Comment letter to the ISSB's Exposure Draft IFRS S1 - *General Requirements for Disclosure of Sustainability-related Financial Information* and Exposure Draft IFRS S2 - *Climate-related Disclosures*

The following Canadian-based, global investors, asset managers and owners are pleased to submit our comments in support of the International Sustainability Standards Board's (ISSB)'s proposed enhancement and standardization of sustainability-related financial information disclosures and climate-related disclosures. Representing $1.6 trillion Canadian dollars in assets under management, we are committed to support the creation of more sustainable and inclusive growth by integrating climate change and other environmental, social and governance (ESG) factors into our strategies and investment decisions, and into our financial disclosures.

We support the ISSB's proposal to improve and standardize disclosure of sustainability-related financial information and climate-related disclosures.

Doing this initiative will help to unlock opportunities and mitigate risks in support of our mandate to deliver long-term risk adjusted returns on our investments. The disclosure of consistent, comparable, and reliable information on climate change from entities will aid us in delivering on our mandate.

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Exposure Draft IFRS S1 - *General Requirements for Disclosure of Sustainability-related Financial Information*

General comments

In our view, the following elements included in ISSB's Exposure Draft IFRS S1 - *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and Exposure Draft IFRS S2 - *Climate-related Disclosures* (IFRS S2) (together, the Exposure Drafts) require clarification to provide more clarity and enhance the recommended disclosure:

Eliminate the concept of "significant" and focus on "materiality"

We recommend that the concept of *material* be used in place of the concept of *significant* throughout the standards. There is no clear distinction between significant and material. For example, in IFRS S1, paragraph 2 refers to material information for significant risks and opportunities. Guidance regarding materiality follows in paragraphs 2, 56-62 and C8; however, guidance regarding significant is not provided nor is it defined, and there is no guidance or context as to the relationship and or differences between the *significance* and *materiality* of the sustainability-related risks or opportunities a reporting entity is expected to identify. In addition, *significant* as currently defined is not an auditable concept, presenting challenges with verification, whereas *material* is an accepted and auditable concept.

Focus on the impact on the decision-making of users of general purpose financial reporting rather than just the impact of sustainability-related risks and opportunities on assessing enterprise value

In IFRS S1 paragraph 2, the guidance regarding materiality would benefit from more clarity and suggest it be focused on the decisions of users of general purpose financial reporting (as noted in paragraph 56) rather than narrowly focused on assessing enterprise value. In addition, we note that the definition of enterprise value in the appendix is appropriate for a public company (i.e., reference to market capitalization) but may not apply widely to entities like those in the pension industry.

This same thinking is also applicable to the overall objective of IFRS S1. Paragraph 1 currently states the objective is to provide information that is useful to assess enterprise value and decide whether to provide resources to the entity. The objective of IFRS S1 should be broader than to assess enterprise value as sustainability-related financial information can also be useful for other types of decision-making, such as supporting stewardship activities.

Governance and risk management disclosures should not be subject to materiality

Descriptions as to how a reporting entity approaches its governance and risk management for identifying material sustainability-related risks and opportunities is relevant to investors. Thus, the process an entity uses to determine what is material enough to disclose is in itself material information that is critical for investors. It is not sufficient to leave users to assume that an entity's lack of disclosure about certain sustainability risks and opportunities indicates that an entity has actively determined them to be immaterial without any insight into how such determinations were made or how governance oversight was exercised. The assessment of materiality and discussion of the methodology used to perform such an assessment should be a part of the general requirements for sustainability-related financial disclosures as it is relevant to identification and determination of what other IFRS Sustainability Disclosure Standards may apply and could potentially avoid duplicate disclosures in such other standards. We recommend that the ISSB follow the Taskforce on Climate-related Financial Disclosures

(TCFD) approach with respect to governance and risk management disclosures not being subject to materiality and, in addition, require disclosures with respect to materiality assessments.

References to these aspects, and more details on how the required disclosure must be modified to provide more clarity and enhance the recommended disclosure are included in our comments to the Exposure Drafts.

Incorporate the notion of general purpose financial reporting

IFRS S1 and IFRS S2 require entities to present sustainability-related disclosures but do not prescribe the location of these disclosures, other than mention they need to be part of general purpose financial reporting. We acknowledge that it may be more suitable to present certain information, such as financial information on current impacts of sustainability-related risks and opportunities, directly in the financial statements, while other disclosures will be more relevant in management commentary. We also point out that information included in financial statements would be subject to external audit, while the decision to provide any level of assurance for disclosures outside the financial statements would depend on management, if not determined by any regulation or other requirements that apply to an entity. Regulators as well as management will have to consider the suitability of the location of the information to ensure users can navigate easily through general purpose financial reporting of multiple entities and ensure comparability. Finally, we note the statement of compliance would apply to sustainability-related disclosures, no matter the location of these disclosures.

IFRS S1 should apply to sustainability-related disclosures not addressed specifically by IFRS S2

If IFRS S1 has a similar function as IAS 1 - *Presentation of financial statements* and IAS 8 -*Accounting policies, changes in accounting estimates and errors* (as stated in IFRS S1 BC18), we recommend that the ISSB clarify whether the IFRS S2 climate-related disclosure requirements will be the only sustainability-related disclosures needed for an entity to comply with the ISSB requirements, before additional ISSB standards covering other aspects of ESG are published by the ISSB. In other words, should entities wish to present disclosures on other aspects of sustainability, we recommend the ISSB clarifies whether IFRS S1 requirements must be applied, in the absence of specific disclosure requirements set out by the ISSB.

User-perspective when responding to the Exposure Drafts

This response to the IFRS S1 and IFRS S2 Exposure Drafts has been drafted from the perspective of investors that will use the proposed ISSB disclosures to assess sustainability-related risks and opportunities as part of their ESG strategy and mandates to deliver long-term risk adjusted returns.

We note however that from a reporting entity perspective, the current Exposure Drafts do not address appropriately the disclosures that would be required from investment entities (as defined by IFRS 10 - *Consolidated financial statements*). This should be considered as the sustainability standards continue to be developed.

Overall approach – Question 1(a)

It is clear that a reporting entity would be required to disclose information about all of the sustainability-related risks and opportunities to which it is exposed, as this is stated in paragraph 2.

That said, it should be clearer that an entity would be required to identify all of the sustainability-related risks and opportunities to which it is exposed in order to support the disclosure.

We recommend the concept of “material” be used in place of the concept of “significant” throughout the standard. There is no clear distinction between the definition of “significant” and “material” in the Exposure Draft. For example, paragraph 2 refers to material information for significant risks and opportunities. Guidance regarding “materiality” is included in paragraph 2; however, guidance regarding significant is not provided.

In paragraph 2, the guidance regarding materiality should be clearer and it should be focused on the decisions of users of general purpose financial reporting (as noted in paragraph 56) rather than narrowly focused on assessing enterprise value (as noted in paragraph 2, for example, and elsewhere). In addition, we note that the definition of enterprise value in paragraph 5, albeit not incorrect, reflects just one approach. The definition of enterprise value in the appendix suits a public company (i.e., reference to market capitalization) but may not be applied widely.

The Exposure Draft does not consistently refer to “*significant sustainability-related risks and opportunities”.* For example, the wording in paragraph 50 with respect to identification of sustainability-related risks and opportunities does include reference to *significant* sustainability-related risks and opportunities but paragraph 51 does not. In addition, the Exposure Draft does not define *significant* and does not provide guidance or context as to the relationship and/or differences between the *significance* and *materiality* of the sustainability-related risks or opportunities a reporting entity is expected to identify. Additionally, *significant* is not an auditable concept, presenting challenges with verification, whereas *material* is an accepted and auditable concept.

Overall approach - Question 1 (b)

The objective of the proposed requirements should not be limited to assessment of enterprise value and provision of resources because primary users of general purpose financial reporting, like investors, may utilize the information in other types of assessments of an entity when determining whether to invest in an entity or not and to support stewardship activities (for example voting or engagement). We recommend that paragraph 1 of the Exposure Draft be amended slightly as follows:

> *“The objective of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is to require an entity to disclose information about its sustainability-related risks and opportunities that could reasonably be expected to influence the decisions of the primary users of general purpose financial reporting.”*

The proposed requirements generally meet its proposed objective as stated in paragraph 1 except that the Exposure Draft subjects all sustainability-related information to a materiality test as determined by the reporting entity and in our view, this is not appropriate. The TCFD expressly recommends that governance and risk management process disclosures should be made in all cases, notwithstanding significance or materiality. From our review of the Exposure Draft, this requirement is not clearly stated and we recommend it should be made clear that this information is not subject to a materiality assessment. Understanding governance structures and risk management processes around sustainability-related risks and opportunities is key information for investors in determining how a reporting entity approaches and manages those risks and opportunities, including how an entity is assessing materiality and the application of materiality to its sustainability-related financial information and disclosures. Investors need to understand *how* an entity is identifying, overseeing, measuring, and managing its material sustainability-related risks and opportunities in order to make decisions.

Descriptions as to how a reporting entity approaches its governance and risk management for identifying material sustainability-related risks and opportunities is relevant to investors and the process an entity uses to determine what information and topics are material enough to disclose is in itself material information that is critical for investors. It is not sufficient to leave users to assume that an entity's lack of disclosure about certain sustainability risks and opportunities indicates that an entity has actively determined them to be immaterial without any insight into how such determinations were made or how governance oversight was exercised.

The assessment of materiality and discussion of the methodology used to perform such an assessment should be a part of the general requirements for sustainability-related financial disclosures as it is relevant to identification and determination of what other IFRS Sustainability Disclosure Standards may apply and could potentially avoid duplicate disclosures in such other standards.

We recommend that the ISSB should follow the TCFD's approach with respect to governance and risk management disclosures not being subject to materiality and, in addition, should require disclosures with respect to materiality assessments.

Overall approach - Question 1 (c)

It is clear that reporting entities must refer to other IFRS Sustainability Disclosure Standards when identifying sustainability-related risks and opportunities. It is also clear that other topic-specific IFRS Sustainability-related Disclosure Standards take precedence for disclosures made in respect to that standard [for example, see the preamble to paragraph 11 which states that disclosures will be provided: "Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise,…"].

Reporting entities may benefit from additional guidance as to how disclosures under different topic specific standards should fit together especially where there may be overlaps or duplication. For example, an entity may be prompted to disclose overland flood risk through compliance with IFRS S2 and also through a potential future Standard on water. Clarity on how this duplication should be handled would be beneficial.

Rather than having several different topic standards, we would encourage the ISSB to focus on the industry-specific metrics included in the Sustainability Accounting Standards Board (SASB) standards. This will ensure reporting entities avoid unnecessary duplication and that disclosure of material ESG topics is provided.

Overall approach - Question 1 (d)

The requirements proposed in the Exposure Draft may generally be a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals. For regulators, this will be dependent on the level of verification they require to determine compliance with the proposals. For auditors, this may be dependent on the type of assurance that is required of the auditors as the requirements to opine on compliance under different assurance standards may vary. There may also be some concepts within the Exposure Draft such as "significant" and "neutral" that we foresee may be difficult to opine on from an audit perspective. In addition, the auditability of the disclosed information would need to be assessed on an entity-by-entity basis and should be a key consideration in how entities identify, assess, and disclose sustainability-related financial information. The sustainability-related financial information disclosed by an entity should be verifiable and users, including auditors and regulators, must be able to corroborate the information/inputs used to derive those sustainability-related financial disclosures. Investors look to whether sustainability-related disclosures have been audited and the results of those audits act as a source of verification of the entity's compliance with the standards.

Objective (paragraphs 1-7) - Question 2 (a)

We recommend that the proposed objective be refined to focus on the decisions of users of general purpose financial reporting (as noted in paragraph 56) rather than narrowly focused on assessing enterprise value and decisions on whether to provide resources to the entity (as noted in paragraphs 1 and 2, for example). The objective should not be limited to these items as primary users of general purpose financial reporting, such as investors, may utilize the information in other types of assessments when determining whether to invest in an entity or not. We have proposed new language for paragraph 1 in our response to question 1(b).

We have assumed that the words entity and reporting entity within the Exposure Draft should be used interchangeably, with the same meaning. We would suggest clarifying.

In particular we are supportive of the following elements incorporated into the objective:

- Investors, including existing and potential investors, lenders and other creditors, as the primary users of general purpose financial information, are identified as the intended audience for the disclosures;
- subject to our comments above with respect to governance and risk management disclosures, the information to be disclosed with respect to identified sustainability-related risks and opportunities is that which is material to users;
- sustainability-related financial information is broader than information reported in the financial statements and could include the information listed in paragraph 6 (a) – (d); and
- the basis for disclosing sustainability-related financial information should be comparable with the entity's previous periods and other entities; however, we recommend that paragraph 7(a) be further clarified to indicate other entities within comparable industries. This addition would capture the expectation that entities should also disclose information that is comparable to their peer group and in line with industry best practices.

Objective (paragraphs 1-7) - Question 2 (b)

The definition is reasonably clear but needs improvement and should be included earlier within the standard than in Appendix A.

For example, the definition does not include a reference to governance oversight. When articulating that sustainability-related financial information is broader than information disclosed in the financial statements, governance oversight of risks and opportunities is expressly referenced as being a component of that broader landscape and incorporated into the concept of "sustainability-related financial information".

We recommend that the definition be amended slightly (as set out below) to recognize that governance related information is important for users of sustainability-related financial information.

> Sustainability-related financial information: Information that gives insight into sustainability-related risks and opportunities that impact the entity's financial performance and influence the decisions of primary users of general purpose financial reporting and provides a sufficient basis for users of general purpose financial reporting to assess the governance oversight of sustainability-related risks and opportunities and resources and relationships on which an entity's business model and strategy for sustaining and developing that model depend.

In addition, "sustainability" should also be defined. A clear definition should be included in the Objective section of the standard, as well as in Appendix A. We recommend the ISSB refer to the definition provided in the SASB Conceptual Framework:

> Sustainability refers to corporate activities that maintain or enhance the ability of the entity to create value over the long term... Sustainability accounting reflects the management of a corporation's environmental and social impacts arising from production of goods and services, as well as its management of the environmental and social capitals necessary to create long-term value. It also includes the impacts the sustainability challenges have on innovation, business models and corporate governance and vice versa.

Finally, the distinction between "sustainability-related financial information" and "sustainability-related financial disclosures" is unclear. Implementation challenges aside, this ambiguity could be problematic as the final standard is translated into other languages for jurisdictional use.

Scope (paragraphs 8–10) – Question 3

Generally, we agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP. However, we have the following comments:

- In paragraph 8, while it is clear that the Exposure Draft is GAAP agnostic, we note that it is unclear if an entity would be required to perform a reconciliation of sustainability-related information that is connected to the financial statements to the GAAP information presented within those financial statements. This, for example, may be in respect to non-GAAP measures used like adjusted balances or information that may impact the entity's financial statement line items that may be used in the disclosure of sustainability-related risks and opportunities but not incorporated within the financial statements. This should be made clearer within this section or under the Connected Information in the Exposure Draft.
- In paragraph 9, we recommend replacing the current wording of "cannot reasonably be expected to affect assessments of an entity's enterprise value…" with "cannot reasonably be expected to influence the decisions of primary users of general purpose financial reporting" to be aligned with the definition of materiality noted within paragraph 56.
- Further clarification is required in paragraph 10 regarding entities that are not profit-oriented, such as pension plans.

Core content (paragraphs 11–35) – Question 4 (a)

We strongly support alignment of the ISSB's sustainability-related disclosures with the four pillars of the TCFD recommendations.

As noted in the response to question 1(b) above, we would like to see the ISSB clarify, consistent with the approach taken by the TCFD, that sustainability-related disclosures around governance and risk management are not subject to materiality.

As currently structured, there is a risk that reporting entities make determinations that sustainability-related disclosure topics are not material (even after reference to the ISSB Sustainability Disclosure Standards, the SASB industry disclosure topics and metrics, and the other sources referred to in the Exposure Draft). If this is the case, then no disclosures would be required as to how these determinations were made, how risk procedures address such determinations and how the board exercises its governance oversight responsibilities over them. Investors require this information to be able to assess how an entity is approaching sustainability-related issues. Investors also require transparency with respect to how a board is assessing and determining whether and which sustainability-related risks are material to it and what practices are in place to oversee the risks that are identified.

We do not believe that there is a prescriptive, one size fits all approach to the board oversight of sustainability-related risks and opportunities, and individual boards are best positioned to determine how oversight is exercised. As such, disclosure becomes an especially valuable tool for entities to inform investors as to how they are discharging this core obligation.

We recommend the disclosure objective for strategy in paragraph 14 be expanded to include enabling users of general purpose financial reporting to understand the effects of material sustainability-related risks and opportunities on the entity's strategy and operations, as outlined in paragraphs 15b through 15e.

Core content (paragraphs 11–35) – Question 4 (b)

For the disclosure requirements for governance, we suggest that in addition to how the body ensures the appropriate skills and competencies are available, the entity also disclose the identified skills and competencies necessary to provide effective oversight of sustainability-related risks and opportunities.

We agree with the disclosure requirements for strategy including both disclosure of the effects of material sustainability-related risks and opportunities on the entity's strategy, business model, etc., and how the entity is responding to material sustainability-related risks and opportunities. We agree with proposed requirement for entities to disclose the definition of short, medium, and long term.

Reporting entity (paragraphs 37–41) – Question 5 (a)

Yes, in principle. There may be circumstances where such reporting is not appropriate. We observe that the Basis for Conclusions document accompanying the Exposure Draft notes that the ISSB expects specific IFRS Sustainability Disclosure Standards (such as those proposed related to climate) will address such issues.

Reporting entity (paragraphs 37–41) – Question 5 (b)

Yes, we support the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain.

The combination of the ISSB's definition of "value chain" in Appendix A, which is very broad, and the illustrative examples in paragraph 40, read together, are somewhat confusing and may be difficult for a reporting entity to interpret. Clarity or guidance should be provided to assist in interpreting what disclosure is required and how a reporting entity is expected to make disclosures and collect data with respect to entities in its supply chain that are not directly controlled and/or are not themselves reporting entities.

Reporting entity (paragraphs 37–41) – Question 5 (c)

Yes. This requirement is implied given the ISSB's proposal that sustainability-related disclosures would be included as part of the package of disclosures accompanying the general purpose financial reporting, which would include the relevant financial statements. That said, we do not see requiring this express identification as creating any additional reporting burden.

Connected information (paragraphs 42–44) – Question 6

We support the concept of connectivity between various sustainability-related risks and opportunities and the general purpose financial statements. In our view, the additional context will make the disclosures easier for users to assess. The connection of sustainability-related risks and opportunities to general purpose financial statements is a critical element for users to understand the effect of material sustainability-related risks and opportunities.

Within paragraph 42, it should be made clearer what, and the extent of, information an entity is required to disclose to enable users to assess the connections between various sustainability-related risks and opportunities and to general purpose financial statements. It is not clear if reconciliations of the financial information included in sustainability-related disclosures that are connected to the financial statements are required to be included. Refer to comment under Question 4 above. We suggest that this requirement be clearly noted to ensure users are able to reconcile the information presented in each general purpose financial reporting disclosures.

Fair presentation (paragraphs 45–55) – Question 7 (a)

Generally, it is clear. However, it is unclear how to interpret and apply the term "neutral". In addition, we believe it will present challenges with respect to audit assurance and consistency. Further attempts should be made to incorporate and align with the qualitative characteristics of useful financial information expectations in IASB's Conceptual Framework for Financial Reporting.

Fair presentation (paragraphs 45–55) – Question 7 (b)

We agree in principle with the sources of guidance to identify sustainability-related risks and opportunities but encourage the ISSB to clarify or provide more guidance as to how reporting entities are to interpret the list of sources specified in paragraph 51. For example, if there is a specific ISSB Sustainability Disclosure Standard, such as the proposed IFRS S2 for Climate-related Disclosures, does a reporting entity need to consider the additional sources of guidance or is adherence to the specific standard sufficient? For example, the IFRS S2 itself sets out a regime for identifying climate-related issues and requires consideration of the SASB-derived industry related materiality categories in Appendix B of that standard.

Conversely, in cases where there is no relevant ISSB Sustainability Disclosure Standard, does the reporting entity need to consult all of the sources or do they represent a cascading set of alternatives. For example, the first item on the list is the disclosure topics in the industry-based SASB standards, the second refers to the ISSB's non-mandatory guidance. Is the consideration of the SASB standards mandatory while the ISSB non-mandatory guidance best practice? Greater guidance and clarity on this point would be beneficial.

Materiality (paragraphs 56–62) – Question 8 (a)

We are supportive of the definition of materiality as outlined in paragraph 56 and the alignment to IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1. We are supportive of the concept that information be required to be disclosed if the impact to an entity is or will become financially material over time. However, as stated in our answer to questions 1 (a) and (b), we do not agree with paragraph 57 and the requirement for sustainability-related financial information to be assessed only in relation to an entity's enterprise value. We believe this requirement to be too limiting and not necessarily practicably feasible or relevant for all intended users of the standard.

While we recognize that enterprise value could be a key benchmark to assess materiality for a broad set of investors, we believe some flexibility should be permitted to allow management and their auditors to exercise judgement as to basis for assessing materiality in consideration of the primary users of their general purpose financial reporting. We believe the definition of materiality in paragraph 56 sufficiently defines what could be material and appropriately focusses on what "could reasonably be expected to influence decisions" of the general purpose financial reporting users. The wording in paragraph 56 will allow management, external auditors, and regulators to make an "entity specific" determination on what could be material in the context of sustainability-related disclosures and better align with the notion of paragraph 58. We suggest that any materiality assessment using enterprise value would be better suited as a recommendation or option in the illustrative guidance materials rather than a requirement within the Standards. We believe any supplemental guidance should promote streamline application amongst preparers and assist entities in applying practicably.

We acknowledge that enterprise value is a commonly used metric in the investor community when evaluating and underwriting investments. It inherently reflects an investor's view of the future financial outlook of a specific entity as well as the associated risks (as part of developing a cost of capital). Depending on the industry, and whether the entity is private or publicly traded, enterprise value can be calculated using various methodologies. The calculation of enterprise value for public companies can generally be calculated on a daily basis using public stock prices and the company's recent financial position (i.e., external debt). For private entities, the calculation or estimation of enterprise value on an annual basis is less straightforward and is not commonly estimated as part of an entity's regular financial reporting process unless specifically required to do so.

As noted, the ISSB's materiality guidance proposes that disclosure of material sustainability risks and opportunities should be considered in relation to an entity's enterprise value. As such, to make this assessment of whether a potential impact is material, a preparer would be required to calculate a "baseline" enterprise value going forward, requiring judgment and inputs that may not be directly observable from the market. Therefore, by using enterprise value as a basis for materiality, additional judgement and effort would be required to calculate a "base-line", beyond the already challenging task of assessing the quantum and present value impact of a known sustainability risk and opportunity in the future. We also note that there could be different views (or ranges) of what is a reasonable enterprise value, which could create confusion or uncertainty between various stakeholders (i.e. auditors, investors, preparers) as to what is material. Enterprise value can also be calculated using different valuation techniques, all of which utilize different levels of detail (i.e., transactions, public comparatives and a discounted cash flow technique).

Given the above complexities and the potential for users to interpret the need to calculate a "baseline" enterprise value to determine the materiality of various identified sustainability risks and/or opportunities, we would suggest that the ISSB provide further guidance on how it can be streamlined and applied practicably. When issuing guidance on what risks could be material to a user, we would encourage the ISSB to direct readers to the SASB Materiality Map or other resources. Consistent with the recommendations of SASB, we recommend that entities be required to disclose their approach to defining materiality in order to provide transparency for primary users.

Lastly, we note that enterprise value is not explicitly mentioned within the SEC's proposed climate disclosure regulations in the context of materiality. As such, the use of "enterprise value" in the ISSB standards may create inconsistencies with international standards as to how materiality should be determined, thereby reducing the benefits and use of the ISSB standards as a "building block" going forward. We would encourage the ISSB to align the definition and approach to materiality with other jurisdictions and standards currently being developed.

As outlined in paragraph 60, an entity would not need to provide disclosures that would otherwise be required if the information resulting from that disclosure is not material. We agree with this approach with the exception of sustainability-related governance and risk management process disclosures. As previously commented in response to question 1(b), we recommend that governance and risk management process disclosures be required in all cases, notwithstanding significance or materiality.

Materiality (paragraphs 56–62) – Question 8 (b)

The ISSB's definition of materiality proposes that "A reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value."

We agree that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of the specific entity given the wording of the definition is quite broad. That being said, enterprise value as the basis for materiality is not a commonly used approach for assessing disclosure materiality and therefore will likely create challenges for many preparers going forward, as discussed previously. If there is not a commonly understood 'best-practice' for determining materiality, or if it is open to significant assumptions, we recommend requiring disclosure to users on how materiality has been determined in the context of sustainability-related matters.

Materiality (paragraphs 56–62) – Question 8 (c)

The ISSB's reference and acceptance of the SASB and Climate Disclosure Standards Board (CDSB) frameworks as valid sources to help identify material sustainability-related financial information is helpful, as both standards are well accepted and commonly used in sustainability reporting. We strongly support the ISSB guiding users to SASB resources to help identify and monitor industry specific sustainability risks and metrics. That being said, specific guidance for large investment funds and asset owners, such as pension plans, appears to be absent from the ISSB and SASB standards. For example, the standards do not address the disclosure requirements for reporting entities that qualify as investment entities under IFRS 10. We recommend that this specific guidance be added in the future.

Materiality (paragraphs 56–62) – Question 8 (d)

Yes, we are supportive. We would advocate for an entity to follow local laws or regulations.

Frequency of reporting (paragraphs 66–71) – Question 9

Yes, we are supportive of sustainability-related financial information being reported at the same time and, ultimately, for the same reporting period as the financial statements. By aligning this timing, stakeholders, investors, and other users of financial reporting are able to gain a complete and integrated picture of the current and future sustainability risks and opportunities that may impact the entity.

While alignment to the financial statement reporting period is the ultimate goal, we believe alignment should not be at the expense of the quality of sustainability reporting nor the pace of adoption. As reflected in our response to question 13, we expect entities to quickly adopt IFRS sustainability standards once finalized. We recognize that it may be challenging for all entities to align their sustainability-related financial disclosures with the same reporting period as the financial statements upon initial adoption. To help facilitate this, we propose that there be a phased-in approach, which does not require full alignment for initial adoption to allow for entities to establish the robust systems and internal controls that may be needed to support the disclosure of timely, high-quality information.

Location of information (paragraphs 72–78) – Question 10 (a)

We strongly support locating the disclosure information required by the IFRS Sustainability Disclosure Standards as part of an entity's general purpose financial reporting. We expect sustainability-related disclosures will be critical information required by investors and other financial reporting users. In addition, this will provide comfort that there is adequate governance and board oversight, as part of an entity's regular business reporting, supporting the reliability of the disclosures.

We further agree with enabling entities to decide where sustainability-related disclosures are included within the general purpose financial reporting to best allow for effective and coherent communication of information. We support the requirement to ensure that the sustainability-related financial disclosures are clearly identifiable to enable ease of reference by users.

Location of information (paragraphs 72–78) – Question 10 (b)

Nothing that we are aware of in Canada.

Location of information (paragraphs 72–78) – Question 10 (c)

We have chosen not to comment.

Location of information (paragraphs 72–78) – Question 10 (d)

We believe this is clear in the standard and is consistent with how many entities currently report disclosures aligned with TCFD. We are supportive of integrated disclosures for governance, strategy and risk management for sustainability-related risks and opportunities.

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

Please see response provided in question 11 (b).

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

We are supportive of using the corresponding concepts for financial statements contained in IAS 1 and IAS 8.

We believe that a materiality threshold should be incorporated before requiring a preparer to restate prior period figures, which should be informed by discussions between preparers, external auditors and/or local laws. If a restatement is required, we would suggest aligning the restatement rules to be similar to that of financial reporting and encourage the preparers to highlight whether the restatement is due to an error or change in estimate. We believe there is additional ambiguity around what would be considered 'impracticable' and how this is considered alongside materiality. We suggest that there would be benefit in providing further clarity and guidance in this area.

Further, we recognize that preparers will be evolving processes and methodologies for a number of years in order to reach a mature reporting state. This is expected to result in a higher frequency of restatements, where restatements are generally viewed negatively in the eyes of investors.

We recommend distinguishing restatements between errors and "changes in estimates" so to allow users more visibility into nature of the restatement and to manage the typically negative market perception/reaction to restatements. We support restating (where material) in order to provide useful comparative information to user and would not want preparer to be penalized for such.

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

We agree that the financial data and assumptions within sustainability-related disclosures should be consistent with those used within financial reporting, where possible. This avoids internal inconsistencies within reporting and ensures one set of management assumptions are used by preparers. This also ensures greater integration between financial and sustainability reporting processes, strategy, risk management and targets/metrics. We suggest a requirement to disclose where assumptions in sustainability-related financial disclosures cannot align and differs with corresponding financial data and assumptions used in the financial statements.

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

We are supportive of having a statement in the reporting that the entity has complied with all relevant IFRS Sustainability Disclosure Standards and where adoption reliefs has been used (i.e., not providing comparatives, phased in reporting). This aligns with the current disclosures when complying with IFRS accounting standards. We would also suggest that a similar statement could also be included in the entity's external audit assurance report, where available.

As noted above, we agree that an entity's reporting should not be in contradiction to local laws and or regulations. As long as the entity discloses why the disclosure was not presented due to local laws/regulations, we are supportive of relief being provided.

Effective date (Appendix B) – Question 13 (a)

We would be supportive of the effective date being the fiscal year commencing after the Final Standards are issued. This would give an entity at least 12 months to formalize processes, internal controls, timelines, and hire resources in advance of the enhanced reporting requirements. As an example, if the Standards are finalized on December 31, 2022, the first fiscal year that would incorporate the additional disclosures would be the fiscal year-end December 31, 2023. We note this timeline is consistent with that provided to large, accelerated reporters under the SEC's climate standards.

We also recommend that the ISSB consider a phased or rolling implementation given that it will take some time for reporting entities to become fully compliant with the requirements of the Exposure Draft. We recommend that the ISSB consider proportionality when considering effective dates and potentially provide a longer implementation for smaller and less sophisticated reporting entities. This is similar to approaches being considered in the context of proposed regulatory climate-related disclosure regimes in Canada and the United States. Such entities may not be as far along in considering or disclosing on sustainability topics and have a further learning curve than larger and more sophisticated reporting entities.

Effective date (Appendix B) – Question 13 (b)

We prefer to have comparative information available to assist investors with identifying trends, assessing transition plans, and evaluating progress within the entity as it relates to key disclosure metrics (e.g., GHG emissions). However, we are sensitive to the time and cost required to create historical comparative figures, especially for those reporting entities that have not prepared such metrics in the past. As such, to assist with broader and expedited adoption of the new standards and ultimately disclosure, providing relief on comparative information appears prudent. For many reporting entities that have not prepared the required disclosures or metrics in the past, performing this for two historical years may be time consuming and prevent adoption of the standards, which is the ultimate goal of the new standards. Given the focus of the standard is to provide current information that could impact forward looking cash flow and risk assessments, dated information may not be as relevant as current year information.

Global baseline – Question 14

We broadly support the building block approach or "global baseline" standards as it enables multiple jurisdictions to use the ISSB standards as the basis for their own jurisdictional requirements. Many jurisdictions are less advanced as it relates to sustainability reporting standards and will need an international set of standards to use, build on, and adopt going forward.

We note that the ISSB standards have certain differences with standards currently being proposed by certain jurisdictions (e.g., the SEC). Specifically, we note that the ISSB standards provide less flexibility as it relates to certain items (e.g., scenario analysis, transition plans and industry metrics). If the ISSB standards are intended to be a global baseline for other regulations yet are broader and currently more restrictive or conflicting with local laws and or regulations, the building block approach is less effective. We urge the ISSB to continue working with international jurisdictions to promote alignment and comparability for users.

Digital reporting – Question 15

We have chosen not to comment.

Costs, benefits and likely effects – Question 16 (a)

There are many direct and indirect benefits associated with the new standards being proposed. Predominately, having consistent, comparable, and high-quality disclosures, disclosed on an annual basis globally, is critical for investors to better assess sustainability risks and opportunities, as well as make informed decisions when allocating capital, while motivating and differentiating entities that are working towards decarbonization and other sustainability initiatives. We recognize that there will be costs associated with developing and implementing disclosures, however, the standardization of climate-related reporting will also reduce the burden for preparers currently subject to multiple reporting requests from varied stakeholders. Furthermore, we believe these are more than offset by the benefits in helping entities understand the impact of climate risks and opportunities on them, and to satisfy investors needs for transparent, high-quality, globally comparable sustainability information. Further, we believe phased in reporting will help support the accommodation of initial upfront costs.

Costs, benefits and likely effects – Question 16 (b)

Initially, we expect the costs to roll-out the new standards to be non-trivial. However, as precedents are set and greater adoption and standardization of disclosures occurs, we would expect the reporting cost to become more aligned with the cost of financial reporting. We would also expect that as sustainability reporting matures and becomes more integrated with financial reporting, additional synergies and efficiencies could be possible.

Other comments – Question 17

Many of the disclosures in the Exposure Draft will entail forward looking information and first-time development of assumptions and methodologies. As noted previously, there is an increased risk of restatements as processes and methodologies evolve. Differing domestic regulatory requirements with respect to how such disclosures are treated for liability purposes in different jurisdictions may impact what and how reporting entities will choose to disclose. While outside the scope of the ISSB's mandate and jurisdiction, the ISSB may wish to engage with international regulators in respect of this topic and minimize the liability exposure to preparer in the prospects of encouraging adoption and evolution of reporting. Overall, we are generally supportive of safe harbours for climate-related disclosures given the nature of such disclosures.

Exposure Draft IFRS S2 *Climate-related Disclosures*

General comments

In our view, the following elements included in ISSB's Exposure Draft IFRS S1 - *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and Exposure Draft IFRS S2 - *Climate-related Disclosures* (IFRS S2) (together, the Exposure Drafts) require clarification to provide more clarity and enhance the recommended disclosure:

Eliminate the concept of "significant" and focus on "materiality"

We recommend that the concept of *material* be used in place of the concept of *significant* throughout the standards. There is no clear distinction between significant and material. For example, in IFRS S1, paragraph 2 refers to <u>material</u> information for <u>significant</u> risks and opportunities. Guidance regarding materiality follows in paragraphs 2, 56-62 and C8; however, guidance regarding significant is not provided nor is it defined, and there is no guidance or context as to the relationship and or differences between the *significance* and *materiality* of the sustainability-related risks or opportunities a reporting entity is expected to identify. In addition, *significant* as currently defined is not an auditable concept, presenting challenges with verification, whereas *material* is an accepted and auditable concept.

Focus on the impact on the decision-making of users of general purpose financial reporting rather than just the impact of sustainability-related risks and opportunities on assessing enterprise value

In IFRS S1 paragraph 2, the guidance regarding materiality would benefit from more clarity and suggest it be focused on the <u>decisions</u> of users of general purpose financial reporting (as noted in paragraph 56) rather than narrowly focused on <u>assessing enterprise value</u>. In addition, we note that the definition of enterprise value in the appendix is appropriate for a public company (i.e., reference to market capitalization) but may not apply widely to entities like those in the pension industry.

This same thinking is also applicable to the overall objective of IFRS S1. Paragraph 1 currently states the objective is to provide information that is useful to assess enterprise value and decide whether to provide resources to the entity. The objective of IFRS S1 should be broader than to assess enterprise value as sustainability-related financial information can also be useful for other types of decision-making, such as supporting stewardship activities.

Governance and risk management disclosures should not be subject to materiality

Descriptions as to how a reporting entity approaches its governance and risk management for identifying material sustainability-related risks and opportunities is relevant to investors. Thus, the process an entity uses to determine what is material enough to disclose is in itself material information that is critical for investors. It is not sufficient to leave users to assume that an entity's lack of disclosure about certain sustainability risks and opportunities indicates that an entity has actively determined them to be immaterial without any insight into how such determinations were made or how governance oversight was exercised. The assessment of materiality and discussion of the methodology used to perform such an assessment should be a part of the general requirements for sustainability-related financial disclosures as it is relevant to identification and determination of what other IFRS Sustainability Disclosure Standards may apply and could potentially avoid duplicate disclosures in such other standards. We recommend that the ISSB follow the Taskforce on Climate-related Financial Disclosures (TCFD) approach with respect to governance and risk management disclosures not being subject to materiality and, in addition, require disclosures with respect to materiality assessments.

References to these aspects, and more details on how the required disclosure must be modified to provide more clarity and enhance the recommended disclosure are included in our comments to the Exposure Drafts.

Incorporate the notion of general purpose financial reporting

IFRS S1 and IFRS S2 require entities to present sustainability-related disclosures but do not prescribe the location of these disclosures, other than mention they need to be part of general purpose financial reporting. We acknowledge that it may be more suitable to present certain information, such as financial information on current impacts of sustainability-related risks and opportunities, directly in the financial statements, while other disclosures will be more relevant in management commentary. We also point out that information included in financial statements would be subject to external audit, while the decision to provide any level of assurance for disclosures outside the financial statements would depend on management, if not determined by any regulation or other requirements that apply to an entity. Regulators as well as management will have to consider the suitability of the location of the information to ensure users can navigate easily through general purpose financial reporting of multiple entities and ensure comparability. Finally, we note the statement of compliance would apply to sustainability-related disclosures, no matter the location of these disclosures.

IFRS S1 should apply to sustainability-related disclosures not addressed specifically by IFRS S2

If IFRS S1 has a similar function as IAS 1 - *Presentation of financial statements* and IAS 8 -*Accounting policies, changes in accounting estimates and errors* (as stated in IFRS S1 BC18), we recommend that the ISSB clarify whether the IFRS S2 climate-related disclosure requirements will be the only sustainability-related disclosures needed for an entity to comply with the ISSB requirements, before additional ISSB standards covering other aspects of ESG are published by the ISSB. In other words, should entities wish to present disclosures on other aspects of sustainability, we recommend the ISSB clarifies whether IFRS S1 requirements must be applied, in the absence of specific disclosure requirements set out by the ISSB.

User-perspective when responding to the Exposure Drafts

This response to the IFRS S1 and IFRS S2 Exposure Drafts has been drafted from the perspective of investors that will use the proposed ISSB disclosures to assess sustainability-related risks and opportunities as part of their ESG strategy and mandates to deliver long-term risk adjusted returns.

We note however that from a reporting entity perspective, the current Exposure Drafts do not address appropriately the disclosures that would be required from investment entities (as defined by IFRS 10 - *Consolidated financial statements*). This should be considered as the sustainability standards continue to be developed.

Objective – Question 1 (a)

Yes, we generally agree with the objective as established in the Exposure Draft. We believe that climate change is one of several long-term structural trends that will likely have a material impact on investment risks and returns, across different sectors, geographies and asset classes. As long-term investors, we can proactively address climate change risks and opportunities as part of our investment strategy. Consistent and credible disclosures on climate-related risks, both transition and physical, and climate-related opportunities are therefore necessary for asset owners and investors to effectively consider climate resilience at the portfolio construction level, to factor climate risks into investment decisions, to seek investment opportunities that contribute to the transition to a low-carbon economy, and to encourage efforts to maximize opportunities and minimize climate-related risks from entities in which we invest through active ownership.

However, as mentioned in our comment to IFRS S1 questions 1 (a) and (b), the objective of the proposed requirements should not be limited to the assessment of enterprise value and provision of resources because primary users of general purpose financial reporting, like investors, may utilize the information in other types of assessments of an entity when determining whether to invest in an entity or not and to support stewardship activities (for example voting or engagement). We recommend that paragraph 1 of the Exposure draft be amended in order to focus on material climate-related risks and opportunities likely to affect the decisions of users of general purpose financial reporting.

Objective – Question 1 (b)

See our comment to IFRS S1 question 1 (a) and (b) and IFRS S2 question 1 (a) on enterprise value. While understanding the impact of climate change risks and opportunities on an entity is very important, we would also emphasize that disclosure of climate risks and opportunities should also allow investors to understand impact on the entity's future financial position as reflected in its income statement, cash flow statement as well as balance sheet. This is an important concept reflected in the TCFD disclosure recommendations. As such, it is important for users to understand how climate change might materially impact entities' revenues, expenses, capex and opex, etc.

Furthermore, as mentioned in our comment to IFRS S1 question 1 (a), we recommend the concept of material be used in place of the concept of significant throughout the standard. There is no clear distinction between significant and material. For example, in IFRS S1, paragraph 2 refers to material information for significant risks and opportunities. Guidance regarding materiality follows in IFRS S1 paragraph 2; however, guidance regarding significant is not provided.

Additionally, the drafting of the objective in paragraph 1 does not expressly identify governance related information as being a component of the information needed by investors to assess enterprise value, even though governance disclosure is a requirement [see paragraphs 4-6]. As noted in the response to question 1(b) of IFRS S1, we would like to see the ISSB clarify, consistent with the approach taken by the TCFD, that sustainability-related disclosures around governance and risk management are not subject to materiality. We would recommend that the list of categories of information identified in paragraph 1 (a)-(c) be updated to incorporate governance.

Mentioned later in the document, however perhaps worth underscoring in the Objective, is that investors require entity-level alignment around and disclosure of quantitative, decision-useful and comparable climate-related metrics, for example the TCFD cross-industry metrics, in order to effectively measure and manage climate-related risks and opportunities.

Objective – Question 1 (c)

Yes, we strongly support the alignment of the ISSB's sustainability-related disclosures with the four pillars of the TCFD recommendations. Disclosure requirements aligned to TCFD, including the new cross-industry climate related metrics, will meet the objective of enabling users of an entity's financial reporting to assess the potential impact of climate change risks and opportunities on an entity.

Governance – Question 2 (a)

Yes, we agree with the proposed disclosure requirements aligned to the TCFD recommendations. Clear, comparable and decision-useful disclosures with respect to how Boards and Management teams exercise oversight and control on climate-related risks and opportunities is essential to form a complete view regarding the credibility of an entity's climate change plan. By way of priority, we are committed to engaging with portfolio companies to influence, where appropriate, their governance and management of climate change risks, and to support enhanced disclosure against the TCFD framework. The ISSB requirements are therefore aligned with and support these efforts. We believe disclosure should include processes and frequency by which the governance body responsible for climate-related risks and opportunities are informed about climate issues. How the board monitors and oversees progress against climate-related goals and targets. How management has assigned climate-related responsibilities to management-level positions or committees. Processes by which management is informed about climate-related issues and how management monitors climate-related risks and opportunities. As discussed in the Exposure Draft paragraph 6, we support the view that disclosure should be provided at a high level in order to avoid unnecessary duplication and help assess the level of maturity of an organization in managing climate-related risks and opportunities.

For what relates to the executive compensation (paragraph 5F), as outlined in the response from the Canadian Coalition for Good Governance (CCGG), we believe that executive compensation should be treated separately from climate-related key performance indicators in a dedicated sub-paragraph.

Identification of Risks and opportunities – Question 3 (a)

Please refer to comments in response to 1(b) with respect to the use of "significant" as opposed to "material" when describing climate-related risks and opportunities.

The ISSB requirements provide significant flexibility to entities to identify the climate-related risks and opportunities that may affect their business. Throughout the document, we believe, the ISSB Exposure Draft should clearly point to TCFD's cross-industry climate-related metrics as the key set of metrics to be disclosed, where material. Moreover, while we agree that specific years for short-term, medium-term and long-term climate targets cannot be tightly prescribed, we support ISSB offering guidance to indicate that interim targets are pre-2035, and long-term targets are post-2035, which would be aligned with the notions of interim and long-term targets used by the SBTi.

Identification of Risks and opportunities – Question 3 (b)

We support the choice of ISSB to require the disclosure of material risks and opportunities in accordance with industry-specific guidance from SASB or other relevant third-party bodies, with SASB being our preferred framework. However, we have concerns with the lack of required disclosure with respect to how materiality assessments are conducted. Investors need to understand how an entity is identifying, overseeing, measuring and managing its material sustainability-related risks and opportunities in order to properly assess the entity's ability to manage climate-related risks and opportunities. As defined by SASB Standards, we would like ISSB to consider a "comply or explain" approach where entities must explain their choice for not reporting against a SASB factor that was deemed material for the industry.

Concentration of risks and opportunities in the value chain – Question 4 (a)

With respect to the Exposure Draft we note that paragraph 12(b) appears to repeat some of the elements of the definition of factors to be considered with respect to identifying the effects of climate-related risks and opportunities, such as with respect to distribution channels and geography but to also require additional factors to be considered such as asset type, facilities, etc. To avoid duplication, the ISSB may wish to consider refining the definition of "value chain" applicable in the Exposure Draft to be more tailored to the specific climate-related disclosures intended to be captured.

Concentration of risks and opportunities in the value chain – Question 4 (b)

We agree that for most entities, the risks associated with the value chain should be disclosed qualitatively to seek for a balance in measurement challenges. However, for entities operating in an industry where SASB factors 1) Supply Chain Management and / or 2) Materials sourcing & Efficiency are deemed materials, we would expect the entities to report on the accounting metrics as indicated by SASB (which could include quantitative information) or to explain the reason why they decided not to. Moreover, where ambitious guidance with respect to material Scope 3 (value chain) GHG emissions is available from regulators or third-party organizations, we recommend ISSB align with this guidance.

Transition Plans and carbon offsets – Question 5 (a)

The momentum toward decarbonization further reinforces the need for entities to develop transition plans. Disclosure of these transition plans, including how an entity intends to deliver on its net zero objectives (by 2050) and interim (by 2030, 2035, etc.) commitments and any targets therein is decision-useful to investors in evaluating the credibility of an entity's plan and in measuring progress towards stated targets over time. We strongly support the disclosure requirements regarding an entity's transition plan. It is an essential forward-looking component of business strategy that speaks to a Board and Management's credibility and intentionality on climate change. We support aligning these requirements with those of the TCFD recommendations, including that transition plans and interim targets be mandatory for the most material sectors. Disclosure should include an entity's current GHG emissions and specific actions that will be taken to reduce those emissions over time. Importantly, we agree that disclosing how required resources, including financial resources, will support or be allocated to the transition plans is essential to determine its credibility.

Transition Plans and carbon offsets – Question 5 (b)

We consider that a disclosure related to transition plan should include key indicators showing entities decarbonization pathways. Industry specific decarbonization pathways are an efficient tool to evaluate the ambitions of entities transition plans, therefore we recommend using indicators that allow an easy comparison for entities within the same industry, as well as across different industries. An increasing number of entities align their transition plan with a science-based decarbonization pathway or compare their decarbonization pathway with various global warming trajectories, we encourage this practice. Furthermore, it would be useful for transition plan disclosures to indicate whether they have or intend to seek third-party validation (e.g., from the Science Based Target Initiative or other industry equivalent).

We see a growing attention given to the alignment of capex with transition plans, we recommend disclosing how capex spending support and are aligned with an entity's transition plan.

Transition Plans and carbon offsets – Question 5 (c)

Yes, we strongly support transparency in terms of the quantity and quality of carbon offset procured or intended to be purchased to implement an entity's transition plan.

Transition Plans and carbon offsets – Question 5 (d)

Yes, in our view the disclosure requirements set out in the Exposure Draft are not over burdensome and represent fair and relevant considerations required to assess the credibility of an entity's climate transition plan. In the absence of disclosure of such dimensions, it is difficult for investors to know whether offset strategies will result in real emissions reductions, can be pursued in a cost-effective manner, and will stand the test of public and/or regulatory scrutiny.

Current and anticipated effects – Question 6 (a)

We understand that it may be challenging for entities to quantify information on anticipated effects of climate-related risks and opportunities. Since these are prospective in nature, it would also be disclosure on which providing assurance is more difficult. Consequently, we would expect the requirements on quantitative information related to current effects to be more easily met than those on anticipated effects. For example, the requirement of paragraphs 14 (b) through 14 (d) are prospective in nature and we wonder as to the practicability of the ask. We believe entities should be allowed to define the methodology they want to use to measure those anticipated effects and we reiterate the importance that entities disclose their methodology and main assumptions used in preparing prospective information otherwise, the quantitative information received might not be useful for investors. Where possible, a sensitivity analysis on the effects should also be provided if a single value is provided. For that reason, we believe entities are more likely to provide a range of possible values. We also believe guidance should be provided as to the definition of short-, medium- and long-term effects. The time horizons should be comparable between entities of a same industry to ensure comparability of information.

A final comment on anticipated effects relates to paragraph 14(e) of the exposure draft which states that should quantitative disclosure not be presented; an explanation be provided. We wonder as to whether this "comply or explain" approach could result in a lesser number of entities disclosing the required information. During the implementation phase of IFRS S2, this approach may be appropriate to provide some relief to preparers, given the complexity and effort needed to prepare the information. However, after the implementation phase, this approach should be revisited.

Current and anticipated effects – Question 6 (b)

Yes we agree. Disclosure of climate risks and opportunities should allow investors to not only understand the impact on the entity but also to understand the impacts on the entity's future financial position as reflected in its income statement, cash flow statement as well as balance sheet. This is an important concept reflected in the TCFD disclosure recommendations. As such, it is important for users to understand how climate change might materially impact entities' revenues, expenses, capital expenditures and operating expenses, etc.

Current and anticipated effects – Question 6 (c)

We agree with the proposed disclosure requirement but would encourage the ISSB to clarify the potential overlap of financial information asked in the other sections to avoid duplication. For example, in the Transition section the ISSB asks entities to disclose the capital expenditures deployed towards climate related risks and opportunities. Something similar is asked in the Current & anticipated effect section which could cause some duplication. While we strongly support the disclosure of these financial metrics, we encourage ISSB to review requirements to streamline and avoid duplication.

Climate resilience – Question 7 (a)

We agree with the Exposure Draft proposals that scenario analysis should be the preferred option for evaluating the resilience of an entity's strategy to significant climate-related risks. Scenario analysis help entities in making strategic and risk management decisions under complex and uncertain conditions such as climate change. It allows an entity to understand the risks and uncertainties it may face under different hypothetical futures and how those conditions may affect its performance, therefore contributing to the development of greater strategy resilience.

We also support the TCFD's belief that all organizations exposed to climate-related risks should consider using scenario analysis to help inform their strategic and financial planning and disclosure how resilient their strategies are to a range of plausible climate-related scenarios. For sectors where climate related risk is most relevant such as those identified by TCFD, we are supportive of requiring more quantitative scenario analysis, disclosure should include sufficient transparency for investors to understand the rigor behind the assumptions made.

In addition, as an increasing number of nations, entities and investors adopt and execute on net-zero transition plans, the likelihood and impact of transition risk will grow. This underlines the importance for entities to undertake scenario analysis and supports the inclusion of at least one scenario that contemplates limiting warming to 1.5C with limited-to-no overshoot.

Climate resilience – Question 7 (b)

(i) Yes, given there are diverging perspectives with respect to the usefulness of scenario analysis, we believe it is appropriate to provide this flexibility.

(ii) Yes, in the interest of transparency, we agree with a "comply or explain" disclosure.

(iii) No. Please see above in question 7 (a) regarding sectors where climate related risk is most relevant.

Climate resilience – Question 7 (c)

Yes, the proposed disclosures are comprehensive and sufficiently granular to promote a fair and complete understanding of the entity's exercise.

Climate resilience – Question 7 (d)

Yes, same as above.

Climate resilience – Question 7 (e)

Yes, while these requirements are granular and specific, they should not be onerous for entities to perform if they are undertaking scenario analysis. In cases where they are not conducting scenario analysis, sufficient flexibility is provided to ensure the entity remains able to explain its approach.

Risk Management – Question 8 (a)

As noted in the response to question 1(b) of IFRS S1, we encourage the ISSB to clarify that climate-related governance and risk management disclosures, unlike those with respect to strategy and metrics and targets, are not subject to a materiality. As currently structured, there is a risk that reporting entities make determinations that climate-related disclosure topics are not material (even after reference to the SASB industry disclosure topics and metrics, and the other sources referred to in the Exposure Draft). If this is the case then no disclosures would be required as to how these determinations were made, how risk procedures address such determinations and how the board exercises its governance oversight responsibilities over them. Investors require this information to be able to assess how an entity is approaching climate-related issues. Investors require transparency with respect to how a board is assessing and determining whether and which climate-related risks are material to a reporting entity and what practices are in place to oversee the risks that are identified.

Cross-industry metric categories and greenhouse gas emissions – Question 9 (a)

Yes, we support all 7 proposed cross-industry metric categories as being core to climate-related disclosures: GHG emissions (absolute and intensity), transition and physical risks, climate-related opportunities, internal carbon pricing, capital deployment towards climate-related risks and opportunities and percentage of executive management remuneration.

Disclosure of these 7 metrics would be applicable across industries and business models and would assist investors in fully understanding an entity's climate-related risk exposure. With the proposed requirement for entities to disclose climate-related transition plans (Question 5) this information on cross industry metrics will support investors in determining how an entity is mitigating climate-related risks and whether they are on track to meet their climate targets.

Cross-industry metric categories and greenhouse gas emissions – Question 9 (b)

No

Cross-industry metric categories and greenhouse gas emissions – Question 9 (c)

As investors seeking consistent, comparable and decision-useful climate information, we strongly support the ISSB's efforts to align issuers around a consistent GHG reporting framework. We use GHG information to make evidence-based investment decisions in the context of climate change risks and opportunities. This includes calculating the marginal carbon footprint of transactions, evaluating the credibility of issuer climate transition plans, and tracking GHG progress across asset classes and our portfolios.

We strongly support the use of the GHG Protocol definitions for Scope 1, Scope 2, and Scope 3 emissions that are already widely adopted in carbon foot printing practices.

We strongly support the notion that issuers should disclose their methodology for calculating the GHG emissions, including any emission factors used and the source of the emission factors. Given existing gaps in knowledge and information on GHG emissions, we agree that entities should retain the flexibility to use proxies and estimates in their emissions disclosures so long as the assumptions regarding their use are clearly stated.

Cross-industry metric categories and greenhouse gas emissions – Question 9 (d)

We support the inclusion of all non-CO2 gasses (e.g., CH4, N2O, HFCs, etc.) consistent with the UN Framework Convention on Climate Change and the GHG Protocol, and GHGs to be reported in disaggregate and in total. Moreover, we support the conversion of these values to carbon dioxide equivalent (CO2e).

Cross-industry metric categories and greenhouse gas emissions – Question 9 (e)

Our view is that standard, verifiable disclosure of Scope 1 (produced) and 2 (purchased) GHG emissions should be required for all issuers in line with how the entity reports consolidated or unconsolidated information in their financial statements.

Cross-industry metric categories and greenhouse gas emissions – Question 9 (f)

Value chain carbon exposure (Scope 3 emissions) may materially impact an issuer's financial performance. Some issuers can take steps to measure and manage Scope 3 exposure, despite these emissions not being directly within their care and control. As institutional investors, we take note of recent guidance from TCFD, the Science-Based Targets Initiative, and other credible institutions regarding Scope 3 disclosure methodologies and materiality definitions. We acknowledge the data challenges associated with both calculating and aggregating Scope 3 emissions (e.g., accessing supplier data, boundary setting, etc.) but support moving forward with disclosure when material information will improve data quality for all market participants.

Targets – Question 10 (a)

Climate change poses a systemic risk to both issuers and investors and creates an imperative to support the orderly transition to a low-carbon economy. Information on an entity's transition plans, including how an entity intends to align to a low carbon economy and the establishment of short and long-term targets is useful to investors. Disclosure of targets and transition plans allows investors to verify the credibility of an organizations' commitments related to climate change, which is vital to investors' assessment of risks.

We recommend that disclosure of targets and transition plans be consistent with TCFD guidance. We also support the disclosure of key metrics and progress towards targets, plans to mitigate or adapt to any material physical or transition risks, as well as any plans to capitalize on any identified climate-related opportunities.

Targets – Question 10 (b)

Yes, it is sufficiently clear.

Industry-based requirements – Question 11 (a)

We consider the SASB standards an important and informative resource, and strongly support a sector-based approach to materiality. We support increasing the international applicability of the SASB standards to increase the consistency and comparability of climate disclosure for all users.

Industry-based requirements – Question 11 (b)

We support the proposed amendments to increase international applicability and the three approaches discussed in BC 130-148. The amendments propose to align with international standards where available, i.e. the International Energy Agency, or to the local jurisdiction when international standards are not available, increasing international applicability and comparability for investors.

Industry-based requirements – Question 11 (c)

It is our view that for issuers in jurisdictions where SASB standards are more known, these amendments will result in disclosures that are consistent with prior periods.

Industry-based requirements – Question 11 (d)

We support the proposed industry-specific disclosure requirements and agree with section in BC 145 that states "significant evidence and market feedback suggested that such information would enable users of general purpose financial reporting to better understand and assess how effectively an entity is managing the risks and financial impacts associated with direct GHG emissions".

Industry-based requirements – Question 11 (e)

It is unclear which industries are classified as 'carbon-related' but we believe it would be prudent for entities to report out all financed emissions regardless of what industry the capital is going to.

Industry-based requirements – Question 11 (f)

We support the disclosure of both absolute and intensity-based financed emissions. Absolute emissions assist investors in understanding the trajectory of overall emissions and progress towards targets. Emissions intensity, measured against a relevant unit, for example millions of dollars invested, allows for comparability among organizations in the same sector.

Industry-based requirements – Question 11 (g)

We support comparable and consistent data and disclosure of the methodology used to calculate financed emissions will assist in ensuring consistency.

Industry-based requirements – Question 11 (h)

We support providing the option to use the GHG Protocol Corporate Value Chain Standard and the PCAF Standards. As discussed in sections 149-172, there is increasing pressure on financial institutions to disclose climate-related data from investments, lending and underwriting activities. As investors we are looking for data that is comparable and consistent, and as preparers we are also in service of producing data that is comparable and consistent. PCAF is built on the GHG Protocol Scope 3 and provides guidance to assist in the measurement and disclosure of GHG emissions across six asset classes. PCAF has further committed to consider and publish explicit guidance on calculating GHG emissions for financial products not currently addressed by the PCAF Standard, including private equity, investment funds, green bonds, sovereign bonds, loans for securitization, exchange traded funds, derivatives, and initial public offering (IPO) underwriting.

Industry-based requirements – Question 11 (i)

We support the disclosure of financed emissions for total AUM, but in alignment with TCFD, this is one of four components that will help to assess the organizations transition risk. It will be important to ensure that all four components of TCFD (Governance, Strategy, Risk Management, Metric & Targets) are being disclosed in order to fully understand an entity's risk exposure and transition plans.

Industry-based requirements – Question 11 (j)

In order to ensure the comparability and usefulness of the data, we believe an industry-based approach is crucial, the disclosure topics in Appendix B have been derived and adapted from the SASB Standards. We believe the SASB Standards are the right model for identifying material sustainability-related disclosures, including with respect to climate-related disclosures, as such, we strongly support the proposal to include these industry-based requirements. Industry-specific disclosure will allow investors to compare information about how entities are addressing climate-related risks and opportunities across an appropriate peer group.

Industry-based requirements – Question 11 (k)

No

Industry-based requirements – Question 11 (l)

No

Costs, benefits and likely effects – Question 12 (a)

There are many direct and indirect benefits associated with the new standards being proposed. Predominately, having consistent, comparable, and high-quality disclosures, disclosed on an annual basis globally, is critical for investors to better assess climate risks and opportunities, and make informed decisions when allocating capital, while motivating and differentiating entities that are working towards decarbonization and other climate initiatives. We recognize that there will be costs associated with developing and implementing disclosures, however, the standardization of climate-related reporting will also reduce the burden for preparers currently subject to multiple reporting requests from varied stakeholders. Furthermore, we believe these are more than offset by the benefits in helping entities understand the impact of climate risks and opportunities on them, and to satisfy investors needs for transparent, high-quality, globally comparable climate information. Further, we believe phased in reporting will help support the accommodation of initial upfront costs.

Costs, benefits and likely effects – Question 12 (b)

Initially, we expect the costs to roll-out the new standards to be non-trivial. However, as precedents are set and greater adoption and standardization of disclosures occurs, we would expect the reporting cost to become more aligned with the cost of financial reporting. We would also expect that as sustainability reporting matures and becomes more integrated with financial reporting, additional synergies and efficiencies could be possible.

Costs, benefits and likely effects – Question 12 (c)

No

Verifiability and enforceability – Question 13 (a)

For the disclosures to be verifiable, the users of the data should be able to corroborate the information and inputs used to derive the data. Therefore, in some cases there needs to be clear guidance on requirements to report inputs, calculation methodologies and assumptions from which certain quantitative disclosures are derived.

Effective date – Question 14 (a)

Given the interrelationship between the Exposure Draft for General Requirements and the Exposure Draft, ideally the effective dates should be at the same time, although this may create a significant compliance obligation for reporting entities which should be taken into account when considering effective dates.

If due to complexities arising from the comment process this is not possible, the Exposure Draft is comprehensive as drafted and could potentially become a stand-alone standard related to climate risks and opportunities if careful attention was paid to drafting in any additional requirements otherwise established in the Exposure Draft for General Requirements.

Effective date – Question 14 (b)

We would encourage the timely implementation of the standards, as soon as is practical after the Standard is finalized. We would support the ISSB if it considered a phased in approach that required earlier compliance from larger entities and allowed for some time to smaller or less sophisticated reporting entities to acquire the necessary resources or expertise. This approach has been proposed by regulators in the United States and Canada with regard to their own proposed climate-related disclosure requirements.

Effective date – Question 14 (c)

We would not support an approach that would piecemeal the disclosure requirements.

Digital reporting – Question 15

We do not have comments on this point.

Global baseline – Question 16 (a)

We do not see any aspects of the proposals that would limit the ability of IFRS Sustainability Disclosure Standards to provide a global baseline for users of general purpose financial reporting to make assessments of enterprise value. Much of the information requested, notably the information about governance practices, and risk management processes, will be useful to other stakeholders. Domestic regulators and individual jurisdictions are able to build on this baseline and require different or additional information provided it does not obscure the material information required by IFRS Sustainability Disclosures Standards. That said, we encourage the ISSB to continue to work closely with and collaborate with international regulators to ensure that domestic regulatory regimes are as consistent as possible with the ISSB's global baseline. This is the most effective way to drive consistency and comparability for investors and to reduce compliance and implementation costs for reporting entities.