Submitted via IFRS online portal

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**Subject: IFRS S2 – Climate-related Disclosures**

Dear Mr. Faber and Ms. Lloyd,

As Chairs of Canada's Auditing and Assurance Standards Oversight Council (AASOC) and Accounting Standards Oversight Council (AcSOC), we welcome this opportunity to provide feedback on the Exposure Draft on *IFRS S2 – Climate-related Disclosures*. Given the proliferation of sustainability-related standards and frameworks, we recognize the need for a comprehensive global baseline for sustainability disclosure standards. We further acknowledge the urgency of the climate disclosure agenda, and see both IFRS S1 and IFRS S2 as important contributors to achieving the commitments set out in the Glasgow Climate Pact and other agreements.

To contextualize our comments, we recently approved the creation of a Canadian Sustainability Standards Board, which aims to be operational by no later than April 1, 2023. In the same way the Canadian Accounting Standards Board works with the IASB, the Canadian Sustainability Standards Board will work in lockstep with the ISSB, contributing to a comprehensive global baseline for sustainability disclosure standards and supporting the adoption of IFRS Sustainability Disclosure Standards in Canada.

During this important transition period, we are pleased, as representatives of the public interest oversight bodies of Canada's existing standard-setting boards, to convey national reactions to [draft] IFRS S1. Such perspectives were collated by Sustainability Standards staff within Canada's standard-setting team and reflect extensive engagement with a cross-section of market participants. Underpinned by an education and awareness campaign, market feedback was collected via virtual roundtables, interviews and online surveys. These forums attracted several market segments, including:

- Academia
- Assurance providers
- Consultants
- Governments
- Industry associations
- Legal professionals
- Non-profits
- Regulators
- Reporting entities (public and private sectors)
- Users (business valuators, ESG analysts and fixed income, money market, investment fund, pension fund and sustainable fund managers)

AASOC
Auditing and Assurance Standards Oversight Council

AcSOC
Accounting Standards Oversight Council

In hearing from these diverse market segments, we received equally diverse and valuable perspectives. In responding to the Exposure Draft (see Appendix 1), we've made no attempt to reduce these perspectives to a single common view or to develop an 'average answer' to the questions posed. Rather, we highlight those areas in which there is general consensus, and signal where there are divergent – and sometimes competing – perspectives in the interest of best navigating and resolving those differences.

The process of reviewing and compiling responses to the Exposure Draft was overseen by an Expert Panel featuring ten highly qualified individuals with diverse market perspectives. We gratefully acknowledge the following Expert Panel members for their time, expertise and active engagement:

**Bindu Dhaliwal**
Vice-President, Environmental, Social & Governance
CIBC

**Brian Minns**
Managing Director, Responsible Investing
University Pension Plan (UPP) Ontario

**Caroline E. Davis**
Board member
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**Christine Evans**
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**Dr. Sean Cleary**
Professor of Finance, and Academic Director, Master of Finance program, Smith School of Business, Queen's University
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Should you have any questions regarding our attached responses, please do not hesitate to contact Lisa French, Vice-President, Sustainability Standards (lfrench@frascanada.ca).

Yours sincerely,

**Kevin Nye, MBA**
**Chair, AASOC**

**Lorraine Moore, MBA, ICD.D**
**Chair, AcSOC**

## 1 Objective of the Exposure Draft

a) **Do you agree with the objective that has been established for the Exposure Draft? Why or why not?**

**QUALIFIED YES** We agree, on balance, with paragraph 1. However, three elements of the current phrasing are problematic.

1. **Enterprise value.** In our view, the term *enterprise value* is not well understood, particularly among non-investors. (Please see our response to Question 8(a) of the Exposure Draft on IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information* for a more fulsome analysis of the challenges and interpretations.)
2. **Materiality versus significance.** Many, including users and preparers of general purpose financial reporting, have questioned how the characteristics of *significant* and *material* differ.
3. **Treatment of opportunities.** During our market outreach, a small group of investors opposed including *opportunities* in the objective and disclosure requirements. Their concern was that, in an effort to comply with IFRS S1 (ref: paragraph 91), many entities will simply list a host of opportunities that may or may not be material to user decisions.

**RECOMMENDATIONS:** We recommend revising paragraph 1 to address the above concerns. In particular, we suggest removing the terms *enterprise value* and *significant*, or at least reconsidering how these concepts can be simplified/explained. Furthermore, in response to the opportunities-related concern noted above, we see value in reinforcing the materiality concept in the opening paragraph of IFRS S2.

b) **Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?**

**YES** During our market consultation, users were generally satisfied with the scope of paragraph 1 coverage. Notably, a small segment of the investor community requested *reduced* coverage by removing opportunity-based disclosure. This request stemmed from concerns that, as written, IFRS S2 could inadvertently fuel spin/bias and less relevant disclosure. However, we continue to support opportunity-based disclosure and believe these concerns can be addressed through minor modifications to paragraph 1 [please see Recommendations in our Question 1(a) response].

## 3 Identification of climate-related risks and opportunities

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

**YES** There is broad support for this proposal, particularly among Canada's larger issuers, as they seek a consistent approach and level playing field within their respective industries. The majority of investors consulted also favour of an industry-based approach to identifying climate-related risks and opportunities. The way one analyzes technology companies, for example, is inherently different from the way one analyzes energy companies – and the standards and entities' resultant disclosures must acknowledge that.

Notwithstanding the general agreement noted above, there were pockets of concern, as summarized below:

- During our market consultation, a small segment of users opposed the following text in paragraph B6: *"…the responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements in IFRS Sustainability Disclosure Standards, including this Standard. Therefore, an entity shall disclose information related to a specific requirement when it concludes that the information is material to the users of the information in assessing the enterprise value of the entity."* This user segment challenged the introduction of management discretion on the basis that it invites departures from the very baseline IFRS S2 seeks to set. In lieu of removing the allowance for management discretion altogether, the users endorse a clear comply-or-explain approach to ensure the rationale for non-disclosure is provided. Notably, most other investors are comfortable with management's use of professional judgement, so long as it is justified and sufficiently explained through narrative.
- Smaller entities or those new to sustainability disclosure tend to be overwhelmed initially by the combination of: (a) core requirements in the body of IFRS S2, (b) industry-based disclosure requirements in Appendix B and (c) specific disclosure topics and metrics in Volumes B1 – B68 (as referenced in paragraph B17). This class of entities tends to assume these are *additive layers of disclosure*, rather than integrated parts that help facilitate the disclosure process according to unique industry features.

  **RECOMMENDATION:** We recommend that the intent of Appendix B and its accompanying volumes is clarified via a concise, plain language explanation, either within or outside of IFRS S2.

- Members of the Indigenous community asked how reporting entities would, in the context of climate-related risks and opportunities, report on plans to respect the rights set out in the United Nations Declaration on the Rights of Indigenous Peoples. For example, an entity's transition plan toward a lower-carbon economy might include constructing wind farms or solar panel arrays on the traditional territory of an Indigenous group. How is free, prior and informed consent to be obtained? Or, if the entity's plan involves purchasing carbon offsets, might there be unexpected impacts on Indigenous People far from the entity's own location?

  **RECOMMENDATION:** We recommend the following amendments to paragraphs 9 and 13:

  *Paragraph 9*

  **Add:**

  (d) whether the rights of Indigenous Peoples were considered while identifying climate-related risks and opportunities.

  *Paragraph 13*

  **Add:**

  (ii) how the rights of Indigenous Peoples will be respected

  **Rename:**

  Existing 13(a)(ii) as 13(a)(iii)

## 5 Transition plans and carbon offsets

**(a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?**

**QUALIFIED YES** Based on our market outreach, the user community widely supports the proposals set out in paragraph 13. In addition to paragraph 13(b)(i), which speaks to the processes for reviewing targets, some investors seek more on the role of governance bodies in transition planning, including target setting.

For their part, reporting entities believe the disclosure requirements are written clearly, with perhaps one exception: In paragraph 13(b), are targets required for all identified risks and opportunities? (We assume, based on the *'plans to achieve any climate-related targets it has set'* phrasing in paragraph 13(a) that this would not necessarily apply to all risks and opportunities; however, further clarification may be helpful).

Some reporting entities describe paragraph 13 as a positive step, one that provides structure and consistency to all. In contrast, most small- and venture-listed companies with whom we consulted were immediately concerned about the cost and capacity implications of adhering to paragraph 13. As noted elsewhere in our response letter, phased-in requirements and effective guidance will be crucial for small entities.

In reference to communicated targets, one entity noted its involvement with the Science Based Targets Initiative (SBTI), which recommends that targets be reviewed every five years or when material activities/changes arise. Interoperability between IFRS S2 and the well-established approach and recommendations of the SBTI is strongly encouraged.

Several entities, including large issuers, were struck by the tone of paragraph 13, which presumes a certain level of sophistication in regional policy development and transition planning. Many see the presumption of advanced plans and the push for granular disclosures *not* as aspirational, but rather as daunting and detached from their own reality. As a case in point, the requirements speak of carbon offset programs as foregone conclusions, yet there is little clarity on how Canada's carbon offset framework will look. And, while a segment of corporate Canada is monitoring provincial offset systems, which are limited in number, they remain incompatible with each other in the absence of a national trading scheme. We observe that international offset trading systems are similarly fragmented or in their infancy. With this in mind, few entities will be able to report definitively about their use of carbon offsets in the manner required by paragraph 13.

We acknowledge that [draft] IFRS S2 seeks to prompt action and, therefore, lies appropriately ahead of the current curve. Nonetheless, we encourage the ISSB to consider the unintended consequences of the current paragraph 13 framing, which has left some entities more overwhelmed than inspired.

**RECOMMENDATION:** In reference to paragraph 13(b), we recommend that IFRS S2 clarify whether targets are expected for all significant climate-related risks and opportunities. We further suggest that the ISSB reflect on its paragraph 13 tone and its possible effect on deterring, rather than motivating, many entities. Finally, we recommend that the costs and capacity gaps of small entities be considered and that suitable implementation guidance be developed.

**(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?**

**NO** As noted in our response to Question 5(a), paragraph 13(b)(iii) assumes a level of jurisdictional mobilization, vis-à-vis carbon offset programs, that does not yet exist in Canada. Some provinces have taken an early lead, but their approaches remain disconnected. Accordingly, most entities are uncertain about the cost and availability of carbon offsets and their role in an effective decarbonization strategy. In the meantime, entities bear the burden of anticipating policy developments and estimating and disclosing their implications, with such disclosures offering questionable utility to users (aside from providing insight into an entity's thought process and strategic planning).

In terms of preparer reactions to the proposals, we offer the following for ISSB consideration:

- The level of disclosure triggered by the use of carbon offsets (i.e. extent used, quality, type and other factors) is excessive
- Annual disclosure will be too onerous for most in the near term; disclosure every three years would be more reasonable and affordable
- Small-cap entities will struggle and, therefore, should disclose on a best-efforts basis.

From a user perspective, there is an opportunity to encourage the distinct categorization of carbon offsets from emissions reductions, emissions removals and avoided carbon.

## 6 Current and anticipated effects

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

**YES** Based on our consultation with Canadian reporting entities, current effects will be relatively straightforward to estimate and disclose.

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

**QUALIFIED YES** Based on our market outreach, reporting entities are united in their concern over this proposal, regardless of their progress in climate-related reporting. Some assert climate-related risks are held to a 'higher bar' than other risks, in terms of possible impairment beyond the current reporting period. Many are overwhelmed by the fluidity of climate-related policy, measurement and disclosure developments and find it difficult to imagine quantifying anticipated effects beyond the current period. With these concerns in mind, many call for the requirements on anticipated effects to be reframed as follows:

- Reposition the current approach of *'quantitative disclosure on a comply or explain basis'* to '*outlook of expectations over time'*, which leans toward <u>qualitative descriptors</u> rather than quantitative assessments (at least in the early stages of IFRS S2 adoption)

- Allow a natural progression from qualitative descriptors to quantitative ranges as an entity's own disclosure experience, and understanding of the underlying subject matter, evolves.

We acknowledge that reporting entities will place caveats on the quality of data on which targets and projections are made.

For their part, users are interested in receiving this information, but only if accompanied by clear underlying assumptions. They understand reporting entities' hesitation when it comes to preparing long-term projections, estimates and assumptions, and recognize the need for a common language and standardized considerations. Some suggest that detailed, non-prescriptive implementation guidance – perhaps in the form of case studies – would be helpful.

Finally, we acknowledge that North American regulators have proposed similar requirements, albeit with different framing. We believe it is important that IFRS S2, as a global baseline standard, keeps pace with, or is ahead of, what is already contemplated by regulatory bodies.

**RECOMMENDATION:** We agree that entities should strive to comply with paragraph 14(c)-(d) and we acknowledge the flexibility provided by paragraph 14(e). We, therefore, agree with the disclosure requirement as written; however, from a practical standpoint, we strongly recommend that illustrative guidance be developed to help entities overcome the challenges raised above.

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On a separate note, some believe that the paragraph 14 requirements should lie within the IASB's remit and its project on climate-related risks. In the spirit of connectivity and interoperability, there is an opportunity for the IASB and ISSB to consider the treatment of current and anticipated effects more holistically and in conjunction with other IFRS financial accounting standards.

## 7 Climate resilience

**a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?**

**YES** We agree that the listed items reflect the minimum information needed to understand a strategy's climate resilience. Longer-term institutional investors, in particular, are interested in:

- The potential effect of policies, macroeconomic trends, technologies and energy arrangements
- Significant areas of uncertainty
- Capacity to adapt, vis-à-vis financial resources, existing assets and current/planned investments.

We also received user feedback on the value of the standardized disclosure of key geographical information (e.g. locations where operations are particularly vulnerable to climate change effects and/or where supply chain exposure is particularly high).

Notably, the reporting entities, assurance providers, consultants and legal professionals we consulted posed no objection to the content of paragraph 15(a), in terms of its utility to users.

**RECOMMENDATIONS.** We recommend that paragraph 15(b)(i)(8) – incorporated into paragraph 15(a) by reference – also prompt a consideration of key geographical sensitivities and how these have factored into the scenario analysis. Of minor note, and based on consultation input, we suggest modifying paragraph 15(a) to present the requirements more simply and crisply.

**b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.**

**(i) Do you agree with this proposal? Why or why not?**

**YES** We appreciate the capacity challenges entities will face in the early adoption of IFRS S2. The options provided in paragraph 15(b)(ii) are an appropriate concession for small entities and/or those less familiar with sustainability disclosure and scenario analysis. Based on our market outreach, this view is generally consistent across preparers and users of sustainability disclosure. Canadian businesses have flagged the need for clearer expectations for, and guidance on, the alternate approaches outlined.

Notably, there are divergent views on whether the alternative methods should be offered indefinitely. When it comes to scenario analysis, one investor noted that sooner or later, entities will need to 'dive in'. A proliferation of single-point forecasts or bespoke quantitative analyses – each with reams of explanatory footnotes – is not a viable long-term solution. Another user noted that, with TCFD recommendations mandated in the UK, and soon in segments of Canada's economy, IFRS S2 should align with this intended end state. In keeping with this point, other stakeholders suggested the need for a clear and reasonable path – complete with stepping stones between now and the intended end state – to help entities plan ahead.

**(ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?**

**YES** Given the clear indication that scenario analysis is the preferred mechanism through which climate resilience should be assessed, those who opt out should be required to communicate why they are doing so. This comply-or-explain tack, and the transparency and accountability that accompanies it, has proved successful elsewhere, in terms of nudging preparers to the preferred approach over time.

**RECOMMENDATIONS:** Based on our market consultation, we recommend the ISSB consider four modifications to the current paragraph 15(b)(ii) proposal:

- Shift the explanation-related requirements from part (7) to part (1).
- Soften the *'unable to do so'* phrasing to something along the lines of *'why a climate scenario analysis was not performed'*. This allows smaller entities with obviously limited risk exposure to opt out and explain on that basis.
- Add a required indication of the time frame over which a scenario analysis might be provided. This may encourage entities to consider scenario analysis over time.
- Reaffirm the value of a qualitative update on plans and progress toward a scenario analysis.

**(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?**

**NOT APPLICABLE** Please see our response to Question 7(b)(i).

**c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis?**

**QUALIFIED YES** We preface our detailed response with two acknowledgements:

- Notwithstanding the important strides made by existing sustainability reporting, there is some validity to the view that it has not translated into meaningful progress on climate change. We therefore support scenario analysis – when approached deliberately and in good faith – as essential to understanding climate-related impacts and responding to the urgent climate crisis.
- Scenario analysis is daunting for many, particularly small entities and those new to climate-related disclosure. Canadian stakeholders have raised several concerns, which we seek to reduce through concrete recommendations, including a reinforcement of existing measures in [draft] IFRS S2.

Within this context, we support paragraph 15 for signalling its preferred approach to assessing climate resilience and accommodating potential capacity/knowledge gaps within entities. Looking to paragraph 15(b)(i), specifically, we generally support the proposed disclosures, subject to the recommendations listed in the following table.

| MARKET FEEDBACK | RELATED COMMENTARY | RECOMMENDATIONS FOR ISSB |
|---|---|---|
| Most entities will be unable to conduct a credible scenario analysis, which will inhibit comparability from a user perspective | This feedback overlooks the alternatives presented in paragraph 15(b)(ii), but none-theless points to systemic issues for some entities, including knowledge and capacity gaps. | Provide a standardized approach to scenario development, underpinned by detailed guidance and illustrative examples. |
| The criteria for *'unable to do so'* are unclear | IFRS S2 acknowledges that an entity might have its own reasons to opt out of a scenario analysis. It becomes the entity's responsibility to communicate those reasons. | Reinforce paragraph 15(b)(ii)(7) earlier by adding the underlined text to the paragraph 15 opening: '*If an entity is unable to use climate-related scenario analysis, it shall <u>explain why and</u> use an alternative method or technique to assess its climate resilience.*' |
| Analyses so rooted in assumptions and guesswork are not useful | Scenario analyses are commonly misunderstood to be predictive. As for their utility, users say they value the insights into planning, and the quality of governance and management. Entities also see strategic benefits by consid-ering their exposure to climate-related risks and opportunities. | In paragraph 15, reinforce the point that scenarios are not forecasts or predictions, but rather possible future outcomes to inform planning and assess climate resilience. |
| Raw data provided in accordance with paragraphs 15(b)(i)(6)-(8) is more relevant to users than a scenario analysis, which is subject to management bias | Disclosing a scenario analysis should not preclude a user's own assessment based on the data provided. However, as data <u>sources</u> may also be subject to management discretion, concerns over bias may persist. | Add to paragraph 15(b)(i) a require-ment that entities disclose the source of data provided in relation to parts (6) and (7). |

## 9 Cross-industry metric categories and greenhouse gas emissions

**a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?**

**YES** Given its emphasis on informing user assessments of enterprise value, our outreach on this question was primarily with investors. Based on highly supportive feedback, we agree with the seven proposed categories as listed. The remuneration-related category (ref: paragraph 21g), in particular, was flagged by some as particularly timely and relevant.

Notwithstanding our user focus for this question, we also sought input from a small cross-section of reporting entities and consultants. The following feedback is included for ISSB consideration:

- A consulting firm highlighted that while paragraphs 21(a)-(d) are indeed cross-cutting, paragraphs 21(e)-(g) apply mainly to high-emitting sectors. Paragraphs 21(e)-(g) are, therefore, likely less relevant/feasible for small entities in low-emitting industries.
- Consistent with the above, small preparers independently flagged paragraph 21(e) (capital deployment) and paragraph 21(g) (remuneration) as challenging disclosure elements.

**b) Are there any additional cross-industry metric categories related to climate related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting?**

**YES** As noted in our Question 7(a) response, we received user feedback on the value of standardized disclosure on key geographical information. This includes, for example, identifying locations where operations are especially vulnerable to climate change effects and/or where supply chain exposure is particularly high.

**c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Should other methodologies be allowed?**

**UNDECIDED** We heard two compelling views during our market consultation. On the one hand, both reporting entities and users seek a consistent methodology to create a level playing field and drive comparability. On the other hand, there is hesitation to attempt a one-size-fits-all approach, as the appropriate methodology should suit the circumstances (e.g. the sector in question or the purpose of the assessment). In the financial sector, for example, where the most meaningful measure is financed emissions, the Partnership for Carbon Accounting Financials and its *Global GHG Accounting & Reporting Standard for the Financial Industry*[1] is the preferred standard. The standards side of measuring and disclosing meaningful greenhouse gas emissions data is still evolving and to stifle this progress and limit all entities to a single methodology is equally problematic. The compromise, for now it seems, is to limit the propagation of methodologies to a select few.

[1] Which is itself built on the GHG Protocol

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

**YES** While this proposal is understandably concerning to small entities and those new to climate-related disclosure, we have received sufficiently compelling feedback to support the Scope 3 proposal, subject to materiality.

As one preparer observed, one company's Scope 1 emissions is another company's Scope 3 emissions. Scope 3 disclosures must necessarily be on the table to achieve emissions reduction targets. After all, companies are 'in this together'.

A segment of investors noted that the information flow should begin as soon as possible, given the urgency of the climate crisis. Investors, in general, acknowledge the prevailing knowledge and data quality gaps, but urge some level of action, even if that action is imperfect. With these considerations in mind, we now shift our focus from the conceptual to the pragmatic.

**RECOMMENDATIONS:** We encourage the ISSB to capitalize on its global remit and convening power to liaise with those who support, enable and enforce the corporate reporting system. In particular, we see the need for a system-wide approach, one that:

- Develops standard, industry-based methodologies for Scope 3 emissions accounting and reporting
- Fosters a 'progress over perfection' mindset in the early stages of Scope 3 reporting, by:
  - Replacing the proposed unqualified statement of compliance requirement with one that allows entities to explain their degree of compliance. (Please see our response to Question 12 in the IFRS S1 – General Requirements Exposure Draft.)
  - Leveraging illustrative guidance and showcasing leading practice
  - Raising the visibility of industry-based data to accelerate the development and enhancement of activities-based coefficients and methodologies
  - Engaging with, or convening, jurisdictional regulators to: (1) discuss the role of disclosure caveats and safe harbours in early-stage Scope 3 reporting and (2) consider opportunities to alleviate other reporting burdens
  - Encouraging assurance and other data quality measures to evolve in step with reporting.

## 10 Targets

**(a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?**

**QUALIFIED YES** Reporting entities are generally concerned about the breadth of disclosure requirements and lack of capacity to support these and other [draft] IFRS S2 requirements. Users are highly sympathetic to this concern, noting that near-term compliance is 'entirely unrealistic'. (On the matter of compliance, we would reiterate the concrete recommendations raised in our Question 9(f) response. Such recommendations prioritize short-term action as a core imperative, with longer-term compliance and quality to follow suit.)

We note that, during our market engagement, users and assurance providers alike flagged a disproportionate emphasis on target *attributes* versus target *feasibility*. In follow up to this observation, we consulted the *Basis for Conclusions* for [draft] IFRS S2, which does not appear to address the matter of target feasibility. We also found that paragraph 13, which covers an entity's climate-related strategy, includes no provisions for how entities will achieve their stated targets. Instead, the opening disclosure requirement in paragraph 13(b)(i) focuses on reviewing *already-established* targets. In our view, this overlooks the more foundational steps of defining targets based on a reasonable assessment of:

- Current and future needs, in terms of financial, human and technology-based capital
- Trade-offs and necessary reallocations of resources
- Potential hindrances to the achievement of stated targets.

The above considerations loosely align with feedback received from investors on Question 5(a) (transition plans and carbon offsets). As noted in our Question 5(a) response, investors called for greater insight into the governing body's role in target setting.

Notwithstanding these feasibility-related concerns, users saw the paragraph 23 proposals as *'well-intentioned in terms of holding entities to account for their stated commitments'*. Such account-ability, they say, is essential to stemming greenwash and informing investment decisions *'at a time most needed'*.

**RECOMMENDATION:** We recommend that IFRS S2 strike a balanced focus between target attributes and an entity's ability to achieve stated targets. This could involve an update to paragraph 13, as contemplated above, with appropriate updates and cross-referencing applied, as needed, to paragraphs 20 and 23.

## 11 Industry-based requirements

**f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?**

**YES** We generally directed this question to users of general purpose financial reporting and heard unanimous agreement that both formats are necessary – most observed that both formats are already applied anyway. One user went a step further to underscore the importance of absolute gross GHG emissions to remove the 'noise' of carbon offsets. Although we note the related requirement in paragraph 21(a)(i), we thought it worthwhile to relay this continued drive for enhanced transparency through a range of disclosure presentations.

**g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?**

**YES** We heard unanimous support for this proposal.

**h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?**

**UNDECIDED** We received mixed responses to this question and, therefore, encourage the ISSB to consider the following views in the context of other jurisdictional feedback:

- Some users endorse the use of the Partnership for Carbon Accounting Financials (PCAF) standards for the financial industry, as an alternative to the GHG Protocol. In their view, the GHG Protocol has inherent limitations, due to its overarching approach.

  According to these same users, the GHG Protocol should be adapted and fine-tuned to yield a full suite of industry-based methodologies. Not only will this support implementation, but it will also provide consistency and comparability within industry segments.

- Other users strongly oppose the introduction of multiple standards, at least in the early stages of IFRS S2 implementation. They argue that, notwithstanding its limitations, the GHG Protocol is widely-recognized and adopted and is, itself, the foundation for most other related standards. Although industry-specific approaches, like that of PCAF, could help in time, they will need to achieve scalability (i.e. wide industry or sector coverage) before they are unilaterally prescribed. During this critical time of convergence and alignment in standard-setting, the approach should be as simple as possible. Based on this logic, this user group believes the GHG Protocol should remain the underlying standardization tool for GHG emissions accounting and reporting.

## 12 Costs, benefits and likely effects

**(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?**

**YES** Please note our response intends to cover both *implementation* considerations [Question 12(a)] and *ongoing application* considerations [Question 12(b)], as it is a challenge to decouple the two in some cases.

We preface our comments by noting that, from a humanity perspective, we see widespread agreement that capital markets must respond to the urgent climate crisis. Looking beyond this lens, the following capital market **benefits** were raised during market consultation:

**BENEFITS TO REPORTING ENTITIES**

- Lower cost of capital through increased transparency
- Enhanced risk management and strategy development to support long-term business viability
- Improved decisions among management and governing body members, enabled by more complete and integrated data
- Consistency with industry peers, afforded by standardized disclosure requirements

**BENEFITS TO USERS**

- Greater access to relevant data via the core investor document
- Enhanced comparability within industries
- Lower portfolio risk through improved insight into climate-related risks and opportunities
- Reduced incidence of greenwash
- Improved capital allocation decisions
- Enhanced ability to work with investees and borrowers rather than resort to selling investments or exiting lending relationships

Notwithstanding the above benefits, there is general consensus among entities that the implementation of, let alone full compliance with, IFRS S2 will be cost-intensive, regardless of entity size or maturity in climate-related disclosure. The *scenario planning* and *connected information* aspects of [draft] IFRS S2 are considered among the more challenging elements to operationalize.

During our market consultation, Canadian reporting entities cited the following incremental **costs** associated with IFRS S2 implementation:

- Staffing
- Consultants
- Audit services
- Directors and officers insurance
- System upgrades

**(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?**

**NO** Please refer to our response to Question 12(a), which combines *implementation* and *ongoing application* considerations.

## 13 Verifiability and enforceability

**Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.**

**YES** We received two levels of feedback during our discussions with assurance providers. Broadly speaking, they noted the following:

- Subjectivity and measurement challenges will make third-party attestation impractical
- The extent to which forward-looking or future-oriented windows extend beyond a few years, let alone a few decades, will be problematic. For example, how does one assure assumptions related to 2030 and 2050 net zero targets and/or scenario analyses?

More specifically, assurance providers offered the following:

- There may be 'association issues' if assumptions for climate-related risk disclosures presented in the MD&A (or management commentary, strategic report, operating and financial review, etc.) do not match those of related impairment assessments in the financial statements.
- With respect to paragraph 21(a)(iii)(2), entities may lack access to the emissions data of associates, joint ventures, unconsolidated subsidiaries or affiliates, which poses clear verifiability challenges.

During our outreach discussions, it was observed that preparers and auditors alike will rely strongly on regulators for safe harbour. Some noted that self-attestation might be suitable in the short term, with external assurance introduced later.

## 14 Effective date

**a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why?**

Ideally, IFRS S1 and IFRS S2 would share the same effective date. However, as noted in our response to the Exposure Draft on IFRS S1 (ref: Question 17, first bullet point), Canadian market participants point to two concerns with [draft] IFRS S1:

- The open-ended nature of paragraph 54 in [draft] IFRS S1 could lead to inconsistent application. Assurance providers, in particular, are concerned about this paragraph and its lack of clear hierarchy among *'the pronouncements of other standard-setting bodies'* to which it refers.
- Assurance providers and entities alike are unclear on the scope of considerations set out in paragraphs 2 and 40, given their use of the word 'all' and the subjectivity of assessing what might or might not affect enterprise value.

Assuming reporting entities must comply with both IFRS S1 and IFRS S2 to provide a statement of compliance[2], regulators could struggle to mandate IFRS S2 in the near term.

**RECOMMENDATION:** We recommend that the ISSB seek to resolve the two concerns noted above <u>without impeding the release of IFRS S2</u>. Notably, Canadian and US securities regulators are currently focused on mandatory climate-related disclosures, so we encourage this topic-specific standard to continue to progress at pace. This sequencing will allow an expedited path to mandatory adoption of climate-related disclosures within jurisdictions.

**b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.**

Based on our engagement with Canadian market participants – including preparers and users of general purpose financial reporting – there is widespread agreement that compliance with IFRS S2, as proposed, will be challenging in the near term. For example, while large entities may be relatively

[2] We see potential ambiguity in paragraph 91. Please see our related remarks in our response to the *Exposure Draft on IFRS S1 -* 1st half of Question 12 response.

comfortable with the notion of Scope 1 and 2 emissions disclosure, the same cannot be said of Scope 3 emissions disclosure. Here, entities with complex business models and highly-diverse product lines are particularly concerned.

Notwithstanding this reality, the importance of responding to the urgent climate crisis – supported by a single baseline disclosure standard – is well understood. On this basis, we see the need for a common sense approach to IFRS S2, one that encourages near-term action and applies our Question 9(f) proposals (which, importantly, prompt a reconsideration of the traditional binary approach to compliance).

With these considerations in mind, and based on our extensive market consultation, we recommend an effective date of **two years** following IFRS S2 issuance for large companies. There is broad recognition that small entities will require more time, and there are several ways to address near-term implementation challenges. These include flexible approaches (multiple ways to comply with a given requirement), phased-in requirements (prioritization of select disclosure requirements in the early stages of adoption, with others to follow) and graduated/staggered starts based on entity characteristics such as workforce size or market capitalization. Certain of these measures will be at the discretion of local securities regulators and legislators.

**c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?**

**YES** Based on our market consultation, users and preparers agreed that, owing to their qualitative nature, disclosure requirements for governance, strategy and risk management (in roughly that order) could be applied more readily than those related to metrics and targets. This is unsurprising given reporting entities' concerns over the estimation and collating of emissions data.

## 17 Other comments

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

**YES** When finalizing IFRS S2, we encourage the ISSB to consider the following additional points:

- **Reference to Indigenous Peoples' rights.** For Indigenous Peoples, environmental and human health are deeply intertwined, with community cohesion, spiritual and cultural practices, language, traditions and food security all depending on a healthy natural environment. Accordingly, risks related to Indigenous rights are often inseparable from sustainability-related matters, including climate change. The Intergovernmental Panel on Climate Change has noted that Indigenous Peoples are key in forest conservation and climate stability. Further studies show that ancestral lands, and land under title by Indigenous Peoples, are the most biodiverse and best conserved on the planet.

  Given this context, an assessment of impacts on and perspectives of Indigenous Peoples should drive reporting entities to ensure free, prior and informed consent if there are infringements on Indigenous rights.[3] If free, prior and informed consent is not achieved, project costs may escalate due to factors such as delays in obtaining permits or uncertainty about site access. Other risks may arise from the impact on the entity's reputation with key sources of capital or insurers. Local Indigenous businesses may refuse to be part of a project's supply chain, resulting in extra costs as supplies must be transported to the site from farther away. In some cases, a project may be unable to proceed at all.

We also feel it essential to underscore that sustainability considerations are forward-looking, and that Indigenous Peoples are often at the forefront of flagging negative impacts of corporate behaviour that need to be addressed. There are numerous examples where Indigenous Peoples' traditional territory has been negatively impacted, for example, by contamination with hazardous waste, clearcutting to create agricultural land, accidental or intentional flooding, or atmospheric pollution. In addition to their considerable societal, cultural and environmental toll, these activities can negatively impact enterprise value through their effects on an entity's reputation – and its cash flow, if legal proceedings result. Therefore, when preparing disclosures, entities should be required to assess the impacts on Indigenous Peoples, as many live in areas affected by industrial activity (including mining, agriculture and hydropower).

**RECOMMENDATION:** We recommend that reporting entities be required to assess and disclose the impact of their climate-related strategies, risks and performance on Indigenous Peoples.

- **Materiality versus significance.** As noted in our response to Question 1(a), many Canadian market participants question the difference between *significant* and *material*. From a grammatical standpoint, we acknowledge the application of these *adjectives* to two different subjects (i.e. *material* information about *significant* risks and opportunities). However, we believe this convention is nuanced and reporting entities are unlikely to appreciate that materiality is an attribute of information rather than the underlying subject matter. We further note that the terminology convention applied to [draft] IFRS S2 differs from that in IFRS® Practice Statement Exposure Draft (ED/2021/6), where the latter refers to *key matters* rather than *risks and opportunities*. Here, we see an opportunity to align conventions across IASB and ISSB pronouncements.
- **Climate resilience.** During our market outreach, we received the following additional feedback on paragraph 15:
  - The scope of *climate resilience* could confuse some entities, as the term is more often associated with the *physical* impacts of climate change. This may skew disclosures toward, for example, the robustness of infrastructure, rather than an ability to adapt to transition risks. We, therefore, suggest probing regional interpretations of the term before issuing the final standard.
  - Many entities will approach paragraph 15(a) with a strictly 'line-by-line' mindset and lose sight of the *collective* impact of the paragraph 15(b)(i)(8) considerations. It is, therefore, worth reminding entities of [draft] IFRS S1 paragraphs 42-44 (connected information) and 82 (aggregate risk) either through direct reference or by repeating their underlying sentiments.
  - With regard to the policy element of paragraph 15(b)(i)(8), one user noted the value of knowing entities' climate-related lobbying activities. Although not core to the scenario analysis, this form of standard disclosure might be incorporated into another element of IFRS S2.

[3] The principle of *free, prior and informed consent* is protected by international resolutions and conventions such as the United Nations Declaration on the Rights of Indigenous Peoples (2007), Convention on Biological Diversity (1992) and International Labour Organization Convention 169 - Indigenous and Tribal Peoples Convention (1989).

- **Defined terms.** Several market participants noted frustration with the allocation of commonly-used terms to page 48. They were of the view that these terms should be simply integrated into the Defined Terms section beginning on page 44.

  Of minor note, we also draw attention to the following:

  – On page 44, the order in which *Climate-related scenario analysis* and *Climate-related risks and opportunities* are listed should be reversed
  – The stylistic treatment of the Standard's title (*Climate-related disclosures*) in paragraph 1 suggests that it is also a formally-defined term.

- **Objectives scope/approach.** Here, we offer two comments for ISSB consideration:

  – We note that the objectives statement in [draft] IFRS S2 extends the scope of considerations beyond *enterprise value* (found in paragraph 1 of [draft] IFRS S1 and paragraph 1(a) of [draft] IFRS S2) to include two further considerations, captured in paragraphs 1(b) and 1(c).

    As a topic-specific standard – and implied 'subset' of [draft] IFRS S1 – some find this extension of scope curious. One might expect these additional considerations (namely, how the business model supports the entity's strategic response to sustainability-related risks and opportunities, and the entity's ability to adapt its planning, business model and operations to sustainability-related risks and opportunities) to be relevant to most, if not all, IFRS Sustainability Disclosure Standard topics.

    **RECOMMENDATION:** We recommend alignment between the scope/approach of the objective statements found in IFRS S1 and IFRS S2.

  – We observe that paragraph 1(b) of [draft] IFRS S2 references inputs, activities, outputs and outcomes without noting their relationship to the business model concept. Paragraph 1(c) then introduces the *business model* as a formally-defined term.

    **RECOMMENDATION:** We suggest reconsidering the order in which the general business model concept and specific business model components are introduced for a more logical progression or 'unpacking' of ideas. This could be accomplished by simply reversing parts (b) and (c), or by retaining the current sequence with modified text.

### Biodiversity and conservation on ancestral lands and land under title by Indigenous Peoples

1. A 2021 report by the ICCA Consortium shows that Indigenous Peoples are responsible for maintaining increasingly vanishing 'ecologically intact' environments, which account for up to 21% of the land on Earth.

   **SOURCE:** ICCA Consortium. 2021. *Territories of Life: 2021 Report*. ICCA Consortium: worldwide, www.report.territoriesoflife.org

2. A 2021 report, based on a review of more than 250 studies, demonstrates the importance and urgency of climate action to protect the forests of the indigenous and tribal territories of Latin America as well as the indigenous and tribal peoples who protect them.

   **SOURCE:** FAO and FILAC. 2021. *Forest governance by indigenous and tribal peoples. An opportunity for climate action in Latin America and the Caribbean.* Santiago. FAO. www.doi.org/10.4060/cb2953en

3. A 2020 study finds that at least 36% of the world's remaining intact forest landscapes - continuous tracts of forest and other natural ecosystems - are located within Indigenous territories.

   **SOURCE:** Julia E Fa, James EM Watson, Ian Leiper, Peter Potapov, Tom D Evans, Neil D Burgess, Zsolt Molnár, Álvaro Fernández-Llamazares, Tom Duncan, Stephanie Wang, Beau J Austin, Harry Jonas, Cathy J Robinson, Pernilla Malmer, Kerstin K Zander, Micha V Jackson, Erle Ellis, Eduardo S Brondizio, Stephen T Garnett, *Importance of Indigenous Peoples' lands for the conservation of Intact Forest Landscapes*, Front Ecol Environ 2020; 18(3): 135– 140, www.esajournals.onlinelibrary.wiley.com/doi/full/10.1002/fee.2148

4. A 2020 study shows that in some regions, Indigenous control of lands seems to reduce deforestation as much as formal protections, or even more.

   **SOURCE:** Vicky Tauli-Corpuz, Janis Alcorn, Augusta Molnar, Christina Healy, Edmund Barrow, *Cornered by PAs: Adopting rights-based approaches to enable cost-effective conservation and climate action*, World Development, Volume 130, 2020, 104923, ISSN 0305-750X, www.sciencedirect.com/science/article/pii/S0305750X20300498

5. A 2019 study finds that Indigenous territories harbor more biodiversity than protected areas in Brazil, Australia, and Canada.

   **SOURCE:** Richard Schuster, Ryan R. Germain, Joseph R. Bennett, Nicholas J. Reo, Peter Arcese, *Vertebrate biodiversity on indigenous-managed lands in Australia, Brazil, and Canada equals that in protected areas*, Environmental Science & Policy, Volume 101, 2019, Pages 1-6, ISSN 1462-9011, www.sciencedirect.com/science/article/pii/S1462901119301042