São Paulo, July 29th, 2022.

To: International Sustainability Standards Board

Subject: Exposure Drafts IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures

Dear sirs and mesdames,

The Brazilian Financial and Capital Markets Association (ANBIMA) appreciates the opportunity to comment on Exposure Drafts IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures, published by the International Sustainability Standards Board (ISSB) in March of this year.

ANBIMA represents more than 290 institutions in the Brazilian capital market, including (among others) banks, intermediaries, and asset managers – with the latter accounting for approximately 50% of our member institutions. As part of our governance structure, the Sustainability Advisory Group is the forum responsible for conducting the strategic sustainability agenda and supporting the Association's Executive Board in decisions relating to the theme of sustainability.

First, we would like to point out that the disclosure of consistent, complete and comparable information on sustainability-related issues is an extremely important step to enable investors to better assess the risks and opportunities related to this theme. From the institutional investors' standpoint, this standardization effort provides a sound basis for corporate engaging sustainable strategy. Therefore, ANBIMA supports the ISSB's global initiative, and seeks to contribute by presenting the vision of Brazilian investors.

In this regard, below we submit some considerations and comments concerning the two Exposure Drafts mentioned above.

1. Purpose and materiality

ANBIMA supports the concept of materiality of the draft proposals, which defines that all information that its omission, distortion, misstatement, or concealment may influence the decisions made by investors and creditors based on the financial statements is considered material. We believe that the financial materiality criterion is the first step in this initiative to improve and standardize the disclosure of sustainability-related financial information.

However, although we agree with the proposed materiality criterion, we emphasize that the disclosure of material information that goes beyond this criterion should be encouraged by the ISSB (as stated in the objectives of the requirements, paragraphs 1 to 7), even if they correspond to other materiality criteria. Thus, in addition to financial information, ideally companies will disclose information about decisions that may impact future cash flow, even if this impact is not (yet) materialized in the company's financial statements. The disclosure of information that reflects the company's reputation, performance, and prospects as a result of the actions it has taken (such as impacts on people, the planet, and the economy) should also be encouraged.

2. Standardization (alignment with other standards - TCFD and SASB)

Alignment with the TCFD's recommendations is one of the standout positive aspects of the proposals, as this facilitates implementation of the requirements and analysis by the asset managers represented by ANBIMA (who are already accustomed to analyzing information based on the core components of the TCFD). In this regard, the sectoral division based on the Sustainability Accounting Standards Board (SASB) was also positively received by the aforementioned asset managers, since – in addition to being the standard adopted by a large part of the local market for reporting sustainability information – the SASB also presents a materiality map and will facilitate the reporting of financial information on climate-related risks and opportunities.

However, despite being considered the most comprehensive standard in terms of materiality, the SASB lacks specificities for different business models classified in the same activity. It was noticed that it is not simple to compare information from companies in the same sector/industry, since the materiality criterion varies according to the business model, and is defined by the institution itself.

In Exposure Draft IFRS S2, in addition to suggesting the SASB standard as an initial model of information that is normally considered material and disclosed by companies, ANBIMA recommends that the document reinforce the fact that information reported by other companies located in the same region should also serve as a reference. There are specifics in regional terms that should be considered when disclosing climate-related financial information because, not only in terms of risk but also opportunity, there are different forms of analysis depending on different climates.

3. Governance

In IFRS S2, we considered the detailing of information related to the governance framework (in relation to the TCFD) to be quite positive. Despite the high compliance cost and initial difficulty of implementation, such detailing – with the inclusion of information on the skills and competencies of board members to oversee strategies designed to respond to climate challenges and opportunities – is expected to foster the development of competencies and the incorporation of qualified people in the companies' senior management and other positions with the adequate skills to assess issues relating to climate risks and opportunities.

4. Qualitative and quantitative information

We understand that greater specificity and detailing of the requirements can make it difficult to disclose information that is currently included in broader fields. On this point, we highlight the need for the requirements to cover, in a well-balanced way, the disclosure of qualitative and quantitative information, aimed at expanding the content and quality of the reports in general.

5. Identifying climate-related risks and opportunities

In general, it was observed a lack of greater connection between the required information and the companies' financial statements. Currently, business analysts find it difficult to connect these two groups of information. ANBIMA reinforces the need for an initial framework on the disclosure of quantitative climate-related information in accounting terms (such as probability-based accounting).

Additionally, due to possible temporal mismatches in relation to the companies' planning horizon, we understand that it will be a challenge for companies to work with strategic information that is not part of their daily activities. Whereas strategic planning is carried out with a horizon of three to five years, climate commitments are long-term (2035, 2050). Nonetheless, we understand that despite the challenge, this is a necessary and positive requirement.

6. Climate-related risks and opportunities in the value chain

Regarding the requirements to disclose information on climate-related risks and opportunities in the value chain in IFRS S2, we stress the need for (and the challenge) of mapping value chains. In this respect, we expect that the dissemination of such value chain mapping will increase the amount of information available per sector.

7. Transition plans and carbon offsets

Considering that the requirements proposed in IFRS S2 for disclosure of information on transition plans to reduce carbon emissions are positive, but the costs of implementing transition strategies are not trivial, we recommend that the IFRS guide national authorities and regulators regarding phased implementation, and the prioritization of certain (carbon intensive) sectors in the standardization schedule.

Providing more details of information on carbon offsets will help prevent greenwashing, because it will increase transparency vis-à-vis companies' commitments to climate risks and opportunities.

8. Climate resilience of the company's strategy and proportionality

Information on climate resilience strategies is essential in the process of analyzing companies, and the proposal to expand this information in the reports is very positive.

As for the dissemination of alternative techniques used to assess the climate resilience of a company's strategy, the flexibility of the proposal is also one of the positive highlights, since it does not determine scenario analysis as a single methodology. On this point, we reinforce the importance that the required information – including the methodologies that must be used and reported – be proportional (to size, sector, [....]).

9. Intersectoral metrics categories and GHG emissions

The alignment of IFRS S2 with the GHG Protocol facilitates the disclosure of information on Scope 1, Scope 2, and Scope 3 emissions. The use of an established and convertible standard for other metrics should help the implementation of the proposal. We only suggest including a requirement for the company to state which of the GHG Protocol approaches is used.

We agree that the disclosure of the aggregation of all seven greenhouse gases (for Scopes 1, 2, and 3) must be expressed in CO2 equivalent.

However, there was no support for the proposal to include Scope 3 absolute gross emissions as an intersectoral metric category for disclosure by all companies, subject to materiality. We considered this requirement too broad, and ineffective, since materiality is defined and assessed (judged) by the company itself. In this case, we believe it is more appropriate for materiality (reporting requirement) to follow criteria related to the sector and size.

10. Goals

In paragraph 23, IFRS S2 proposes that a company shall be required to disclose information about its emissions-reduction targets, including the objective of the target (for example, mitigation, adaptation or compliance with sector and/or science-based initiatives), as well as information about how the company's targets compare to those created in the latest international agreement on climate change.

The disclosure of goals is a positive and necessary aspect. However, it does not seem appropriate to use the international agreement on climate change (Paris Agreement) as a reference. In this respect, Science-Based Targets were indicated as a more suitable reference – more scientific, with less relation to political issues, and which is already widely used.

11. Verifiability of information

Regarding the verifiability of the information required in IFRS S2, we underscore the need to improve the assessment process by auditors, since there is no specific guidance or oversight for companies that perform services such as certification, consulting, and auditing of information related to sustainability and/or climate. In this regard, although external verification is not a requirement of Exposures Drafts S1 and S2, we stress the importance of international bodies' providing guidance in this respect to national authorities and regulators.

12. Implementation schedule

Considering that compliance costs will be significant, since companies will have to disclose the information required by the ISSB along with the financial statements, we suggest a minimum interval of three months between the date on which the general requirements for disclosure of sustainability-related financial information enter into effect and (subsequently) the date on when the requirements for climate-related financial information enter into effect.

Regarding the time between the publication of the final standard and the start date on which the rules enter into force, it is important to bear in mind that the information provided will reflect the companies' actions, in such a way that the reports will be improved according to the evolution of sustainable practices at organizations. Accordingly, a short time frame to implement the requirements may cause the opposite of what is intended: disclosure of poorly prepared sustainability- and climate-related financial information that does not support investors in valuating companies and is disclosed merely to fulfill a regulatory requirement.

On this point, ANBIMA's recommendation is that IFRS instruct national authorities and regulators to carry out phased implementation based on criteria such as company size, revenue, and/or most relevant sectors. Furthermore, given the difficulty of implementation, the ISSB may also prioritize the most important aspects that should be communicated to investors, and institute a phased implementation based on the relevance of the information.

13. Digital reports

Lastly, with regard to digital reports, we highlight the need for companies to make progress in standardizing documents. The fact that the documents are in PDF format and do not follow a pattern over the years makes it difficult to analyze sustainability- and climate-related financial information for evaluating enterprises. On this point, we suggest the reports to be published in a format compatible with Excel and other data analysis programs, with the history of information reported in previous years. Additionally, we stress the importance of standardizing the fields and language of the reports, in order to allow reading by humans and machines (AI).

The Association is available any additional clarifications that may be necessary regarding the foregoing content and take this opportunity to reiterate ANBIMA's support to this ISSB important initiative.

Sincerely,

José Carlos H. Doherty
CEO, Brazilian Financial and Capital Markets Association