Comments for the Exposure Draft – July 2022

IFRS® Sustainability Disclosure Standard

IFRS S2 Climate-related Disclosures

Made by the

Montreal Roundtable on Sustainability and Climate Disclosures

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Question 2—Governance

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

Governance can only go far enough – it is almost like a legal structure with no impactful purpose. We must look at stewardship strategy, purpose risk, resilience, and metrics, to get the real impact rather than just targets.

Scenario analysis must be mandatory; it is very important (see question 7).

Question 3—Identification of climate-related risks and opportunities

a. Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

The identification and disclosure requirements for significant climate-related risks and opportunities, time horizon, etc., are clear. However, some specific climate -related concepts are not necessarily well-known among accountants. Some examples are provided and are useful; for example, in 9 (c) classification of risk as physical or transition. As in the example paragraph 9, more examples would be useful such as in paragraphs 11 and 12.

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?

To the extent that there are systemic differences among industries, with respect to climate-related risk or opportunity based on the activities conducted by entities within a particular industry, the proposed requirement to consider the applicability of disclosure topics would be appropriate. Not doing so would be throwing away information.

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

a. Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

While the intent underlying this requirement is logical and consistent with the spirit of the exposure-draft, we do have one reservation. More specifically, the emphasis on qualitative disclosure may result in the publication of "laundry lists" of possible risks and opportunities (more of the former than of the latter we suspect), in a way similar to many MD&A disclosures.

However, while a qualitative description may be sufficient, it could be pertinent to have quantitative data about the repartition of these risks. A focus on critical risks, backed up by some quantitative information would lead to more streamlined and informative disclosure. Moreover, focusing on critical risks would lead management to convey in a more transparent fashion its strategic aims. Scenario or case analysis could complement such disclosure.

Question 5—Transition plans and carbon offsets

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

Yes, we certainly agree. A proposed transition is a major change in, among other things, business model, suppliers, capital expenditure, acquisitions and divestment, and resources in general.

b. Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.

Depending on the region and legislation, some emissions are already covered by a cap-and-trade system (ex. Western Climate Initiative carbon market). These emissions cannot be compared fairly with emissions from regions where there are no mandatory carbon compensation systems. Therefore, emissions that are subject to a cap-and-trade system must be accounted in specific offset categories. This category should also specifically cover the offset credits the company had to purchase, the ones it was allocated "for free", and the carbon offset credit it had sell due to superior performance.

c. Do you think the proposed carbon offset disclosures will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

Yes, but we also need to capture emissions that are covered by regional/national/international greenhouse gas emissions trading programs – general user will be able to appreciate the differences between the cost of voluntary offset vs mandatory offset.

We are certain that the significance of carbon offset disclosures will be well understood by most users, and for those who are not confident about their level of understanding, advice can be easily found, even now.

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?

Yes. See part (c) above.

Question 6—Current and anticipated effects

a. Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

Yes, we agree (although see the additional point below). If the inability is a question of lack of expertise which may be overcome in time, the concession to disclose qualitative information may be withdrawn.

As a general point, we would like to note that quantitative and qualitative disclosures should not be seen as off-setting each other or as alternatives where one is provided in the absence of another. For example, qualitative discussion and commentary may serve to enhance the information value of more numerical types of disclosures. So, in our view, the issue is not about whether or not to use quantitative versus qualitative types of information but how best to combine them in a way which enables the users of such information to make judgements about the nature and impact of climate-related risks facing an entity.

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, we agree.

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?

Yes, we agree. We suggest that an entity follow its industry norms to define the short, medium, and long term, since how the time period is defined has a great impact on the reported results. If the entity's definitions differ from the industry norms due to some unique features, the entity can apply its own definitions with explanations.

Question 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?

In A (iii), there are mentions of financial resources and operational abilities and skills, but there are no mention of existing risk analysis strategies/policies/procedures for establishing operation/acquiring asset. Knowing how the business will use its capacities should be important for users.

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 agree. To allow some flexibility in reporting would encourage a broad scope of entities to adopt the standards.

(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, the company should disclose its reasons for not being able to use scenario analysis. Climate-related scenario analysis seems to be the best method, but it may be too complicated or costly to apply for some entities, especially the small ones with limited resources. Therefore, allowing entities to use other methods but requiring them to disclose the reasons would balance users' information needs and preparers' resource constraints.

(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?

Scenario analysis should not be speculative. It requires judgment to make the right choices so that we are prepared for the future. "What if" scenario analysis enables business to make predictions and forecasts on the stock market, on equities, on revenue and capital cost, on production, and even on carbon emissions. It is not speculative if it is done in a scientific approach, using judgment to make choices for the future. On the climate front, companies can predict and prepare themselves by making capital commitments to ensure their transition to net zero. Scenario analysis is useful for companies in every sector, whether an extractive industry, a financial industry, or technology industry; scenario analysis should be a requirement and it is not speculative.

c. Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

Yes, we agree. We believe that a scenario analysis may play an important role in providing a more dynamic, comprehensive, and forward-looking way for an entity to assess climate-related risks as well as opportunities in terms of potential responses and strategic decision-making.

d. Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

We suggest that some guidance be provided to help an entity choose the most appropriate disclosure technique according to its industry and size.

e. Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

Climate related scenario analysis can become heavy and complex for businesses with multiple (hundreds, if not thousands) assets and locations (ex. Retailers, telecommunications, banking and service companies, etc.). It could be interesting to mention that business shall conduct scenario analysis by class of assets and regional specifications in a manner to be sufficiently prepared and resilient though their operations.

Question 8—Risk management

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

Most climate-related risks and opportunities are similar for entities in the same industry. Hence, we suggest that entities be required to disclose separately industry-wide vs. entity-unique risks and opportunities. However, risks and opportunities can vary by regions or country of operation. If deems necessary, disclosures could add a specific regional parameter to make sure there are regional specific risk and opportunity reporting when applicable.

Beyond industry- and firm-specific risks, there are also economy-wide and systemic risks arising from climate change which most likely lay the foundation of management's own assessment of a firm's climate-related risks. Disclosure of such risk assessments and assumptions is essential to be able to compare firms and industries between themselves.

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

c. Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

As we are in a service economy, scope 3 is what matters the most. Nowadays most firms only use scope one and scope two emissions that are not that material because there are service companies.

This question remains the most important for stakeholders: what do we do with scope 3? While scope 1 and 2 have been well established for a while, scope 3 disclosures remain lacking in reports. Especially in this day and age, with globalization, transportation and unceasing pollution, omitting scope 3 is missing the point of our efforts – it must be included.

GHG Protocol present best practices, but ISO14064 should be preferred for consistent and verifiable application of GHG inventory. Moreover, life cycle analysis, a key stone for scope 3 calculation, heavily rely on ISO14040 standards. Companies should use ISO140xx to conduct their GHG inventory and have them verified professionally, and GHG protocol to define their scope categories and business boundaries.

d. Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?

Separating them can become complex for non-carbon intensive business. A threshold should be applied; when the emissions of a particular GHG account for more than 5% of the total direct emissions (scope 1), it should be reported individually. Otherwise, GHG can be aggregated unless the company decide to present them separately. For example, two transportation companies with similar activities may emit very different level of NOx – NOx is directly related to the age and maintenance of combustion engines. Knowing that one's emit more NOx is a significant indicator of their environmental performance and efforts in curbing GHG emissions.

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, it must be part of it; GHG protocol and ISO standards have been written at a time when there was no cost for emissions nor offset. By using scope 1 and 2 alone, business that rely heavily on delocalisation and subcontractors have an advantage over business that keep control over their supply chain and are vertically integrated. Ex. Fashion and cloth – Nike's scope 1 and 2 = 119Kt, Scope 3 (manufacturing and transportation) = 2 864kt (24x more).

To help businesses, categories of scope 3 should be proposed and materiality should be defined by the financial bound with the business (if we pay for, we account for). Any category of goods or services that account for more than 5% of the total scope 3 emissions should be reported.

Example of main source of scope 3 emissions that should be disclosed:

- Business travel and expenditure (transportation and accommodation)
- Procurement - business operation (including professional services, furniture, electronic and office supply, telecommunication (data, storage, cloud))
- Procurement – business production (input materials and services dedicated to the company's core business/production line)
- Intrinsic Carbon (emission related to the material used during the construction of an immobile asset, such as building, roads, infrastructure)

Question 10—Targets

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

Yes, we agree. It is important for entities to see the connection between their own targets and the global target. To understand how each entity's action is part of the solution to the global crisis would help motivate entities to do the right things.

b. Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

The proposed definition of "latest international agreement on climate change" as stated in BC121 seems to be sufficiently clear. An update would be needed if, as time goes by, the Paris Agreement is replaced by another international agreement.

Question 11—Industry-based requirements

a. Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

In principle, we support this approach to make SASB Standards to improve international applicability [i.e., to improve comparability], but we suspect that such a move would be more difficult than the Board envisages. Such Standards are not in general comparable now because the level of development across companies varies too widely to ensure comparability. Moreover, it is to the benefit of some countries to maintain these different levels of development.

b. Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

We agree with the proposed amendments to improve the international applicability of a subset of industry disclosure requirements.

k. Are there any additional industry-based requirements that address climate- related risks and opportunities that are necessary to enable users of general-purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

About S2 Volume B20 regarding the agricultural industry, the disclosure topic of Soil Management should be added. This topic is essential to assess the enterprise value of entities in the agricultural industry.

How agricultural entities use and conserve soil in their production determines their long-term value. A major UN report found that 52% of agricultural soils are degraded. Scientists have warned that we only have 40-50 years' worth of agricultural soils remaining. This means that in 30-35 years, we will reach a "point of no return" for soil. We need an urgent call to action to ensure soil, the lifeline on this planet, is utilized in a sustainable way.

The Save Soil movement (https://www.consciousplanet.org/), launched by global leader Sadhguru, was presented at the 15th session of the Conference of Parties (COP15) to the United Nations Convention to Combat Desertification (UNCCD). Sadhguru addressed 197 Parties at Cote d'Ivoire with one overarching objective - ensuring a minimum of 3-6% organic content in agricultural soils. Currently, 75% of European soil and 50% of U.S. soil lack adequate organic content.

Therefore, we strongly suggest that the disclosure topic of Soil Management be added with related metrics and measurements to S2 Volume B20.

Question 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?

The cost and benefit analysis should not be analyzed on a short-term period. It needs to be analyzed like any other investment decision, on a long-term period. For example, implementing the internet was a cost before it became profitable; the same reasoning should apply. The costs of implementing should not hinder asking enterprises to calculate their emissions. By having information on the emissions, we believe the market, the customers, and the suppliers will react positively to companies with less emissions. We do not have too much time to succeed.

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

Companies can deal with higher costs on the one hand and lower costs on the other hand. We do not think it should be reduced at the level of cost/benefit for the classical ROI and the shareholders. It represents a security cost (compulsory investment) for our survival.

Question 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?

We think that the effective date of S2 should be earlier than or at least the same as that of S1 due to urgency of climate-related issues.

Question 17—Other comments

We want to highlight the importance of integrating scope 3 emissions and the significance of accounting various offset systems, including the cap-and-trade emissions system.

Scope 3 brings equilibrium between businesses that operate in similar activities but use different business models. As long as businesses do not report their emissions using a lifecycle approach to their product and services, shareholders and stakeholders will not have access to sufficient material information to make decisions that account for climate risks.

Moreover, cap-and-trade emissions systems have already proven their ability to encourage businesses to integrate GHG emissions reduction into their strategies and decisions. However, the broader adoption of these systems has been limited by the risk of inequity and loss of competitiveness toward similar businesses that are not subject to a cap-and-trade system.

Altogether, this IFRS Sustainability Disclosure Standard should aim to provide stakeholders with sufficient information to understand the life cycle of a business GHG value chain. A life cycle approach will not only allow a fair comparison between businesses, but it will also help businesses make choices based on a balance between profitability and GHG emissions.