ratio of GHG emissions relative to another business metric. This absolute target can transparently address potential stakeholder concerns about the need to manage absolute emissions. However, it does not allow comparisons of GHG intensity/efficiency. Therefore, we also need the intensity targets, which may increase the comparability of GHG performance among companies. We think that both absolute and intensity-based financed emissions are important to understand the progress of efforts to reduce carbon emissions. For example, Banks will have to implement this requirement of disclosure in stages, otherwise, they will lose their function as a banker for the development of the country.

(g) We agree with the proposals to require disclosure of the methodology used to calculate financed emissions. It enhances comparability and transparency across industries. Because entities may choose a different methodology to calculate financed emissions. As mentioned in Paragraph BC152, until recently, a corresponding lack of useful data and methodological clarity disclosed by financial institutions of the relevant information was a challenging undertaking.

However, we still need to consider that none of the methodologies is generally accepted as a reliable or robust model because too many variables to predict the outcome. For example, Banks need to implement the methodology used and finance emissions only to a certain industry that is carbon-related sensitive according to the decision of the Bank risk management committee.

(h) We agree on using the GHG Protocol to provide the proposed disclosure. However, as mentioned earlier, scope 3 computation is going to be unreliable, even though the boundaries of the scope are impossible to implement consistently. Therefore, we recommended GHG Protocol only be used for Scope 1 and Scope 2.

(i) We understand that activities in the asset management industry have different risk profiles from other financial sector entities. This is especially for assets under management

(AUM) that are not disclosed on an asset manager's statement of financial position and such entities do not extend or risk their capital in making investments on a client's behalf.

However, we need to consider that GHG computation is not an acceptable monetary currency unit (financial accounting measurement unit). The computation used too many assumptions. Its completeness of assumptions and relevancy is still not verifiable.

(j) We agree with the proposed industry-based requirement. This is a result of rigorous efforts; however, it will keep changing and its relevancy will vary country by country. We need to consider, that jurisdictional standards as determined by the Government should be implemented above the international standards. - the Government of each country and national standard-setting body should determine the detailed arrangement of the requirements. Such as, which industry should implement these requirements and which part of the industry-based requirement should disclose by the industry. Therefore, we recommend using the industry-based requirements as guidance and letting the national standard-setting body determine together with its government what will be the most relevant and the first focus to implement in that country.

(k) In our opinion, the industry-based requirements in this proposal are a good start for all entities. However, this requirement still focuses on GHG emissions. We need to consider the other important issues, such as water quality, biodiversity and landscape planning.

(l) We agree with the industry descriptions in Appendix B, regarding industry-based disclosure requirements. However, we need to consider different industry classifications and descriptions all over the world. Therefore, these standards can be applicable and comparable to all entities.

[Malaysia]

We support the approach taken to revising the SASB Standards to improve the international applicability of the industry-based requirements in Appendix B.

However, we do not think it is practical on the onset for the industry-based requirements (volumes) in Appendix B to be integral parts of and have the same authority as the other parts of the [draft] IFRS S2 without allowing for a transitional period with some flexibilities for the implementation of the requirements, either in the form of allowance for some degree of local prescription or a differentiated timeline for implementation. We noted that the ISSB acknowledged the challenges to cater information in the volumes as to improve their international applicability in order to set out global baseline disclosure standards and the inherent trade-offs between improving comparability of disclosures and avoiding complexity (paragraph BC130). However, in our view, the "international applicability" should also take into account the information or indicators used not only in developed countries but also in developing countries.

Therefore, we believe that Appendix B should allow an entity to apply the specific metrics that are currently being practiced or as required by their pre-existing local laws and regulations for the purpose of asserting compliance with the Standard during the transitional period, that is, until the first post-implementation review (PIR) of the Standard. This approach is practical and is able to align requirements of the Standard with that of the local laws and regulations as well as cost effective for entities in jurisdictions with specific metrics that are different from that prescribed in Appendix B. The ISSB, could then assess during the PIR as to whether Appendix B is working as intended.

At this juncture, we do not think there is a single universal metric for each of the respective sectors prescribed in Appendix B and making them mandatory would provide additional operational challenges to comply with the [draft] IFRS S2. Some of the index used is not applicable or observed by Malaysian constituents, for example, the "*HERS® Index Score"* or *"ENERGY STAR®"*, in the "Home Builders" industry.

Alternatively, the ISSB may wish to consider a differentiated timeline for implementation of Appendix B, that is, to allow a transitional period before making Appendix B a mandatory requirement which carries the status of a Standard. In other words, during the transitional period, Appendix B should be made as 'best practice' instead of having the same authority of other parts of the Standard.

Although this approach might impede international comparability during the transitional period, nonetheless this is unavoidable given the different level of developmental phase of sustainability reporting across jurisdictions coupled with current challenges and therefore, a rigid implementation at the onset must be avoided as this would undermine the aspiration of the Standard to serve as a global baseline.

[Sri Lanka]

(a) CA Sri Lanka agrees with the approach taken to revise the SASB Standards to improve their international applicability. However, we would like to suggest to the ISSB that they consider more on the jurisdictional industry requirements by conducting separate research methods in order to improve the applicability of this appendix.

(b) As responded in question part (a), we agree with the proposed amendments. However, we recommend having a more in-depth analysis of the jurisdictional industry applicability.

(c) We do 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.

(d) As CA Sri Lanka, we agree with the proposed industry-based disclosure requirements for financed and facilitated emissions and we believe that this requirement completely relates to the climate-related risks and opportunities associated with the transition risk. Therefore, it will be helpful to understand the company's exposure to these risks and opportunities.

(e) We do agree with the industries classified as "carbon-related" in the proposals for commercial banks and insurance entities.

(f) We agree to the proposed disclosure requirement for both absolute and intensity-based financed emissions.

(g) We agree with the proposals to require disclosure of the methodology used to calculate financed emissions, because we believe that this proposal will enhance the transparency and reliability of the disclosures.

(h) The GHG Protocol Corporate Value Chain (Scope 3) is globally accepted and recognized. We 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.

(i) We believe that 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.

(j) We agree with the proposed industry-based requirements. However, we would like to suggest that ISSB further consider this specific sector analysis in accordance with the jurisdictional specific industry items.

(k) As described in paragraph 7 of this proposed standard, the disclosures set out in Appendix B and its related volumes have been identified as those that are likely to be useful to users of general-purpose financial reporting in making assessments of an entity's enterprise value. However, the responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements in the IFRS Sustainability Disclosure Standards, including this Standard. Therefore, an entity shall disclose information related to a specific requirement when it concludes that the information is material to the users of the information in assessing the enterprise value of the entity.

Hence, the entities have the responsibility to justify the approach they have taken and the guidance they have used to determine which metrics to use.

(l) On this point, we would like to suggest that ISSB consider how the specific industry classification system will work in practice and whether it needs to be amended to reflect international markets and specifically for other jurisdictions.

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?

AOSSG members' comments on Question 12

[Australia]

Given the limited time provided for public consultation, we are unable to quantify the likely benefits, costs and effects of this [draft] standard. We recommend the ISSB field test the proposals in this [draft] standard to better understand and quantify the costs, benefits and likely effects of applying it.[4]

We expect the likely benefits of applying IFRS Sustainability Disclosure Standards will be improved comparability, consistency and transparency of sustainability-related financial disclosures. However, we anticipate that these benefits will only begin to be realised 3-5 years after the [draft] standards become effective and reporting has had some time to mature.

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[4] The AASB has commenced the field testing of proposals in [Draft] IFRS S2 and will be looking to complete this work by the end of 2022.

We expect the likely implementation cost of these proposals to be significant because:

(i) many of the proposals in this [draft] standard require significant levels of judgement and assumptions from broad range of expertise that go beyond traditional financial reporting; and

(ii) compliance costs—that is, the audit and assurance of the disclosures resulting from applying the [draft] standard. Cost of compliance with IFRS Accounting Standards is already considered to be burdensome by preparers of general purpose financial statements.

We also expect that the likely implementation cost will be significantly higher for smaller entities given many of them will not yet have had access to the resources they need to have started considering reporting on climate. Furthermore, competition for those limited resources will likely increase the cost of those resources, unfairly burdening smaller entities

[China]

(a) Combining feedback from Chinese stakeholders, we recommend that when the ISSB analyses the likely impact of applying the proposed requirements in the ED, implementation costs would potentially include the following:

- Costs related to infrastructure-building (i.e., setting up and redefining organizational structure and internal control procedures, configuring and upgrading of IT systems, staff training and hiring of external consultants);
- Staff costs spent on data collection and analysis, etc. when implementing the standards;
- Costs of attestation services;
- Costs relating to potential negative impact brought forth as a result of the information disclosed;
- For entities with securities listed in multiple jurisdictions, costs of complying with different disclosure standards.

As for potential implementation benefit, we recommend that the ISSB should consider the following:

- by analysing significant climate-related risks and opportunities, entities may benefit from further optimizing their business model and undertake effective risk management measures;
- by disclosing information that enhances relevant users' understanding of entities' business operations as well as their value propositions, entities may be able to benefit from obtaining more favourable financing. In addition, through better information disclosures, entities may be able to boost their brand and image so as to increase market share eventually.

(b) No comments.

(c) As we recommend above, we believe that as the requirements of climate-related scenario analysis in the Climate resilience section, Scope 3 emissions in the Targets and Metrics section may pose significant implementation challenges for entities, together with significant costs to be incurred and quality of these information cannot be ascertained, benefit of undertaking these disclosures may be lower than costs.

[Dubai]

Broadly agree. No further comment on this section.

[Hong Kong]

We consider that the costs and benefits assessment of sustainability reporting should not be limited to purely a financial analysis because sustainability reporting will likely play a more pivotal role than financial reporting in the capital market in the future. There are broader public policy matters that need to be considered in the cost/benefit analysis and preparers would need to invest in sustainability reporting infrastructure so that users can make more informed investment and lending decisions.

Many respondents raised the many challenges that entities especially SMEs will face in adopting ISSB standards, including:

- The lack of supply of appropriately skilled people in the short to medium term;
- The time and costs needed to develop and/or recruit staff with appropriate skills; and
- Known operational difficulties in collecting consistent and quality data.

Hence, they suggested that the ISSB adopt a proportionality approach in terms of timing and extent of application by the SMEs (e.g., a lighter version with fewer disclosure requirements).

[Indonesia]

(a) We appreciate and understand the objective of this proposal. We believe that the expected benefit in the short, medium, and long term will be very high, especially to the environment. Even though there is still no empirical evidence regarding the benefit of this implementation. However, we also need to consider the support from every stakeholder to the company as an implementation benefit. For example, government subsidies, reduced financial costs, etc. This benefit will increase the willingness of entities to prepare this report.

Besides, the cost related to the implementation of this proposal will be significant to entities and will differ depending on company size and business process. There are some issues related to the implementation cost of this proposal, as follows:

1. Change in business activities or system

   Entities may need to change their business activities or system for the collection and production of relevant data and information

2. Change in reporting structure

   Entities also need to change their reporting structures for internal control and consolidation processes, to achieve consistency across the entity.

3. Lack of GHG emissions computation experts

   Many developing countries in Asia and Africa will not have the experts to compute all GHG emissions using a sophisticated method developed by the environmental experts in developed countries, a method that may not be relevant or applicable to these countries.

Therefore, there will be areas where the cost will exceed the benefit. To avoid this issue the Board should consider delegating the implementation details of this IFRS S2 to national standard-setting bodies that should work together with their government.

(b) As mentioned earlier, on question 12 (a), the cost related to the implementation of this proposal will be significant to entities. We need to consider that the entities need to implement a measurement system to fulfil this requirement. This will increase costs, including headcount to compute and maintain the system. This type of cost is all right. However, the consultation cost to verify the validity of GHG emission or Carbon sequestration is not will be very expensive. Currently cost to verify the carbon sequestration is about 8-10 times the general audit fee. This makes cost does not equate to the benefit for many entities, especially because the carbon credit market is not developed yet. Cost to verify will only go down with the availability of experts and uniform understanding, which currently is not yet the case in certain countries. Also, the understanding of carbon reduction that is being produced with different kinds of machinery will always change with technology innovation.

(c) In our opinion, we need to consider that this proposal is mandatory only for some entities with a significant impact on climate change. Because as mentioned earlier regarding implementation cost and challenges faced by the entities, it will be very expensive.

[Malaysia]

We are unable to provide specific comments on the cost-benefit analysis at this juncture.

Our stakeholders believe in the benefit of having one framework to report sustainability-related financial information. They envisage that the IFRS SDS will amalgamate the various sustainability-related standards into a global set of standard and to eventually supersede the myriad of standards, frameworks and guidelines when it comes to sustainability reporting, which at the moment prove to be confusing, counterproductive and laborious, amongst others.

That said, given the emerging developmental phase of sustainability reporting in many jurisdictions, it is expected that the costs to comply with IFRS SDS to be significant. Entities may need to incur additional costs to acquire the necessary skills and expertise in the sustainability-reporting space. Data readiness and systems integration are also some of the main concerns that may require entities to incur additional costs.

In addition, entities are likely to incur additional costs to perform verification or certification in order to comply with specialised metrics such as the "*HERS® Index Score*" or "*ENERGY STAR®*", as required in Appendix B of [draft] IFRS S2 in order to assert compliance with IFRS SDS when the metric(s) are not applicable or observed in their jurisdiction currently.

[Sri Lanka]

(a) From this Exposure Draft, the main benefit is that the users will be able to assess the enterprise value of the entities by considering the significant climate-related risks and opportunities.

    The reporting process and the disclosure processes of the entities will be improved due to the explanatory information on the financial reporting and the sustainability information.

    The likely cost of implementing this proposed standard is the cost of incurring to improve the internal controls and the increase in the resources to adhere to the requirements in this proposal.

(b) The costs of ongoing application are the costs incur on the internal control processes and the improvements to be done on the resources. We would like to suggest making guidelines to minimize theses costs.

(c) We believe that the costs associated with requiring disclosure of Appendix B would outweigh the benefits.

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.

AOSSG members' comments on Question 13

[Australia]

We are responding to this question in the context that this [draft] standard has not been field tested and the reporting outcomes from applying these proposals are not yet fully understood or known.

In theory, the requirements proposed in [Draft] IFRS S2 would not present any significant issues in relation to assurance and enforceability. However, we are also of the view that there is room for improvement in ensuring the assurability of the proposals regardless of the level of assurance that could be required.

As the ISSB redeliberates the proposals in [Draft] IFRS S2, we recommend the ISSB consider ISA 540 *Auditing Accounting Estimates and Related Disclosures*. While the International Auditing and Assurance Standards Board (IAASB) is still determining the path forward in responding to the work of the ISSB, ISA 540 provides the ISSB with a good framework to consider when evaluating what the disclosure and evidentiary requirements in the IFRS Sustainability Disclosure Standards should be. In particular, the ISSB should consider paragraphs 23-25 of ISA 540 relating to "*Methods*", "*Significant Assumptions*" and "*Data*".

While we understand these are predominantly audit and assurance concepts, and therefore outside the scope of the ISSB's work, it would help assurance practitioners and regulators if the ISSB could:

(a) Adapt and better utilise the guidance in paragraphs 125-133 of IAS 1 *Presentation of Financial Statements* which includes more robust guidance around the disclosures needed to support management's significant judgements and assumptions.

(b) Explicitly make reference to neutrality in [Draft] IFRS S1, or alternatively include neutrality as part of a conceptual framework addressing sustainability-related financial

reporting (or by amending the existing *Conceptual Framework* to make clear its applicability in preparing and disclosing sustainability-related financial disclosures).

[China]

Chinese stakeholders are generally of the view that the following challenges exist for auditors when they undertake attestation engagements: 1) most requirements in the ED far exceed the current knowledge and technical skillsets for auditors, i.e., verify if the entities clearly assess the climate-related risks and opportunities may influence the entities' financial performance in the short, medium, and long terms, verify if the entities perform the climate-related scenario analysis properly, comment on the pros and cons of different carbon offset plans, etc.; 2) the S1 ED requires sustainability-related financial disclosures should be reported together with the related financial statements. This will be challenging for auditors who have to perform work on both sets of reports within a short duration. Pressure on time and quality concern would be practical issues that the industry would face.

[Dubai]

Broadly agree. No further comment on this section.

[Hong Kong]

Verifiability

Unlike financial reporting, it is unlikely that auditors will be able to provide an overall opinion to the entire sustainability report when a significant amount of information is (a) qualitative, (b) forward-looking, or (c) only expresses a vision. However, for quantitative information, if the bases for determining the information are clearly defined in enough detail, then auditors can provide assurance as long as the entity has appropriate internal controls and safeguards around those specific numbers.

In addition, there could be challenges in verifying Scope 3 emissions in particular those arising from an entity's upstream and downstream activities as well as financed and facilitated emissions. Challenges include the reliability and availability of source data, the completeness of Scope 3 emissions and whether the auditors could complete the assurance engagement within a reasonable timeframe given the many layers (upstream and downstream) from which an entity needs to collect data.

[Indonesia]

In our opinion, we need to consider replacing the term "verify" with "assurance" because the information disclosed is qualitative and narrative. So, it will be very hard for auditors or regulators to verify all information disclosed. However, they can give a reasonable assurance opinion.

Regarding disclosure requirements that need to reach a reasonable assurance, we think assumptions and estimates need to be assured. Both IFRS S1 and S2 stated that some disclosures need to be explained or in the form of forward-looking information. In IFRS S1, it stated that to help investors and creditors decide whether to use such information, an entity shall describe the underlying assumptions and methods of producing the information, as well as other factors that provide evidence that verify that it reflects the actual plans or decisions made by the entity. Any forward-looking estimate and method to compute GHG emission (especially on how much carbon is kept by the forest and how quickly a forest can recover and reach a certain canopy height) depend on assumptions that relevancy and reliability are different from one place to another place. Therefore, to verify the relevance of the assumption

used, and the standard used to measure the GHG will need experts. The experts should know environmental science, a general auditor will not be able to verify the method being used. The environment expert should go through certification because otherwise, their result will vary. If in a certain country there is a government body that can certify, then it is best to guarantee uniformity and credibility, but if not, I do not think that a developing country can bear the cost to hire a handful of experts (or who call themselves experts) that concentrate in developed country issues, rather than equipped with the knowledge of developing countries.

[Malaysia]

In general, Scope 3 emissions disclosures would be very challenging to verify.

Specifically on verification, paragraph 31(b) of [draft] IFRS S1 requires an entity to disclose "whether measurement of the metric is validated by an external body and, if so, which body" when a metric has been developed by the entity. In this regard, we suggest the Standard to state clearly the extent of the verification or validation required by an external body, i.e., whether it only covers the developed metrics or also applies to the disclosures provided from those developed metrics.

[Sri Lanka]

To verify or to enforce the financial statements along with the relevant disclosures by auditors and regulators, they will require sufficient information. With reference to IFRS S2-Climate Related Disclosure Exposure Draft, we observed that there will be a challenge to auditors and regulators on the application of materiality. Due to this matter, some entities may decide that some information is not material and then they will not disclose that information in their financial statements. Hence, it will generate complications for the auditors and other regulators when deriving their respective opinions.

Therefore, we would like to suggest including an additional requirement for entities to mention their respective judgements and assumptions on materiality.

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.

Question 14—Effective date
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?

AOSSG members' comments on Question 14

[Australia]

(a) On balance we think that [Draft] IFRS S2 can be applied independently of [Draft] IFRS S1 so long as a direct reference to the IFRS Foundation's *Conceptual Framework for Financial Reporting* is made in the absence of [Draft] IFRS S1. We acknowledge that such an approach would have the benefit of allowing the ISSB more time to address the issues with [Draft] IFRS S1 (see also our response to the Exposure Draft on [Draft] IFRS S1) while still meeting the demand for climate-relate disclosure requirements in the short-term. However, we also note that overall Australian stakeholders were not supportive of an approach which would see the effective date of [Draft] IFRS S1 differing from that of [Draft] IFRS S2.

(b) The AASB recommends that the effective date of the [draft] standard should be 2-3 years after the date of issue with early application permitted. This approach will ensure that entities that are able to do so, can apply the requirements immediately, while also providing sufficient time for others to develop the capabilities, systems and processes needed to comply with the [draft] standard. Because of the complexities expected in transitioning to IFRS Sustainability Disclosure Standards, we strongly urge the ISSB to consider developing a first-time application standard to provide relief to those entities in the first year of application. Such a standard would also support application of IFRS Sustainability Disclosure Standards by smaller reporting entities that will potentially need to build their capabilities over a longer period of time.

(c) The AASB thinks entities could apply some of the proposed disclosure requirements in the [draft] standard earlier than others. Whilst we don't have any specific examples, we note that such an approach (i.e. building the necessary capabilities over time) appears to be popular in implementing the TCFD Recommendations in Australia.

[China]

(a) Some Chinese stakeholders are of the view that this Standard should be effective later than the S1 Standard. Their view is built on the rationale that it will be easier for this Standard to be accepted and promoted after S1 is fully understood by the market participants and that reporting entities are gradually equipped with relevant disclosure capabilities.

(b) Chinese stakeholders are generally of the view that the Chinese regulators need some time to formulate comprehensive infrastructure holistically to support the implementation of ISDS. Entities and their auditors need time for capability-building. Therefore, we recommend that final Standards should be effective 3 to 5 years after they are issued. In addition, we suggest that the ISSB should develop a phase-in approach for entities of different business types, sizes and with different levels of capabilities. This will be especially true for entities from developing countries where sufficient time needs to be provided to them to transition in order for them to appropriately apply the Standards.

In order to apply the standards, reporting entities are required to undertake the following preparation: refining the governance structure and internal control processes, re-defining the roles and responsibilities of relevant positions, analysing and familiarizing the disclosure requirements according to the Standards, re-configurating IT systems, collecting required data, and upgrading financial reporting systems, etc.

(c) No comments.

[Dubai]

Broadly agree. No further comment on this section.

[Hong Kong]

Some respondents suggested that [draft] IFRS S2 could be implemented independently from and before [draft] IFRS S1 to address the urgent climate issue. Given that [draft] IFRS S1 is a general standard, it would be important to understand how it interacts with other standards before making it mandatorily effective. In particular, as [draft] IFRS S1 covers the full range of sustainability-related risks and opportunities (i.e. beyond climate) and requires an entity to consider other frameworks, standards and local practice in the absence of a specific IFRS Sustainability Disclosure Standard (paragraphs 51 and 53), it will take a significant amount of time for entities to fully identify all the relevant information across the full spectrum of sustainability topics.

In contrast, other respondents agreed that both IFRS S1 and IFRS S2 should have the same effective date because the general requirements and guidance on materiality, reporting entity, frequency of reporting, comparative information and errors as set out in the [draft] IFRS S1 are important for the entities to prepare the climate-related disclosures.

Given the pervasive impact of applying IFRS S1 to all material sustainability-related topics of an entity, we urge the ISSB to consider the appropriate effective dates of these two standards carefully. Some respondents considered an implementation period of at least 3 years should be given as:

We consider an implementation period of at least 3 years should be given as:

- the novelty of the topic means that many entities lack the data, systems, processes and controls to produce the required information; and

- entities currently providing sustainability-related disclosures need time to apply IFRS Sustainability Disclosure Standards as they may have adopted a different materiality principle and complied with different local regulatory requirements as compared with the EDs.

We suggest a phased approach for adopting certain requirements of the [draft] IFRS S2 (see table below). If this approach is taken, an entity should explain why certain requirements have not been complied with and an expected timetable for compliance at a future date. This may encourage more uptake by entities and allow for an earlier effective date for the other parts of the standard.

Disclosure requirement s	**First year of application**	**Second year of application**	**Third year of application**
Scope 3 emissions	Only disclose the types of Scope 3 business activities	Disclose the corresponding Scope 3 qualitative information (e.g. what, where and how the emissions arose)	N/A (see response in Question 9 of ED IFRS S2)
Scenario analysis	Discussion of status of implementation plans as well as qualitative disclosures	Quantitative disclosures in priority business segments	Full disclosure of quantitative information
Emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates	Exempt from disclosure	Qualitative disclosures	Quantitative disclosures. If obtaining reliable information from associates, joint ventures, unconsolidated subsidiaries or affiliates is impracticable, then the ISSB may consider requiring the reporting entity to disclose the reason.

Disclosure requirement s	First year of application	Second year of application	Third year of application
Financed emissions	Only disclose the types of business activities involved in financed emissions	Disclose the corresponding qualitative information (e.g. what, where and how the emissions arose)	Full disclosure of quantitative information

[Indonesia]

(a) In our opinion, we need to consider the readiness of report preparers regarding these standards. Moreover, the requirements of this standard should be implemented gradually and not at the same time.

(b) In our opinion overall it will need at least 3 (three) up to 10 (ten) years. This is caused by the readiness of each jurisdiction which starts from the harmonization between the local regulations and international standards, supporting data that will be used to compile the information to become one sustainability report and the willingness of the preparers. We understand that sustainability information is one of the important information needed by many stakeholders, but we noted that in our jurisdiction sustainability reporting is categorized as voluntary reporting. More importantly, we noted that each jurisdiction has its standards regarding sustainability reporting (for example regulation ofGHG emissions between developed countries and developing countries could be different and cannot be treated the same). Thus, it requires much time to prepare the sustainability reporting for the preparers to achieve the harmonization objectives. We suggest the Board also consider the phased application so the implementation could be conducted in stages.

(c) In our opinion, two disclosure requirements could apply earlier than others, as follows:

1. Risk management

   Risk managers need to be applied earlier since it will give an analysis and understanding of what risks and opportunities, they faced regarding climate change. It will be the first step for them to plan strategies, in the short, medium, and long term.

2. GHG emission calculation

   GHG emission measurement seems to be more widely implemented already, even when Governance or assessment of climate-related risks and opportunities are not formally formed.

3. Governance

   Information regarding the governance body or bodies that are responsible for oversight of climate-related risk and opportunities needs to be applied earlier than the establishment of the strategies.

[Malaysia]

(a) We support the proposal to provide relief from providing first-year comparative information. In view of the high interrelation between the [draft] IFRS S1 and [draft] IFRS S2, we suggest they have the same effective date.

(b) Similar with other new IFRS Accounting Standards, we suggest a transitional period of three years with early application permitted. This would allow entities to make the necessary preparation to apply the [draft] Standard, including resource requirements as well as system readiness.

(c) We support a phased approach in view that many jurisdictions around the world are still at the early stage of development of the sustainability reporting space, coupled with limited resources, lack of consistent methodology, poor data quality or availability and the need for capacity building to comply with the sustainability disclosure requirements.

The phased approach could be implemented either by having different effective dates for requirements proven to be challenging to comply with (see our response to Question 7 *Climate resilience*) or by providing a reasonable time frame for entities to comply with the proposed requirements. This would allow entities who are ready to comply with the requirements to apply them sooner while others have the option to apply them at a later date.

[Sri Lanka]

(a) We believe it is important for both IFRS S1 and S2 to be effective at the same time since most of the requirements of IFRS S2 are a subset of the broader disclosure requirements proposed by IFRS S1. Hence, if the two standards are implemented at two different dates, then the entities will have to incur many additional costs relating to the extra time and resources consumed.

(b) We would like to suggest at least 12 months' time to set the effective date after the final standard is issued. Because we believe that this is a reasonable period for users to understand the application of this standard. Furthermore, the entities need to establish adequate processes within their organizations and guidelines to track and record the disclosures.

(c) We do not think entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others.

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

Question 15—Digital reporting
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)?

AOSSG members' comments on Question 15

[Australia]

As per our response to Exposure Draft on [Draft] IFRS S1, we would like to stress the importance of the global alignment of sustainability disclosure taxonomy. It is crucial for the users of the sustainability reports, that the same taxonomy is used by entities in various jurisdictions. We recommend the ISSB to work with other standard-setters that are developing the sustainability disclosure requirements to ensure the alignment of tagging.

[China]

We recommend that the ISSB should align its taxonomy with those from the United States of America, the European Union and IFRS Taxonomy for financial reporting.

[Dubai]

Broadly agree. No further comment on this section.

[Hong Kong]

No comments.

[Indonesia]

We have no suggestions at the moment.

[Malaysia]

We do not have any comment.

[Sri Lanka]

As in line with our comment on IFRS S1 question 15, we would like to suggest including a guideline for the users which will develop a specific platform which will be user-friendly and comfortable in nature to operate. Furthermore, there will be difficulties in including some tags due to the sensitive and confidential nature of some disclosures specific to the laws and regulations in respective jurisdictions. Therefore, we suggest considering these points when drafting the Exposure Draft that would facilitate the development of a taxonomy and digital reporting.

Question 16—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the

Question 16—Global baseline
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?

AOSSG members' comments on Question 16

[Australia]

The AASB has not identified any particular aspects of the proposals in the [draft] standard that would limit the ability of IFRS Sustainability Disclosure Standards to be used as a global baseline. However, 'global baseline' implies that this [draft] standard could be built upon at a jurisdictional level. We note that the [draft] standard is comprehensive and, as such, doesn't leave room for jurisdictions to build upon it.

[China]

We believe that the proposed standard could be used as a global baseline by further improving its inclusiveness, enhancing its structure and promoting its universal-applicability. Otherwise, it may impede ISDS's global adoption.

[Dubai]

Broadly agree. No further comment on this section.

[Hong Kong]

No comments.

[Indonesia]

We are in view that the IFRS Sustainability Disclosure Standards will be challenging to be implemented especially in emerging countries. Therefore, we recommend that the Board explicitly consider proportionality and scalability in its standard-setting activity. For example, some of the proposed disclosure requirements could be preceded with phrases like "where relevant in the circumstances of the entity" to demonstrate where requirements are scalable. This would also help reporting entities assess which requirements are material and therefore require disclosure.

[Malaysia]

Being a global baseline, requirements of the Standards should be flexible enough for it to being applied across all jurisdictions (please see our response to Question 11 above)

[Sri Lanka]

As in line with our comment on IFRS S1 question 14, we believe that the proposals in the Exposure Draft would not limit the ability of IFRS Sustainability Disclosure Standards to build a comprehensive global baseline.

As we observed, this exposure draft has clearly mentioned that an entity can adhere to any jurisdictional law and regulation by following the requirements in this exposure draft. Further, such information can be connected to the requirements in this exposure draft as well. Hence, CA Sri Lanka believes that this exposure draft would not limit the ability to build up

the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

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

AOSSG members' comments on Question 17

[Australia]

No further comments.

[China]

- ISSB should enhance the alignment and compatibility of ISDS with the Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors issued by the US SEC and the European Sustainability Reporting Standards (Exposure Drafts) (ESRS) issued by the European Financial Reporting Advisory Group. This will reduce the cost of disclosure for listed companies with securities listed in multiple jurisdictions and promote consistent and comparable global sustainability disclosures.
- We recommend that the ISSB should, based on all the feedback received globally, revise the two exposure drafts and re-expose them for public comment.

[Dubai]

No further comments.

[Hong Kong]

We appreciate the IFRS Foundation and the Global Reporting Initiative recognising the need to further harmonise the sustainability reporting landscape at an international level. We agree with the initiatives proposed by the two organisations in their communique dated 23 June 2022 and look forward to seeing progress being made on that front.

In addition, we strongly encourage the ISSB to collaborate with the US Securities and Exchange Commission and the EFRAG in terms of their respective climate-related/sustainability disclosure standards to align them as much as possible to achieve global consistency and to reduce costs for preparers and other stakeholders. A list of any remaining differences between the standards should be issued to allow a smooth transition between these standards. The ISSB may consider including certain transitioning provisions in its standards to facilitate those existing sustainability report preparers to convert from other sustainability frameworks.

We suggest that there be just one universal glossary that defines all the terms used in all IFRS Sustainability Disclosure Standards instead of including an appendix to each standard defining the terms used in that standard.

We also have several potential editorial suggestions as below.

	Paragraph(s)	**Comments**

	Paragraph(s)	Comments
1	4 and 16 of ED IFRS S2	The word "significant" is missing from "sustainability-related risks and opportunities" under the objective paragraphs of "Governance" and "Risk management". Does it mean that an entity needs to deal with *all* sustainability-related risks and opportunities?
2	17(c) of ED IFRS S2	What is the reason for not requiring an entity to disclose whether it has changed the process used for identifying and assessing climate-related *opportunities* in ED IFRS S2.17(c)? This is currently required for climate-related *risk* (paragraph 17(b)(iv) of ED IFRS S2).
3	17(f) of ED IFRS S2	Paragraph 17(f) of ED IFRS S2 should read as follows, "… integrated into the entity's overall [risk] management process."
4	FN-IN-4 on page 157 of ED IFRS S2 Appendix B	"Presentation currency" is missing as the unit of measure for point (2) gross exposure.

[Indonesia]

The preparedness of different industries and different countries to implement this ED varies greatly. However, the ED is a good start to let entities and investors start thinking over climate-related risks and opportunities. To gain international acceptance, it is best to provide general requirements and direction on how disclosures should be done. Moreover, we should gradually harmonize to the global setting and leave the detailed implementation to each country's national standard setter. Otherwise, many disclosures cannot be implemented in many countries.

[Malaysia]

Application of Appendix B

We wish to reiterate our significant concerns on the mandatory application of Appendix B as stated in our response to Question 11 *Industry-based requirements* in relation to the status of metrics included in Appendix B. Whilst we support the objective of providing internationally comparable sustainability or climate-related financial disclosures but at the same time acknowledge that there is no "one size fits all" metrics that are applicable to all the jurisdictions around the world.

Therefore, we believe that Appendix B should allow an entity to apply the specific metrics that are currently being practiced or as required by their pre-existing local laws and regulations for the purpose of asserting compliance with the Standard during the transitional period. This approach is practical and is able to align requirements of the Standard with that of the local laws and regulations as well as cost effective for entities in jurisdictions with specific metrics that are different from that prescribed in Appendix B. The ISSB, could then assess during the PIR as to whether Appendix B is working as intended. Alternatively, the ISSB may wish to consider a differentiated timeline for implementation of Appendix B, that is, during the transitional period, Appendix B should be made as 'best practice' instead of mandatory application.

Drafting style of industry-based requirements in Appendix B

Paragraph B11 of [draft] IFRS S2 explains that differences between SASB Standards and the industry-based requirements which are indicated in Appendix B are marked up for ease of reference, with additions underscored and deletions struck through.

However, we observed a metric that was not carried forward from the SASB Standards was not marked up in Appendix B. Specifically, the metric *Air emission* was not carried forward from SASB Industry Standard EM-IS to Volume B9 (EM-IS) in Appendix B; and this (deletion) is not struck through which contradicts the approach explained in paragraph B11 of [draft] IFRS S2.

We believe the markups would facilitate a smoother transition from SASB Standards to the [draft] IFRS S2 and save entities from going through all volumes in Appendix B to identify any changes from SASB Standards. In this regard, we are of the view that the markups should be reflected appropriately for ease of reference and to avoid any confusion.

We, therefore, recommend for the ISSB to explain in its Basis for Conclusions the approach taken to identifying changes from the 77 SASB Standards to the 68 industry volumes in the proposed Appendix B and how the 350 metrics are carried forward from the SASB Standards. More importantly, if the ISSB were to finalise Appendix B with the markups shown, we believe the markups should be applied consistently for all changes made from the SASB Standards.

[Sri Lanka]

As CA Sri Lanka, we would like to extend our cooperation and support to initiate this proposed standard. This proposed standard will bring more transparency and clear disclosures on the information about an entity's exposure to significant climate-related risks and opportunities, which will be highly important for all the stakeholders.