

August 19, 2022

Emmanuel Faber
Chair
International Sustainability Standards Board
IFRS Foundation
Columbus Building
Canary Wharf
London, UK E14 4HD

Re: *Climate-Related Disclosure Standard Exposure Draft (Draft IFRS S2)*

Dear Chair Faber:

CFA Institute,¹ in consultation with its Corporate Disclosure Policy Council (CDPC),² welcomes the opportunity to comment on the International Sustainability Standards Board's (ISSB's or Board's) [Climate-Related Disclosures Exposure Draft](#) (Exposure Draft S2 of Draft IFRS S2).³ This response should be read in connection with [our response](#) to the ISSB's [General Sustainability-Related Disclosures Exposure Draft](#) (Exposure Draft S1 of Draft IFRS S1).⁴

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures—and the related independent audits—provided to investors and other end users are reliable and of high quality. Our advocacy position is informed by our global membership who invest both locally and globally and in consultation with the CDPC.

¹ With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Shanghai; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org or follow us on [LinkedIn](#) and Twitter at [@CFAInstitute](#).

² The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is composed of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

³ [IFRS - Exposure Draft and Comment Letters: Climate-Related Disclosures](#)
(<https://www.ifrs.org/projects/work-plan/climate-related-disclosures/exposure-draft-and-comment-letters/>)

⁴ [IFRS - Exposure Draft and Comment Letters: General Sustainability-Related Disclosures](#)
(<https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/>)

PERSPECTIVE THAT INFORMS OUR RESPONSE

Securities Analysis and Selection

We have responded to the Exposure Draft from the perspective to which we respond to all corporate disclosure consultations—that of an analyst or buy-side long-equity investor with a long-term value discovery perspective. CFA Institute and the CFA Program’s history is rooted in the provision of information for investment decision-making.

In 2020, [CFA Institute responded](#) to Accountancy Europe’s publication/consultation [Interconnected Standard Setting for Corporate Reporting](#). In that letter, we set forth a number of important foundational principles with respect to our views on sustainability and environmental, social, and governance (ESG) disclosures. Overall, in that commentary, we noted that our objective is to **focus on information that is value-relevant for investment decision making** and that considers the **audience for the information**, the **objective of the communication**, as well as the **location of the information**. Our response herein is crafted with these foundational principles and the aforementioned history in mind, which is rooted in security analysis and selection and the discovery of long-term value.

We recognize that some investors seek to invest not only based upon long-term value creation but also based upon their values. While many times these objectives operate in concert, this is not always the case. CFA Institute members have a fiduciary responsibility to their clients. As such, we need and seek information that is sufficiently disciplined that allows us to discern value-relevant information and to make a distinction, when important, between value-relevant and values-relevant information such that we have the ability to advise investors when there may be a trade-off between value and values in their investment decision-making.

As such, our views here are not developed from a public policy or civil society objective, but rather with the desire for investors to have the information they need to make value-relevant investment decisions.

As Investing Is Global, We Support Global Convergence of Climate-Related Disclosures

As an organization, CFA Institute has long supported⁵ global convergence of accounting and auditing standards given that investing, like our membership, is global, and comparability is the lifeblood of investment analysis. We have supported⁶ the creation of the International Sustainability Standards Board for these same reasons.

⁵ See CFA Institute support for global convergence of accounting standards: “IFRS: International Financial Reporting Standards” (<https://www.cfainstitute.org/advocacy/issues/international-finance-reporting-stds#sort=%40pubbrowdate%20descending>).

⁶ See the CFA Institute Comment Letter to IFRS Foundation with respect to its Consultation Paper on Sustainability Reporting (January 2021) (<https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20210210-1.pdf>).

[We have responded](#)⁷ to the US Securities and Exchange Commission's (SEC's or Commission's) Proposed Rule [The Enhancement and Standardization of Climate-Related Disclosures for Investors](#)⁸ (the SEC Proposal, SEC Proposed Rule, or SEC Proposed Update).⁹

We provided overall [perspectives in our comment letter](#) related to the [European Sustainability Reporting Standards \(ESRS\) being developed by the European Financial Reporting Advisory Group \(EFRAG\)](#).

Investors and other stakeholders are in the midst of analyzing – and comparing – all the aforementioned proposals. The staggered and compressed timing of all these proposals with SEC's Proposed Rule being issued first—and with the shortest consultation period—has provided investors with several challenges:

- Making global comparisons with the SEC's Proposed Rule can only fully be completed as we complete this ISSB comment letter and the comment letter on Exposure Draft S1.
- We have done a comparison of the provision of Draft IFRS S2 with the SEC's Actual Proposed Rule contained within Section VIII (Statutory Authority) including a comparison of the [disclosure requirements](#) and the [defined terms](#).
- We commented to EFRAG that the issuance of 13 consultations with a 100-day comment period that overlaps that of the SEC and the ISSB necessitates that EFRAG reconsider the timing of their proposals if they want high-quality feedback from investors.

See our comments in the *Global Baseline Remains a Bit Elusive: Theory Has Not Yet Met Practice (Major Markets Are Developing Different Standards Simultaneously)* subsection within the *Overarching Considerations* section which follows.

⁷ In addition to our full comment letter, we have provided the following summaries or excerpts:

- For a short two-page summary see:
[CFA Institute Responds to SEC Proposal on Climate-Related Disclosures: 5 Key Takeaways | CFA Institute Market Integrity Insights](#)
(<https://blogs.cfainstitute.org/marketintegrity/2022/07/07/cfa-institute-responds-to-sec-proposal-on-climate-related-disclosures-5-key-takeaways/>)
- For the seven-page Executive Summary contained within the comment letter see:
[CFA Institute to SEC Proposal on Climate-Related Disclosures: Executive Summary](#)
(<https://www.cfainstitute.org/-/media/documents/policy/CFA-Institute-SEC-Climate-Letter-2022FinalExecutive-Summary7182022.pdf>)
- For the table within the letter that represents a Summary of Positions see:
[CFA Institute to SEC Proposal on Climate-Related Disclosures: Summary of Positions](#)
(<https://www.cfainstitute.org/-/media/documents/policy/CFA-Institute-SEC-Climate-Letter-2022FinalSummary-of-Positions7182022.pdf>)

⁸ See also the Federal Register version [2022-06342.pdf \(govinfo.gov\)](#).

⁹ The Proposal is supplemented and augmented by the SEC's 2010 Guidance ([Press Release: SEC Issues Interpretive Guidance on Disclosure Related to Business or Legal Developments Regarding Climate Change, 27 January 2010](#)) (<https://www.sec.gov/news/press/2010/2010-15.htm>)

ORGANIZATION OF OUR RESPONSE

Our response herein to the ISSB’s Draft IFRS S2 considered all 17 questions. Our detailed responses are provided in the appropriately numbered section in the **Appendix** and summaries are included in the body of the letter in the section *Highlights of Our Responses to the Specific Questions in the Appendix*.

Several cross-cutting issues and overarching themes emerged as part of our review, and we have incorporated them in the *Summary of Our Views* section that follows in the body of the letter.

As we note above, we have completed a side-by-side comparison of the [disclosure requirements](#) and [defined terms](#) within Draft IFRS S2 to those in the SEC’s Actual Proposed Rule contained within Section VIII (Statutory Authority).

These comparisons¹⁰ are an integral part of this letter as our response to the questions in Draft IFRS S2 as presented in the **Appendix**¹¹ draw heavily from our response to the SEC’s Proposed Rule on [The Enhancement and Standardization of Climate-Related Disclosures for Investors \(CFA Institute’s SEC Climate Comment Letter\)](#). We reference to the SEC response liberally throughout this response to Draft IFRS S2. At the outset of the **Appendix**, we include a table which cross-references the question responses by their appropriate paragraph of Draft IFRS S2 and the applicable sections of the Code of Federal Regulations (CFR) that comprise the SEC’s Statutory Authority. For most of the question responses, we extract the comparative language, provide our views from CFA Institute’s SEC Climate Comment Letter, and then consider the ISSB’s disclosures, evaluating the differences and our views on the Draft IFRS S2 disclosures.

Additionally, as we note earlier, [our response](#) to the ISSB’s [General Sustainability-Related Disclosures Exposure Draft](#) (Exposure Draft S1 or Draft IFRS S1) should be read in connection with this letter.

¹⁰ [ISSB IFRS Climate Comparison to SEC Climate - Disclosure Requirements \(cfainstitute.org\)](#)

(<https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/ISSB%20IFRS%20Climate%20Comparison%20to%20SEC%20Climate%20-%20Disclosure%20Requirements>)

[ISSB IFRS Climate Comparison to SEC Climate - Defined Terms \(cfainstitute.org\)](#)

(<https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/ISSB%20IFRS%20Climate%20Comparison%20to%20SEC%20Climate%20-%20Defined%20Terms>)

¹¹ The [Appendix](#) is included as part of this letter by way of a link on the last page of the letter. Also provide here at: [https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/ISSB IFRS S2 Climate Letter 2022_07_28_22dappendix](https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/ISSB%20IFRS%20S2%20Climate%20Letter%202022_07_28_22dappendix)

SUMMARY OF OUR VIEWS

We are supportive of the ISSB's Draft IFRS S2 and, broadly, the climate-related disclosures it proposes. That said, we have observations about the proposed disclosures and comments related to improvements we believe are necessary which are summarized below.

Our Response is A Comparative Analysis:

What Global Investors Need for Investment Decision-making from the ISSB and the SEC

As the SEC's Proposed Rule was out for comment and due first our views on the fundamental principles of climate-related disclosures are embedded in that letter.

As noted above, our response is prepared from the perspective of a long-equity investors seeking to discover the value of the enterprise and has been prepared as a comparative analysis between the SEC's Proposed Rule and ISSB's Draft IFRS S2 proposals in pursuit of ensuring comparable information is available globally. This comparative approach is essential for investors who invest globally as comparability is the lifeblood of investment analysis and we wanted to test the comparability of the two proposals.

Specifically, our response in the **Appendix** takes the form of comparing the two disclosure standards by key topic, referencing our views on the subject of the disclosure to our response to the SEC, and then commenting on the most significant differences between the two. Our goal is to facilitate the work of the ISSB Jurisdictional Working Group and to push standard setters and regulators toward a converged solution. We do not want to provide comments separately to each proposal as then the hard work of analysis and synthesis of the proposed requirements and the disclosures they will yield is not undertaken until the disclosures are provided by companies.

We believe the ISSB should prepare and publish a side-by-side comparison when issuing proposals going forward so as to facilitate the analysis of the differences.

An Investor Perspective is Essential:

Whose Feedback Will Be Considered & How Will it Be Weighted?

The ISSB's disclosures are meant to provide investors with value-relevant information for investment decision-making. While we highlight above investors may have different investment objectives (value vs. values), we also note that all our members have a fiduciary duty to their clients that means they need to understand when value-relevant and values-relevant investment decision-making may not overlap, and that the location of the information may inform the objective and audience (i.e., not investors) of the disclosures.

That said, there are a plethora of stakeholders – other than investors – who will likely comment on the ISSB's Draft IFRSs S1 and S2 that do not, however, have an investor perspective, or are even engaged in the preparation of general purpose reports for investors. Instead, they may have a civil society objective or an ideological agenda they are seeking disclosures to highlight, pursue or achieve. We believe the ISSB needs to develop an approach for considering and

weighing feedback on Draft IFRSs S1 and S2 – as well as on future standards from stakeholders who are not pursuing an investor focused enterprise value objective¹².

Further, we also believe the ISSB needs to be very clear and precise with stakeholders regarding the use of the term enterprise value and how materiality assessments are to be made based upon enterprise value. We are concerned that stakeholders who are not primary users as defined in Draft IFRS S1 will seek to include information based upon a colloquial meaning and broad interpretation of enterprise value or with such significant degrees of separation from investors interpretation of enterprise value that it is a stretch to consider such information as value-relevant.

We highlight these important considerations because as an organization long engaged in promoting the information needs of investors, we have experienced the situation with accounting standard setters where the primacy of investors – as the end users of the data – is lost in the consideration of public feedback on consultations. And this has occurred when only preparers and the accounting profession have been the principal contributors of feedback other than investors.

This is often the case as investors generally respond with fewer comment letters. However, their feedback is foundational to the determination of the decision-usefulness and value relevance of the disclosures or accounting being considered for revision – as they are the users of such information and the ultimate arbiters of decision-usefulness.

It has been our experience that because the number of respondents from the preparer or accounting community are greater than the number of responses from the investment community – and because those summarizing the letters are more familiar with their views – that investor views are underweighted, and preparer and the accounting profession responses are overweighted, in the decision-making of the IASB. Further, investors generally comprise a non-significant minority of the board.

As it relates to sustainability standards, the ISSB will receive feedback, likely in a similarly disproportionate weighting toward preparers and accountants, but the ISSB will also likely receive commentary and feedback from stakeholders with other objectives and agendas as noted above. Our question to the ISSB is: How will this input be considered and weighted if it is from organizations who do not have a direct interest in the preparation or use of general-purpose financial reporting for investors?

This is a topic of keen interest to investors. We believe it must be addressed as part of the consideration of the feedback on this standard and the due process of the new board.

¹² We have seen in the SEC's Proposed Rule footnote references to commentary from organizations with a solely civil society, political or ideological agenda-based focus that does not represent an investor-focused enterprise value-relevant perspective. We believe this has confused and politicized the SEC's authority and objectives and we want to ensure the intended user of the data to be created by the ISSB standards is not obfuscated.

Industry-Based Standards: Essential to Investor Support

In our January 2021 [comment letter](#) in response to the IFRS Foundation’s Consultation Paper on Sustainability Reporting we set forth our support for the establishment of the ISSB. We noted there that our support was heavily dependent upon the “how” of the new board. One key element of the “how” was the integration of the SASB standards and their industry-based versus general standards focus.

In [CFA Institute’s SEC Climate Comment Letter](#), we highlighted that the ISSB industry-based metrics – related to climate –were essential for investors because:

- they provide the first materiality lens for disclosure,
- they provide investors with a more forward-looking assessment of climate-related risks,
- they create greater comparability between companies,
- investors are organized by and make asset allocation decisions by industry,
- climate risk (or any sustainability risk) impacts industries differently,
- the approach provides better engagement opportunities for companies and investors with the ISSB, and
- industry-standards will likely produce more proportionality in disclosures.

The industry-based standards and the resulting metrics also provide – as we highlight in Exhibit 1 to [CFA Institute’s SEC Climate Comment Letter](#) (See Page 26) – an essential link to the disclosures they are proposing in the financial statements as they will facilitate understanding regarding how these more forward-looking metrics manifest themselves in the financial statements.

While we do not oppose consideration of additional cross-industry metrics to ensure comparability across industries, we believe industry-based metrics must be the starting point. This is more effective and efficient for investors as these industry-based standards are integral to making the disclosures more decision-useful to investors in ascertaining the effects on the enterprise of sustainability-related risks.

What we think needs to be clearer to investors is how themes such as climate in Draft IFRS S2 that become IFRS Sustainability Disclosure Standards will evolve together with the SASB industry-based standards. Will IFRS Sustainability Disclosure Standards theme-based standards ultimately overtake the existing SASB standards to become theme-based rather than industry-based standards? Or will the industry-based SASB standards persist and be referenced and continually integrated in these standards?

In sum, our support for the ISSB and IFRS Sustainability Disclosure Standards is conditioned on the ISSB’s integration of the industry-based nature of the SASB standards.

***Financial Statement Disclosures: A Missing Anchor to IFRS S2
Without Financial Statement Disclosures,
Investors Will Never Be Able to Evaluate the Efficacy of the IFRS S2 Disclosures***

We note in [CFA Institute's SEC Climate Comment Letter](#) (See Page 26) that linkage and anchoring of disclosures outside of financial statements to disclosures within the financial statements is essential.

While we note in our commentary to the SEC that we prefer cash-based metrics along with disclosures of the quantitative impact of changes in estimates and assumptions, we are very supportive of disclosures within the financial statements. We support inclusion in financial statements because the audit of financial statement information will improve the definitions used to identify, capture, record and report climate-related events and risks which improve disclosures outside the financial statements. Financial statement disclosures also provide confirmatory support in subsequent periods for disclosures of anticipated future affects made in prior periods. In [CFA Institute's SEC Climate Comment Letter](#) within the *Disclosures Inside Financial Statements (Definitions, Terminology, and Interpretive Issues)* section beginning on Page 68 therein we explore this in depth.

While Paragraph 14 of Draft IFRS S2 requires disclosure of current reporting period and anticipated effects on financial position (balance sheet), financial performance (income statement), and cash flows (statement of cash flows), we note in our response to Question #6 that i) the disclosure requirements are not sufficiently specific, ii) there is no requirement to disclose anticipated cash flow effects in the same way as there is related to financial position and financial performance, and iii) companies need only say they can't provide quantitative disclosures to be able to avoid making them.

While we recognize such financial statement disclosures are under the purview of the IASB, we think it is essential they exist to i) enhance the quality of disclosures outside the financial statements, ii) provide confirmatory quantitative evidence for investors, and iii) ensure comparability with the SEC requirements.

We think it is important to highlight to the ISSB that without anchoring disclosures in the financial statements, there will never be evidence that the disclosures outside the financial statements manifest themselves in the financial statements. How then will investors ever evaluate the quality of the disclosures in Draft IFRS S2? While we understand this may not be the ISSB's mandate, it is essential that the effects of climate risks manifestation in the financial statements is provided to investors.

This is likely a consideration that will exist with many disclosures being proposed by the ISSB. As such we believe the due process on this point may need to be more formalized with the IASB. Within our [comment letter on Draft IFRS S1](#) we discuss this issue in the section, *Interrelationship and Collaboration of ISSB and IASB*.

***Global Baseline Remains a Bit Elusive: Theory Has Not Yet Met Practice
Major Markets Are Developing Different Standards Simultaneously***

The ISSB seeks to develop a global baseline. This is a noble pursuit which we seek to support.

That said, as the preceding discussion highlights, industry-based standards which are included in the ISSB's Draft IFRS S2 are not in the SEC's Proposed Rule and the financial statement disclosures that are in the SEC's Proposed Rule are not in the ISSB's Draft IFRS S2. Both are key ingredients in linking forward-looking disclosures outside the financial statements with events that emerge within financial statements and for investors to project and confirm the manifestation of climate-related risks and events in a company's actual results.

The challenge, in very simple terms, however, is that multiple jurisdictions are working on the same disclosures at the same time (i.e., but with different objectives, in the case of EFRAG). In addition to the ISSB, the United States (through the SEC) and Europe (through the European Commission's delegation to EFRAG) are simultaneously developing standards on climate. With the ISSB also issuing a general standard and EFRAG addressing other sustainability risks. Further, there are important distinctions in the objectives of each which informed our views in the aforementioned Accountancy Europe response regarding audience (investors or other stakeholders), objective (value- vs. values-relevant decision making), and location (securities filings or general purpose reports) of disclosures. Each is using similar ingredients but using a different recipe. This will result in a different outcome in standards and different disclosures for investors. A baseline is challenging to develop when everything is moving simultaneously and there are different objectives at play.

As we note above, in the section, *Our Response is A Comparative Analysis: What Global Investors Need for Investment Decision-making from the ISSB and the SEC*, our response is comparative by design. Regrettably this comparison was more time consuming and challenging than we would have thought from the outset.

We have found differences between the required disclosures and the definitions used in each proposal. The side-by-side comparisons illustrate the differences which we would categorize as follows:

- Disclosure requirements in Draft IFRS S2 that are not included in the SEC's Proposed Rule. (e.g., industry-based metrics that highlight the potential future impact on enterprise value)
- Disclosure requirements in the SEC's Proposed Rule that are not included in Draft IFRS S2. (e.g., disclosures inside financial statements)
- Differences that result from different jurisdictional authority. (e.g., disclosures inside financial statements, unlike with the SEC which has authority over the FASB, would be the purview of the IASB not ISSB and the ISSB cannot decided attestation requirements on Scope 1 and Scope 2 as can the SEC)
- Differences in defined terms which make digital tagging challenging but even if taggable in the same way make basic elements of disclosures different. (e.g., defined terms comparison)
- Differences in categorization/classification of disclosures which make them hard to compare. (e.g., transition plans are included within risk management in the SEC's Proposed Rule and within strategy and decision-making in Draft IFRS S2)

- Differences in disclosure requirements within items similarly categorized which will result in disclosure differences.
(e.g., SEC requires disclosure of impacts of climate-related risks and opportunities in 17 CFR §229.1502(b) & (c) while ISSB standards jump from risk disclosures in Paragraph 9 to transition disclosures in Paragraph 13)
- Countless differences in disclosure language that will lead to different disclosures.
(e.g., see the numerous examples in the discussion in the **Appendix**).

Our cursory analysis suggests that the comparison is even more challenging and the differences more significant as it relates to the ESRS's issued by EFRAG – and not simply because they include impact metrics.

At this stage, we struggle to see the manifestation of a global baseline at a level that will yield comparable data for investors. The challenge, in very simple terms, is that multiple jurisdictions are working on the same disclosures at the same time that do not reference each other and have basic differences. There is not a baseline emerging with the ISSB being the foundation but simply different disclosures that investors have to identify.

We recognize the [ISSB recently announced](#) cooperation through formation of a working group (the ISSB Jurisdictional Working Group), including the SEC and EFRAG, to increase dialogue and enhance comparability of ongoing jurisdictional initiatives. We support this joint working groups efforts. We believe there is much work to do by the ISSB's Jurisdictional Working Group to iron out the differences. Most importantly, we believe the ISSB, and the various regulators/standard setters, need to define more specifically what they mean by a global baseline and how it would operate.

The standards may have topic similarities but there are significant areas of difference and, while there are areas of similarity (e.g., governance, climate-related risks, risk management, strategy, transition, targets, etc.) we find the detailed wording in various sections to be quite different which will result in different disclosures by jurisdiction thereby undermining the goal. At this stage, we struggle to see the manifestation of a global baseline – other than the broadest categories – at a level that will yield comparable data for investors.

Overall, we are supportive of the global baseline concept – as investors would be the most significant beneficiary. However, this needs to be a shared pursuit by standard setters and regulators. This is not something the ISSB can achieve on its own.

Overarching Considerations

Within [CFA Institute's SEC Climate Comment Letter](#), we provide a section on Overarching Considerations (Pages 28-37) related to the SEC's climate-related disclosure proposals. Several, which we note below, have applicability to the ISSB as follows:

- ***Inclusion of Climate Disclosures in Financial Statements: A Step Beyond the Rest of the Globe*** – In this section we note the SEC's inclusion of metrics within the financial statements unlike the ISSB and EFRAG.
- ***Information Must Be Decision-Useful and Predictive: A Link Is Needed Between Disclosures Inside and Outside Financial Statements*** – In this section we note the SEC's lack of inclusion of the ISSB (SASB) industry-based metrics, their importance to investors, as we note above, and the essential link they provide to the disclosures in financial statements.
- ***Reference to, or Lack of Reference to, Relevant Frameworks*** – In Question #9 & #11 in the **Appendix**, the ISSB queries whether respondents support the use of the Greenhouse Gas Protocol standards for value chains, corporates, and financial institutions. In our commentary to the SEC, and equally applicable to the ISSB, especially as it relates to the Greenhouse Gas Protocol, we highlight the challenge the ISSB may have in referring to a standard that may not be subject to independent standard-setting and that effectively becomes the shadow standard setter for, what some might argue is, the most important cross-industry metric. We analogize to the IASB implementing the use of fair value within IFRS standards without having a fair value standard, which it ultimately needed to create. We note that the ISSB should consider the longer-term implications of referencing, and creating, this default standard setter. See also the *Conceptual Framework Considerations* section in the [Draft IFRS S1 comment letter](#).
- ***Climate-Related Definitions*** – In Question #6 – and in the above discussion regarding the need for a link to financial statements – we highlight the importance of the definitions included in the SEC's Proposed Rule. Such definitions are the basis for disclosures outside of the financial statements. But they are to be used in the financial statements in creating the metrics required to be provided by the SEC's Proposed Rule. This inclusion in the financial statements places greater focus on the definitions and their interpretation. We highlight that the SEC's climate-related definitions are not included in US GAAP and are not likely (we have not verified them to the same degree) included in IFRS.

The Draft IFRS S2's financial effects requirement would appear to create a need to make similar interpretations – if such disclosures are meant to be quantitative and meaningful.

See also the *Conceptual Framework Considerations* section in our [Draft IFRS S1 comment letter](#).

- **Materiality** – Within our SEC comment letter we note, and extensively consider, the different and perceived uneven applications of materiality within the SEC’s Proposed Rule. Within the *Conceptual Framework Considerations* section in our [Draft IFRS S1 comment letter](#) we address several issues with respect to materiality and its assessment based upon enterprise value. We also include in Appendix 2 to that letter a comparison of the definition of materiality between financial reporting and sustainability reporting. We note materiality related matters which are equally applicable to Draft IFRS S2, including:
 - Sustainability standards refer to enterprise value, financial reporting standards do not.
 - It is not clear how direct the link between sustainability-related risk and enterprise value needs to be in assessing risks in scope and making materiality assessments.
 - Voting decisions are to be considered with the use of general purpose reporting for sustainability reporting, not for financial reporting.
 - It is not clear whether “significant” or “material” risks are to be included in disclosures. We have also observed several additional items related to materiality in our review of Draft IFRS S2:
 - Throughout this document we note very limited reference to the term materiality. As such, our question is whether it is presumed that all disclosures have a materiality threshold applied to them consistent with Draft IFRS S1 – even disclosures that have “shall” in the language regarding the disclosures to be made. For example, are all, not simply material, targets and goals are to be included? This would be different from the SEC’s guidance.
 - In the SEC’s Proposed Rule (17 CFR §229.1503), companies are asked to describe how they determined that a climate-related risk or impact was material. The ISSB does not have a similar requirement, but this is important information to investors.
- **Relevance vs. Reliability** – We highlight in our comment letter to the SEC that investors are more concerned with relevant information than perfectly reliable information. We highlight this in the context of the disclosures broadly, but specifically as it relates to Scope 3 emissions. We indicate there that we seek Scope 3 emissions because research suggests it is likely the most material and that estimates, and ranges would be more useful than failing to include the disclosures because a perfectly reliable number cannot be derived. We also promote the inclusion of safe harbors. We highlight this concept as this is counter intuitive to some accountants and auditors. We touch on this issue in Question #13 related to verifiability.
- **Climate Disclosures: Balance Financial Reporting Improvements** – We highlight in our comment letter to the SEC that the requirement to make climate-related disclosures – and in the case of the ISSB, sustainability disclosures more broadly – will likely present implementation challenges for preparers. We also highlight that investors believe there are a number of key financial reporting improvements that are necessary and should not be delayed because of such implementation challenges. To this end, accounting and sustainability standard setters must balance priorities as preparers are not likely to be able to implement all the improvements which a variety of standard setters can publish. We believe this is a matter for consideration for the ISSB in concert with the IASB and we address in our [Draft IFRS S1 comment letter](#) in the section, *Interrelationship and Collaboration of ISSB*

and IASB. Financial reporting improvements cannot stop in order to accommodate the implementation of sustainability disclosures.

See also the *Overarching Considerations* and *Summary Considerations from Responses to Specific Questions* sections in the [Draft IFRS S1 comment letter](#).

Highlights of Our Responses to the Specific Questions in the Appendix

In the **Appendix**, we provide responses to the 17 questions in the Draft IFRS S2 Exposure Draft. The first page of the **Appendix** includes a chart which connects the question, topic, Draft IFRS S2 paragraph and the applicable comparative section within the US Code of Federal Regulations. See also the comparison of the specific [disclosure requirements](#) and the [defined terms](#).

Objective (Question #1)

Broadly we note in our response to Question #1 in the **Appendix**, that we support the objective to assess the effects of climate-related risks and opportunities on enterprise value and to understand how the entity's resources will be used to respond to such risks including their management and their ability to adapt.

We highlight various challenges in meeting this objective. Most of those challenges are addressed in the preceding sections of this letter. Our most significant concern is that the disclosures – other than industry metrics – will likely be highly qualitative, including the articulation of financial effects. Without a quantitative link to the actual financial results the standards will lack the benefit of the confirmatory value that financial statements can provide. Further, we don't believe there is sufficient disclosures of the cost of reducing GHG emissions. Without an understanding of the cost to (resources used to) reduce emissions, investors won't likely be able to assess the impact to enterprise value of reducing emissions.

We also believe that enforcement will need to be strong and consistent, which is out of the control of the ISSB (i.e., unlike for the SEC). The SEC's enforcement of its own rules, if finalized, would increase the quality of disclosures globally and provide a baseline enforcement of similar terms and disclosures.

Overall, we would note that the success of meeting this objective depends on many factors outside the control of the ISSB including endorsement, adoption, and location – in addition to enforcement.

In our [comment letter related to Draft IFRS S1](#) in the *Conceptual Framework Considerations* subsection of the *Summary Considerations from Responses to Specific Questions* section and in our response to Questions #1-#3 in Appendix 1 of that letter we highlight challenges broadly for the ISSB in achieving its objective.

Governance (Question #2)

As we note in our response to Question #2 in the **Appendix**, we strongly support the SEC's proposed governance disclosures (17 CFR §229.1501) which are also based upon TCFD disclosures. We are so supportive that we noted we would embrace similar disclosures for other, even non-sustainability-related, risks.

Link to Remuneration – In our response to Question #2, we noted the SEC failed to require a link to management compensation in their Proposed Rule. We are supportive of the ISSB's proposal at Draft IFRS S2 Paragraph 21(g) to include such a remuneration metric within the cross-industry metrics disclosures as addressed in Question #9.

Management Governance – While we support the ISSB's governance disclosures (Paragraph 5) in principle, we would note, however, that the board and management oversight responsibility language is not the same between the SEC and ISSB proposals. Specifically, the ISSB's disclosures related to management oversight seem sparse in comparison to those of the SEC's Proposed Rule. We believe more consistent language, preferably with the SEC management oversight disclosures, needs to be developed.

Identification of Climate-Related Risks and Opportunities (Question #3)

In our response to Question #3 in the **Appendix** on the Climate-Related Risk and Opportunities (Paragraph 9) disclosures, we noted that we supported, in principle, the SEC's disclosures on the same topic (17 CFR §229.1502(a)) observing that we were concerned that the transition risk disclosures might be highly qualitative and that current or potential changes in regulation or legislation disclosures should also be considered (i.e., they are somewhat included in risk management disclosures) by the SEC for disclosure. While we supported the SEC's physical risk disclosures, we noted several improvements that we believed were needed to determine the replacement value, not historical book value, risk of loss to assets or operations. We supported the disclosures by time horizon noting that guidelines on the horizon definitions would be helpful as industries have very different business models and time horizons that necessitate a balance between rules and principles. We also noted to the SEC that we believe disclosure of climate-related opportunities are voluntary and therefore may be sparse, and that the SEC should consider including a requirement to make opportunities disclosures mandatory if they are being addressed publicly in other communications of the company.

As it relates to Draft IFRS 2, the above items (e.g., transition risks, physical risks, time horizons, and changes in regulation, etc.) of support or concern should be similarly considered by the ISSB.

Physical and Transition Risk Disclosures – We would note that the detailed language between the two disclosure requirements is fairly different with the SEC's requirements much more prescriptive as it relates to the location of physical risks, the disclosures of which do not exist in Draft IFRS S2. Within Draft IFRS S2 the physical and transition risk disclosures are contained within Cross-Industry Metrics (Paragraph 21(b) and (c)), and the requirements are fairly generic requiring only the amount and percentage of assets or business activities vulnerable to transition or physical risks. The amount is not defined as book value, fair value, or replacement value – likely book value which could be amortized cost or fair value under IFRS. Similarly, the term or

how the amount of business activities to be disclosed is not defined. There appear to be no location disclosures for physical risks. As such, we don't believe there will be comparability globally on these disclosures. We believe the SEC's physical risk disclosures are more useful than the ISSB's proposed disclosures.

Opportunities – The SEC Proposal allows, but does not require, disclosures of climate-related opportunities. The ISSB's requirement in Paragraph 9 does not appear to allow the disclosure of opportunities to be optional (“shall” vs. “may”). This should be clarified as a potential area of difference.

Materiality – As it relates to materiality, we have two key observations described more fully in the **Appendix**. First, the ISSB needs to clarify whether “significant” or “material” climate-related risks are required to be disclosed. Second, we note the SEC's, but not the ISSB's requirement to disclose how it determined which climate-related risks were material. We believe this is something that needs to be included in Draft IFRS S2 as well as in Draft IFRS S1 given the challenge in making materiality assessments as we discuss in our [comment letter to Draft IFRS S1](#).

Industry-Based – We are very supportive of the requirement in Paragraph 10 to refer to the industry-based disclosure requirements in Appendix B to Draft IFRS S2 as we note in the *Industry-Based Standards: Essential to Investor Support* section above.

Definitions – In Question #6 we highlight the importance of the definitions used for climate disclosures and their impact on the disclosure of financial effects between disclosures inside and outside the financial statements.

Impact on Strategy, Business Model, Outlook, Transition Plans and Carbon Offsets (Questions #4, 5 and 7)

Challenging Comparison – Determining how to respond to Question #4 on Value Chain (Paragraph 12), Question #5 on Transition Plans (Paragraph 13(a)) and Carbon Offsets (Paragraph 13(b)), Question #6 on Current and Anticipated Effects (Paragraph 14)) and Question #7 on Climate Resilience (Paragraph 15) was challenging when doing it as a comparison to the SEC's Proposed Rule. See comparison in **Appendix**.

These paragraphs and the related questions are all within the Strategy section of Draft IFRS S2 but not necessarily within that same categorization within the SEC's Proposed Rule 17 CFR §229.1502 on Strategy, Business Model and Outlook. These disclosures, more than any others, showed the challenge of achieving a global baseline for investors.

What we noted was that the ISSB's disclosures on the effects or impacts of climate-related risks and opportunities in Paragraphs 12 and 13 are weak, as the focus in those paragraphs – as evidenced by the focus of Questions #4 and #5 – is on the value chain and transition plans whereas the most comparable section in the SEC's Proposed Rule is 17 CFR §229.1502(b) and it focuses on impacts and effects of climate-related risks. Further confusing the issue is that transition plans and carbon offsets are not included in the SEC's Proposed Rule 17 CFR §229.1502 on Strategy, Business Model and Outlook. They are addressed, respectively, in Risk

Management in the SEC’s Proposed Rule at 17 CFR §229.1503(c) and Targets and Goals in the SEC’s Proposed Rule 17 CFR §229.1506.

Effects on Strategy & Business Model – The ISSB does not query the sufficiency of the disclosure requirements on the effects on strategy and decision-making in Paragraphs 12 and 13. We found the disclosures on the effects or impacts of climate-related risks and opportunities in Paragraphs 12 and 13 are weaker than what is required under SEC’s Proposed Rule 17 CFR §229.1502(b) & (c). The ISSB’s disclosures are more focused on transition plans (change and adaptation) than allowing investors to first understand the effects. Investors need to understand the effects and impacts of climate-related risks before they can assess the efficacy of the transition plans. As such, we believe the ISSB needs more definitive guidance on the description of the effects or impacts than what is provided in the lead-in sentence to Paragraphs 12 and 13.

Value Chain (Question #4) –The disclosure requirements related to the effects on the value chain in Paragraph 12 of Draft IFRS S2 are more significant than the single sentence within the SEC SEC’s Proposed Rule (17 CFR §229.1502(b)(1)(iii)). While we understand the importance of value chain disclosures – it is why we support Scope 3 emission disclosures – as we note in our comment to the SEC it may be challenging to obtain the information, particularly as it relates to some of the concentration items noted in Paragraph 12(b). We believe the same to be true for the ISSB’s disclosures. See our response to Question #4 in the **Appendix**.

We also believe these disclosures will require some sort of safe harbor. See our comments related to the ISSB’s need to consider the safe harbor provisions in our response to Question #7 on Climate Resilience.

Transition Plans (Question #5) – Paragraph 13 of Draft IFRS S2 only mentions transition plans in the lead-in sentence in Paragraph 13 whereas the SEC’s Proposed Rule includes an entire section on transition plan disclosures under Risk Management subsection 17 CFR §229.1503(c).

As we note above, we do not believe the lead-in to Paragraph 13, or Paragraph 12, are sufficient in their requirement to disclose the effects or impacts of sustainability-related risks and opportunities on the entity more broadly. We note this as an issue more broadly in our [comment letter on Draft IFRS S1](#) related to Question #4 therein on Core Content.

From the questions posed within Question #5, it is our understanding that Draft IFRS S2 Paragraph 13(a) relates to transition planning. However, we note it lacks the specificity of transition plan requirements that the SEC Proposed Rule under Risk Management subsection 17 CFR §229.1503(c), particularly as it relates to physical and transition risks and the impacts of laws and regulations. In our view, the SEC’s Proposed Rule appears to have more useful disclosures related to transition planning than those in Paragraph 13(a) of Draft IFRS S2. We believe the ISSB needs to set forth more specific transition plan disclosures separate and apart from the description of the effects of climate related-risks and opportunities as it appears the SEC has done in separating the disclosures in the Strategy and Risk Management sections.

Overall, we believe from reviewing this important comparison of climate-related effects and transition plans that a global baseline is not emerging.

Carbon Offsets (Question #5) – Question #5 also addresses carbon offsets as they are considered part of the transition planning in Paragraph 13(b). In the SEC’s Proposed Rule these disclosures are included within Targets and Goals in 17 CFR 229.1506(d). Draft IFRS S2 Paragraph 13(b) – when compared to the SEC’s Proposed Rule on carbon offsets 17 CFR §229.1506(d) – appears as though it will yield more specific disclosures on carbon offsets than the SEC’s Proposed Rule. As such, we support.

Carbon offset disclosure requirements are included within Paragraph 13(b)(iii) of Draft IFRS S2 which is about targets while there is also a separate section on targets in Paragraph 23 of Draft IFRS S2. See Question #10. The SEC’s Proposed Rule includes its carbon offset disclosures within 17 CFR §229.1506(d) on Targets and Goals. We have done our best to provide a side-by-side comparison of the requirements in the **Appendix**, but this is an area where the ISSB needs to work to create greater consistency of disclosure requirements. We believe the ISSB’s Draft IFRS S2 may present more detailed information.

It would also be helpful to include the offsets discussion within Paragraphs 23 of Draft IFRS S2 so that there are not two discussions of targets – one in Paragraph 13(b) and another in Paragraph 23. It would also make comparison easier between the ISSB Draft IFRS S2 and the SEC’s Proposed Rule.

As with transition plans, a global baseline does not appear to emerge from this comparison or carbon offset disclosures.

Climate Resilience/Scenario Analysis (Question #7) – In our response to Question #7 in the **Appendix**, we articulate our views on the SEC’s Proposed Rule requirements in 17 CFR §229.1502(f) related to scenario analysis. As it relates to the ISSB specific disclosures in Paragraph 15 of Draft IFRS S2 we note the following:

- No Requirement for Scenario Analysis – As with the SEC, there is no requirement to perform scenario analysis, but the language suggests greater expectation there will be one done and if one is not done, disclosures on alternative methods and techniques are required, which we support.
- ISSB Scenario Analysis Disclosure Requirements Are More Comprehensive than SEC’s – The ISSB disclosure requirements related to scenario analysis are more comprehensive regarding the inputs and estimates used in and the results of the scenario analysis than are the SEC’s and we are supportive of these more detailed disclosures.
- Disclosures Required When Scenario Analysis is Not Completed – There are specific disclosure requirements if scenario analysis is not completed including explaining why it could not be completed – not simply allowing scenario analysis to be bypassed because it is not used. We support the ISSB over the SEC’s disclosures in this regard.
- Safe Harbor – The ISSB does not have the authority to issue a safe harbor related to these scenario analysis disclosures. This safe harbor from securities regulators is, however, something that we believe will be essential before companies will make this disclosure. The ISSB needs to address how a company will be able to issue a Statement of Compliance as required if Draft IFRS S1, Paragraphs 91-92, if no safe harbor relief is provided.

Effects on Financial Position, Financial Performance and Cash Flows (Question #6)

In the *Financial Statement Disclosures: A Missing Anchor to IFRS S2*

(*Without Financial Statement Disclosures, Investors Will Never Be Able to Evaluate the Efficacy of the IFRS S2 Disclosures*) section above, we articulate our views on the difference in quality of the disclosure requirements in Paragraph 14 as compared to the disclosures within financial statements under the SEC's Proposed Rule Article 14 of Regulation S-X. In Question #6 in the **Appendix**, we provide more detailed views.

Disclose Quantitative Effects, Unless Unable to Do So – Broadly, we are concerned by the provision in Draft IFRS S2 that requires disclosure of quantitative effects... *unless a company is unable to do so*. We believe this will result in no quantitative disclosures even if the disclosure of ranges, which we support, is allowed.

Disclose Financial Effects on Financial Performance, Financial Position & Cash Flows – Recently Reported Effects – Further, as we read the language of Paragraph 14 and 14(a), it is not precisely clear what disclosures will manifest from this disclosure requirement – even if quantitative – and how they will be reported and connectable to the financial statements. Without more specific guidance we doubt these disclosures will be effective for a plethora of reasons – many of which are noted above – but maybe most importantly because the terms and definitions used in the ISSB disclosures likely do not exist in IFRS like they do not exist in US GAAP, a topic we touch on above. Without greater guidance, we do not believe this disclosure will amount to anything more than a qualitative intangible discussion.

Anticipated Effects by Time Horizons – Paragraph 14 also requires disclosure of anticipated effects over the short, medium, and long term. While we agree with the spirit of these proposed disclosures, we worry that these are likely mostly qualitative, and that because of that, time horizons may not be particularly meaningful.

Material Adjustments by Time Horizon – We are supportive of the requirement to disclose material adjustments to assets if they are expected within the next year as it seems in line with our commentary to the SEC that we would like quantitative information on changes in estimates and assumptions. What is not clear is whether this Draft IFRS S2 disclosure will be quantitative.

Disclosure of Cash Flow Effects is Missing – Finally, we observe in our review of Paragraph 14 that it requires disclosure of effects on financial position (balance sheet), financial performance (income statement) and cash flows (statement of cash flows). However, when we review Paragraph 14(c) and 14(d), we note they relate to financial position and performance, respectively, but that there is no disclosure requirement to explain how cash flows will change over time. This is a significant missing element in our view as what investors ultimately need is the change in anticipated cash flows over time. How financial position and performance change over time is dependent upon cash flows, not vice versa. This is an area of improvement that is needed in Draft IFRS S2.

We address this issue more substantially in our [comment letter to Draft IFRS S1](#) in the *Conceptual Framework Considerations* subsection within the *Summary Considerations from Responses To Specific Questions* section.

Risk Management (Question #8)

We note in our response to Question #8 on Risk Management disclosures (Paragraph 17) in the **Appendix** that we supported the SEC’s proposed risk management disclosures (17 CFR §229.1503) noting we would embrace such disclosures for other risks. That said, we highlight that we were concerned they might be highly qualitative without sufficient regulatory enforcement. The same is true for the ISSB disclosures, unfortunately enforcement is outside of their remit.

Materiality – We also lauded the SEC for their rule (17 CFR §229.1503(d)) which would require management to describe how they determined the materiality of climate-related risks. This is a unique requirement in the US as management in other disclosures need not explain how they determined a risk is material, they simply need include it. A similar requirement does not exist in Draft IFRS S2. We think this is an enhancement the ISSB should consider.

Differing Language will Result in Differing Disclosures (e.g., Regulatory Requirements) – In our response to Question #8, we put the two disclosure requirements side-by-side and parsed them by identification, management, and integration of risks. While we could make that rough comparison, the specific language is not the same. It is challenging to assess whether they will produce similar results. For example, the SEC requires disclosure of existing or likely regulatory requirements or policies, and how they might change, but there is no such language in Paragraph 17 of Draft IFRS S2. This is a very important, but missing, disclosure in the ISSB standard. We think closer harmonization of the language is necessary. We would also note that throughout the SEC disclosures there seems to be more of a focus on the separation and disclosure of physical versus transition risks which we believe is necessary to add to Draft IFRS S2.

Integrated Risk Disclosures – See our comments regarding integrated risk disclosures (Draft IFRS S2 Paragraph 18) in the *Location and Content Considerations* subsection within the *Summary Considerations from Responses To Specific Questions* section in our [comment letter on Draft IFRS S1](#).

Cross-Industry Metrics & Greenhouse Gas Emissions (Question #9)

We provide more detail in our response to Question #9 in the **Appendix**. Below is a summary of our views.

Sufficiency of Cross-Industry Metrics:

Consideration of the Metrics Relative to Appropriate Disclosure Sections

We analyzed the cross-industry metrics, other than GHG emissions, in the context of the disclosures to which they relate. We did this in order to understand whether the metrics added quantitative context to those mostly qualitative disclosures and to make comparisons to the SEC’s Proposed Rule. Only with this context can sufficiency be assessed. From that exercise we would note that we believe the cross-industry metrics need to be embedded into the sections to which they relate (or at least cross referenced) to contextualize the metrics more effectively.

For example:

- Physical and transition risks (Paragraphs 21(b)&(c)) and opportunities (Paragraph 21(d)) should be addressed in the Climate-Related Risks and Opportunities section. We address those in Question #3, noting they lack a degree of specificity to make them meaningful.
- Capital deployment (Paragraph 21(e)) and internal carbon pricing (Paragraph 21(f)) should be considered within the Strategy, Business Model, Decision-making, and Transition Plans section. We address capital deployment disclosures in Questions #5 and #6 noting the requirement lacks a degree of specificity to ensure meaningful information arises from the disclosure.
- As it relates to the disclosure of internal carbon price in Paragraph 21(f) of Draft IFRS S2 we note that the SEC's Proposed Rule only requires a disclosure to be made if a registrant maintains one, but it does not appear the ISSB has made the disclosure conditional upon maintaining an internal carbon price as does the SEC in 17 CFR §229.1503(e)(1). The question for the ISSB is whether there is a disclosure required for internal carbon price if one is not maintained or if one is to be developed to meet the disclosure requirement. The SEC disclosure requirements, if a carbon price is maintained, appear more detailed than Draft IFRS S2 requirements.
- Remuneration (Paragraph 21(g)) should be considered within governance disclosures. We note in our response to Question #2 that we support the ISSB's specific disclosure on this point.

As it relates to the language in Paragraph 22, see our [comment letter on Draft IFRS S1](#). Specifically, as it relates to Paragraph 22(a) in Draft IFRS S2, see comments related to scope as addressed in our response to Questions #1-3 in Draft IFRS S1 and in the *Conceptual Framework Considerations* subsection within the *Summary Considerations from Responses to Specific Questions* section. As it relates to Paragraph 22(b) in Draft IFRS S2, the paragraphs referenced there relate to the reporting entity response in Question #5 in Draft IFRS S1 but also to financial effects and interconnected reporting in the *Conceptual Framework Considerations* as well as the *Location and Content Considerations* subsections within the *Summary Considerations from Responses to Specific Questions* section.

Greenhouse Gas Emissions

In our response to Question #9 in the **Appendix** we provide an extract from Pages 19 and 20 of [CFA Institute's SEC Climate Comment Letter](#). The extract is a summary of our position on GHG emissions in the SEC's Proposed Rule at 17 CFR §229.1504. We will not reiterate that here. Please refer to the **Appendix**. Broadly, we support disclosures of GHG emissions for all scopes, including Scope 3, noting that our support for Scope 3 is due to the fact these emissions may be the most material. That said, we – uncharacteristically – support staggered adoption by size of company and by type of industry. We also note our desire for Scope 3 emissions to be expressed as a range so as to highlight the degree of measurement uncertainty. We also support the SEC's proposed safe harbor – relief we acknowledge the ISSB does not have the authority to provide, but something that will be necessary jurisdictionally for the disclosures to be made. See our comments related to this issue and scenario analysis at Question #7.

We provide in the **Appendix** a side-by-side comparison of the GHG emission requirements in Draft IFRS S2 Paragraph 21(a) and section 17 CFR §229.1504 of the SEC's Proposed Rule.

From there we considered the differences which we provide views on below. Our principal concern is that the disclosures are still not sufficiently similar to declare a global baseline exists.

Observations on the ISSB's disclosure requirements versus the SEC's are as follows:

- *Use of GHG Protocol* – The ISSB directly references the Greenhouse Gas Protocol Corporate Standard in Paragraph 21(a)(i) of Draft IFRS S2. The SEC did not, which we discussed in the Overarching Considerations section in [CFA Institute's SEC Climate Comment Letter](#) (Page 33-36). Rather than cross reference, as they likely don't have the authority to do so, the SEC included section 17 CFR 229.1504(e) on methodology and related instructions on the preparation of GHG emission disclosures, which it indicates is drawn from the aforementioned GHG Protocol Corporate Standard. As such, there is no need for instructions similar to that SEC section in the ISSB's rule. We touch on this issue in the body of this letter in the *Overarching Considerations* section. We also address the use of other standard setters in the *Conceptual Framework Considerations* subsection within the *Summary Considerations from Responses To Specific Questions* section in our [comment letter on Draft IFRS S1](#). There we note the challenge of ceding standard setting to another body on this possibly most significant metric and the challenges that emerge from such an approach. We suggest the ISSB review our detailed commentary in both the SEC Climate Comment Letter on this issue and in the comment letter on Draft IFRS S1. The additional challenge presented in comparing the ISSB and SEC approaches is that this may produce different results over time between the SEC and those following the ISSB's rules particularly when the GHG Protocol is updated but the SEC rule is not. This is a good example of a key difference in the global baseline.
- *GHG Types/Definitions and CO2 Equivalent* – We note in our comment letter to the SEC that we support the GHG definitions and the CO2 equivalent. We note in Draft IFRS S2 that there is no requirement to disclose the emissions by type of GHG as there is in the SEC. See disaggregation comment which follows.
- *Absolute Emissions* – We note Draft IFRS S2 states the GHG disclosure must be made on an absolute basis in Paragraph 21(a)(i). The SEC's rule does not use this term. It is not clear whether this will result in a difference. There is no definition of "absolute" in the context of emissions, we can only assume it is not those based upon intensity given the use of both terms in Questions #9 and #11 (which would not be part of a final standard) and the comparison of absolute and intensity targets in Paragraph 23. This may need to be clearer in the final IFRS S2.
- *Net of Offsets* – The SEC Proposed Rule notes disclosures should not be made net of offsets. We note gross disclosures are to be made per Paragraph 21(a)(1) Draft IFRS S2. We would like it to be explicitly stated that netting of carbon offsets is not permitted, because "gross" does not explain "gross" of what.
- *GHG Intensity Metrics* – We note that Draft IFRS S2 requires intensity metrics by scope whereas the SEC Proposed Rule states the intensity metric should be the sum of Scope 1 and 2 emissions together and then separate disclosure of Scope 3 intensity metrics if Scope 3 emissions are deemed material. We support separate intensity metrics as in Draft IFRS S2. We note the intensity metric disclosure language differs as to the denominator with Draft IFRS S2 indicating "*per unit of physical or economic output*" and the SEC's Proposed Rule requiring "*per unit of revenue and per unit of production*". The SEC also addresses what to do if there is no revenue and allows the disclosure of other measures of GHG intensity which

Draft IFRS S2 does not appear to articulate. Overall, the SEC's Proposed Rule seems more specific. We are concerned that the end result will be different intensity metrics.

- *Organizational Boundaries & Operational Boundaries* – As we noted in our comment letter to the SEC, we support the disclosure of GHG emissions consistent with the consolidated financial statements to which they will likely accompany. We note the use of the term operational boundaries within the SEC's Proposed Rule, which is not used in Draft IFRS S2. We asked the SEC to clarify the overlap or interconnection of the two definitions (organizational vs. operational boundaries) noting that the operational boundary definition is not clear. We are not clear whether this will produce a difference in disclosures internationally and in the US.
- *Associates, Joint Ventures, Unconsolidated Subsidiaries & Affiliates* – As we noted in our comment letter to the SEC, we supported separate disclosures of the GHG emissions for these entities – much like what has been proposed in Paragraph 21(a)(iii)(2) of Draft IFRS S2. It is not clear to us whether this would include equity method investments. See also our comments related to this issue in our [comment letter on Draft IFRS S1](#) where we note in our response to Question #5 related to reporting entity that Draft IFRS S1 appears to allow a different approach by type of risk.
- *Disaggregation of Scope 1, 2 and 3 Emissions* – We note in our comment letter response to the SEC that we are very supportive of disaggregation by scope for all scopes and by type of GHG within scope, location, geography, segment and upstream and downstream category and we noted would prefer disclosures to be displayed visually so we can quickly observe the source and location of the GHG emissions. As we read Draft IFRS S2, we note that the disaggregation criteria do not appear as specific as required by the SEC, or certainly by the disclosure categories we support. We emphasize the importance of and need for disaggregation and specifically geographically such that investors can connect the GHG emission location to the emerging regulations by jurisdiction.
- *Scope 1 and 2 Emissions* – The SEC requires disclosure of Scope 1 and Scope 2 emissions irrespective of materiality. From our review of Draft IFRS S1, we presume a materiality threshold will be applied for Scope 1 and Scope 2, as well as Scope 3 emissions. In our discussion of Scope 3 materiality determinations as it relates to the SEC's Proposed Rule (See Pages 37-42 of [CFA Institute's SEC Climate Comment Letter](#)) we emphasized the challenge in connecting this non-financial metric to a materiality determination based upon enterprise value without a cost of reducing the emissions being disclosed. This same issue will exist for Scope 1 and Scope 2 emission disclosures under this ISSB standard given they, unlike the SEC, will require materiality determinations. We note that this materiality call for Scope 1 and Scope 2 will likely result in differences between the US and international rules that challenge the notion of a global baseline.
- *Scope 3 Emission Disclosures*
 - *Materiality* – The SEC does not require disclosure of Scope 3 emissions unless they are material. As we note in the preceding paragraph, we address our views on the challenge with this approach in the SEC Climate Comment Letter noting that using a percentage of total emissions approach would likely lead to all companies needing to make the disclosure. As we note above, how that financial materiality decision will be made with a non-financial metric presents a challenge. We wonder if the materiality conclusions will be consistent between those following ISSB versus SEC guidance.

- Safe Harbor – We note our support for Scope 3 emissions in our letter to the SEC, but highlight the importance of the safe harbor provisions to be afforded by the SEC. We worry that without such safe harbors – which the ISSB does not have the authority to provide – these disclosures will not be made consistently in various jurisdictions. See our comment regarding the importance of these safe harbors in our response to Question #7 on Climate Resilience and Question #4 on Value Chain disclosures.
- Ranges – Draft IFRS S2 does not address disclosing Scope 3 emissions as a range. This was a question queried by the SEC. We noted that we would prefer Scope 3 emission disclosures be expressed as a range to highlight the estimation uncertainty.
- Staggered Adoption – We also noted in our letter to the SEC that we would support staggered adoption of Scope 3 emission disclosures starting with the largest companies and those industries who are the largest emitters. We think the ISSB may need to consider this as well.
- Size of Entity – We note that the SEC has exempted small reporting entities, but the ISSB has not. While this may be the purview of the regulator by jurisdiction, it will likely result in different results globally.
- Private Company & Global Impact – As we note to the SEC, the impact of requiring disclosure of Scope 3 emissions will create for all companies globally who do business with a company subject to Draft IFRS S2 the requirement to provide Scope 1 and Scope 2 emission disclosures.
- Data Sources – We note the SEC’s Proposed Rule requires disclosures regarding the sources of data for Scope 3. This language does not appear to be included in Draft IFRS S2. We think it should be.

Overall – Our comparison and analysis of the GHG emission disclosures would suggest that there is more work to do to make the disclosure requirements – and ultimately the disclosures that will emerge from them – more consistent.

Targets (Question #10)

As we note in our response to Question #10 in the **Appendix**, we strongly supported the SEC's proposed targets and goals disclosure (17 CFR §229.1506). Broadly, we supported the requirement to disclose with essentially no materiality threshold such commitments, targets, and goals and with a safe harbor provision.

Focusing Effect & Materiality – Similar to our views expressed to the SEC, our view is that commitments, targets, and goals have an incredibly focusing effect for the company and investors and they provide an end objective and the ability to focus the discussion on a transition plan that helps better assess the impact on enterprise value. The SEC's Proposed Rule required disclosures of all commitments, targets, and goals, irrespective of materiality. Within Draft IFRS S2 Paragraph 15, there is no explicit reference to this effect. As such, we would assume materiality would be applied. This will likely result in a difference between US and international standards with greater disclosure of such targets and goals in the US.

Similarity of Disclosures – While the disclosures are similar it would be helpful if they lined up precisely to ensure items, for example, progress on targets is consistently communicated. Again, a potential area of difference.

Carbon Offsets & Transition Plan – Given the linkage between targets and goals and carbon offsets and transition plans, see our response to Question #5 above.

Comparison to Targets in Latest International Agreement on Climate Change – The second part of the requirement which states the disclosure should include...*information about how the entity's targets compare with those prescribed in the latest international agreement on climate change...*, as well as a notion that the last agreement is that of the 2016 Paris Agreement, appears to be a bridge too far as it is forcing this to be the benchmark against which all targets are to be measured when not all countries have signed on to this agreement. Further, this may change over time and countries may or may not agree to sign on to future international agreements on climate change.

This appears to be more than a “baseline” standard but a “best practice” standard. It is also not something included in the SEC's Proposed Rule indicating that the ISSB is not necessarily the baseline, but just a different standard.

Still further, we believe targets and goals relative to regulatory requirements by country/geography are more relevant as these are the ones companies will have to address and expend costs to transition toward most immediately.

Industry-Based Requirements (Question #11)

Our full response to Question #11 is in the **Appendix**.

Industry-Based Standards – See our comments relative to the importance of industry-based requirements as set forth above in the section *Industry-Based Standards: Essential for Investor Support*. ***It is important to note, our support for the ISSB and IFRS Sustainability Disclosure Standards is conditioned on the ISSB’s integration of the industry-based nature of the SASB standards.***

Modification to Internationalize SASB Standards – As a matter of principle, we support changes which will internationalize the SASB standards, but we do not have an exact comparison to be able to assess the changes in detail.

Financing or Facilitated Emissions – Time has not allowed us to make a complete consideration of the proposed changes relative to existing SASB Standards to address the measurement and disclosure of financed or facilitated emissions in the financial sector.

We understand that Draft IFRS S2 proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance, and asset management and that the proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. ***Given these financial entities have advocated heavily for climate-related disclosures, we believe it is essential they provide such emission disclosures including Scope 3 emissions.***

We also understand the proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments). We note the SEC’s Proposed Rule discusses¹³ (in the discussion section but does not include in the actual rule) the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry when discussing methodologies relative to the financial industry. We have not had time to compare the details of both. Our central question, is will differences result between ISSB and SEC standards because of the differences in methodology? We would support disclosure of absolute and intensity metrics irrespective of the standard used and we would always support description of the methodology for measuring the emissions and developing the intensity metrics.

Cost Benefits (Question #12)

As we note in our response to Question #12 in the **Appendix**, as investors we have experienced the situation where preparers’ direct costs of implementing the disclosures are always more directly and heavily weighted, and many times overstated by preparers, than the indirect costs to investors of not providing such information. Further, the benefits of the additional information on investment decision-making are also never really captured by standard setters. We believe the ISSB should be mindful of these traditional standard-setting cost vs. benefit traps as they consider this proposal. We believe when completing the cost-benefit analysis, the ISSB should be mindful of the following:

¹³ See Pages 54, 57, 58, 95, 109, 115 where the PCAF is mentioned in the SEC’s Proposed Rule.

- The lack of consistency and comparability of disclosures, the lack of industry-based metrics and the poor linkage of the disclosures to financial statements will impact the decision-making benefits to be derived by investors.
- The qualitative rather than the quantitative nature of disclosures within the standard will reduce their efficacy thereby reducing the benefit of the disclosures to investors.
- The use of third-party standards such as the GHG Protocol will bring with it challenges that will reduce the benefit and likely increase the cost of applying this standard.
- The efficacy (and benefit to investors) of the ISSB standards will be more heavily dependent upon the endorsement, adoption, and enforcement by local jurisdictions than for standards developed by the IASB.
- Post-implementation review of the ISSB's first few standards is needed to ensure they are effectively implemented and decision-useful to investors.
- The ISSB needs to plan to prepare an effects analysis in the future to ascertain if their standards actually assist in reducing the related sustainability risk, in this case the reduction over time of GHG emissions. Only then can the efficacy of the ISSB's standards and its mandate be assessed.

Each of these should be considered by the ISSB both now and in the future and are described in more detail in the **Appendix** to the letter.

Our response to this same question (Question #16) in [our comment letter response to Draft IFRS S1](#) should be read in connection with this response as we provide an even more comprehensive list of considerations therein.

Verifiability & Enforceability (Question #13)

As we note in our response to Question #13 in the **Appendix**, we considered the concepts of verifiability and enforceability as follows:

- ***Verifiability***
 - *Should Not Deter the Provision of Relevant Information: Investors Are Willing to Trade Reliability for Relevance* – In the *Overarching Considerations* section above, we emphasize that we have seen the pursuit of verifiability (or assurance) deter the provision of relevant information for investment decision-making (e.g., standard setter and company support of amortized cost versus investors desire for fair value). And that while investors believe reliability is important, it is not as important to investors as it is to company management – and certainly auditors. Investors are willing to trade perfectly reliable information for relevant information. With that in mind, we consider the verifiability of the Draft IFRS S2 disclosure requirements.
 - *The Verifiability of Disclosures* – Verifiability, or the ability to verify the information, is dependent upon the precision of the disclosure requirements within Draft IFRS S2 and the underlying characteristics of the specific disclosures. In the **Appendix** we highlight that the qualitative and forward-looking nature of the disclosures (i.e., which may require safe harbor provisions) and the lack of specificity, may impair the integrity of quantitative disclosures and are factors that will likely make verifiability challenging. We note that while scenario analysis will likely not be verified because auditors view such disclosures as too uncertain/unreliable, the industry metrics are more verifiable but may not be as verifiable as auditors prefer.

- ISSB Doesn't Control Key Elements of Verifiability – We note, however, that key elements of verification are not within the ISSB's remit including the degree of verification, the provider of verification services and the professional and reporting standards verifiers must follow. We also highlight in the **Appendix** our commentary to the SEC regarding investor preferences as to what should be verified and by whom.
- **Enforceability** – With the above said about verifiability, the real challenge for investors when it comes to standards promulgated by the ISSB versus those mandated by the SEC is that the SEC has enforcement authority and the ISSB does not.

Enforceability will be a key ingredient in ensuring the quality of compliance with the ISSB's climate-related standards – particularly those related to the disclosures around risks, their management and governance, and the impact on strategy and the business model as they will likely be highly qualitative and may lack company specificity. Further, they likely won't be verified for the reasons noted above.

Many investors, however, do not appreciate this verification versus enforcement distinction, the importance of enforcement, and the fact that enforcement is uneven across jurisdictions. This is true when it comes to financial statements of publicly listed companies globally and will be even more true for sustainability disclosures. This is the case because there will be more information that is outside of the financial statements where enforcement will likely be even less stringent, where the information is not verified by auditors, where a securities regulator may or may not have enforcement authority, and where enforcement may be even more uneven given lack of authority or lack of knowledge.

As such, the efficacy of the ISSB standards related to sustainability, more so than IASB financial reporting standards, will be more reliant on effective enforcement.

Effective Date (Question #14)

As we note in our response to Question #14 in the **Appendix**:

- Retrospective vs. Prospective Approach on IFRS S2 Climate-Related Disclosures – We are traditionally supportive of a retrospective approach in making disclosures, but because we believe most of the information is value-relevant in the future, we – uncharacteristically – are willing to support a prospective approach building comparative periods on a go forward basis for climate-related disclosures.
- Consistency of Effective Dates Between IFRS S1 and IFRS S2 – We believe that the effective dates between IFRS S1 and S2 need to be consistent.
- Period Between Issuance of Final Standard and Adoption – We generally support rapid adoption of standards for all types of companies without staggering adoption dates and without size exceptions. In our response to the SEC, we took – uncharacteristically – a more layered and staggered approach noting in the comment letter that we believe the effective dates were a bit optimistic. We believe one year should be sufficient for certain disclosures while other disclosures may need to be implemented later. As it relates to the requirements in Draft IFRS S2, we believe all disclosures related to the description of risks and opportunities, governance, risk management and effects (possibly other than financial

effects) along with Scope 1 and Scope 2 emissions could be made in the first full fiscal year following the release of the final standard as many of the largest companies will already have this information. As it relates to Scope 3 emissions, we believe a further delay is appropriate as well as for industry metrics.

In the **Appendix** we include a table from our commentary to the SEC that gives an illustration of the staggering we believe would be appropriate for the largest companies. We would not oppose a similar staggering of disclosures within the ISSB standards.

Digital Reporting (Question #15)

Overall, investors need to be able to consume these disclosures in a digital form and trace data to source to help overcome issues associated with trust, reliability and comparability that exists in many of the surveys and alternative data sources that populate ratings and ESG data available today.

We note in our commentary to the SEC that investors want all disclosures tagged using Inline XBRL and that while we generally don't support custom tags there is some capacity for that given the evolving nature of the disclosures.

That said, concerns exist with different taxonomy's developing in different markets. The ISSB has a vital role to play in reaching agreement with, in particular, US and EU standards-setters to facilitate digital comparison. We urge the ISSB to work constructively and collaboratively with these peers to help ensure that global markets can quickly rely on these digital disclosures.

Global Baseline (Question #16)

See comments in the section above *The Baseline Remains a Bit Elusive: Theory May Have Not Yet Met Practice Major Markets Are Developing Different Standards Simultaneously*.

Other Comments (Question #17)

See comments above in the *Overarching Considerations* and the *Highlights of Our Responses to the Specific Questions in the Appendix* sections.

Thank you for your consideration of our views and perspectives. We welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact me by email at sandra.peters@cfainstitute.org or by phone at +1.347.413.0774.

Sincerely,



Sandra J. Peters, CPA, CFA
Senior Head, Global Financial Reporting Policy Advocacy
CFA Institute

cc:

Paul Andrews, Managing Director, Research, Advocacy and Standards

Sue Lloyd, Vice Chair, International Sustainability Standards Board
Andreas Barckow, Chair, International Accounting Standards Board

Gary Gensler, Chair, US Securities and Exchange Commission
Caroline A. Crenshaw, Commissioner, US Securities and Exchange Commission
Jaime Lizárraga, Commissioner, US Securities and Exchange Commission
Hester M. Pierce, Commissioner, US Securities and Exchange Commission
Mark T. Uyeda, Commissioner, US Securities and Exchange Commission
Paul Munter, Acting Chief Accountant, Securities and Exchange Commission
Renee Jones, Director, Division of Corporation Finance, Securities and Exchange Commission

Jean-Paul Gauzes, Acting EFRAG Sustainability Reporting Board Chair, EFRAG President

Martin Moloney, Secretary General, International Organization of Securities Commissions

RESPONSE TO SPECIFIC QUESTIONS

This [Appendix](#) is an integral part of [our comment letter](#) to the International Sustainability Standards Board's (ISSB's) Draft IFRS S2 Exposure Draft. The chart below is an inventory of the specific questions in the [ISSB's Draft IFRS S2 Exposure Draft](#). See the detailed question responses at: [https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/ISSB IFRS S2 Climate Letter 2022_07_28_22appendix](https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/ISSB%20IFRS%20Climate%20Letter%202022_07_28_22appendix)

The objective of the chart is to connect the questions to paragraphs within Draft IFRS S2 and then to provide a quick reference to the applicable section within the SEC Proposed Rule, should a reader want to identify where our views are expressed in [CFA Institute's SEC Climate Comment Letter](#). Our responses are structured as a comparison between the SEC and ISSB's proposal as we seek to advance the notion of a global baseline by highlighting the differences. We note that several questions (Questions #12-17) do not relate to a specific paragraph within the Draft IFRS S2, but relate to implementation, effective date, cost benefit issues and objectives of the standard. As noted in the body of the letter, we have also prepared:

- A [comparison of climate-related disclosure requirements](#) proposed in the [ISSB's Draft IFRS S2 Exposure Draft](#) (Paragraphs 1-24) and the [SEC's Proposed Rule](#) (Section VIII, Statutory Authority), and
- A [comparison between the climate-related disclosure definitions](#) from Appendix A of the [ISSB's Draft IFRS S2 Exposure Draft](#) and the [SEC's Proposed Rule](#) (Section VIII, Statutory Authority, Item 1500). The table is organized using the ISSB's definitions as the anchoring and ordering point and the SEC's definitions are matched up as best as possible in a side-by-side comparison.

Q#	SUBJECT OF QUESTION	IFRS S2	SEC 17 CFR
1	OBJECTIVE OF THE EXPOSURE DRAFT	¶2 (¶1, 3)	-
2	GOVERNANCE	¶5 (¶4, 6)	§229.1501
3	IDENTIFICATION OF CLIMATE-RELATED RISKS AND OPPORTUNITIES	¶9 (¶7, 8, 10)	§229.1502(a)
4	CONCENTRATIONS OF CLIMATE-RELATED RISKS AND OPPORTUNITIES IN AN ENTITY'S VALUE CHAIN	¶12 (¶11)	§229.1502(b)&(c)
5	TRANSITION PLANS AND CARBON OFFSETS	¶13	§229.1502(b)&(c) §229.1503(c) §229.1506(d)
6	CURRENT AND ANTICIPATED EFFECTS	¶14	§229.1502(d) §210.14-01, §210.14-02
7	CLIMATE RESILIENCE	¶15	§229.1502(f)
8	RISK MANAGEMENT	¶17 (¶16, 18)	§229.1503(a)&(b)
9	CROSS-INDUSTRY METRIC CATEGORIES AND GREENHOUSE GAS EMISSIONS	¶21 (¶19, 20, 22) ¶21(a) ¶21(b),(c)&(d) ¶21(e) ¶21(f) ¶21(g)	§229.1504 §229.1502(a) §229.1502(b)&(c) §229.1502(e) -
10	TARGETS	¶23 (¶24)	§229.1506
11	INDUSTRY-BASED REQUIREMENTS	APPENDIX B	NOT PROPOSED BY SEC
12	COSTS, BENEFITS AND LIKELY EFFECTS	-	-
13	VERIFIABILITY AND ENFORCEABILITY	-	-
14	EFFECTIVE DATE	-	-
15	DIGITAL REPORTING	-	§229.1507
16	GLOBAL BASELINE	-	-
17	OTHER COMMENTS	-	-
	DEFINITIONS	APPENDIX A	§229.1500
	ATTESTATION OF GHG EMISSIONS	OUT OF ISSB AUTHORITY	§229.1505
	FINANCIAL STATEMENT METRICS	NOT PROPOSED BY ISSB OR IASB	§210.14-01, §210.14-02