

July 29, 2022

Comment letter on the ISSB Sustainability Exposure Draft and Climate Exposure Draft

To the Review Team-Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and S2 Climate-related Disclosures:

The International Accreditation Forum (IAF) appreciates this opportunity to respond to the ISSB Sustainability Exposure Draft and Climate Exposure Draft for comment.

IAF is a worldwide association of accreditation bodies and other bodies interested in conformity assessment in the fields of management systems, products, processes, services, personnel, validation and verification and other similar programmes of conformity assessment. Our primary function is to develop a single worldwide program of conformity assessment which reduces risk for businesses and their customers by assuring them that accredited certificates and validation and verification statements may be relied upon. IAF members consist of global accreditation bodies, and association members.

Accreditation of third party GHG attestation providers is required or encouraged across many GHG programs and in many countries. Accreditation is vital to ensure that third party assurance providers meet applicable program requirements. These requirements include the competence of personnel, management of impartiality, and criteria for conducting the assurance process. The assurance process ensures that a statement (attestation) is in accordance with criteria, free of material misstatement, clearly stated, and supported by sufficient and appropriate evidence. The end result should be consistent and comparable and provide intended users with clear information on a company's GHG emissions. IAF maintains a global oversight system that strives to maintain such a level of standard. This is achieved through a Multilateral Recognition Arrangement (the IAF MLA) in which accreditation bodies undergo periodic peer evaluations to ensure that they are meeting the requirements of ISO/IEC 17011, *Conformity assessment – Requirements for accreditation bodies accrediting conformity assessment bodies*.

The ISO 14065 MLA enables the mutual recognition of opinions issued by accredited validation and verification bodies. More than 35 national accreditation bodies operate ISO 14065 accreditation schemes and 29 of these are signatories to the ISO 14065 MLA. Globally, there are over 303 accredited validation and verification bodies working with ISO 14065 and ISO 14064-3.

Please kindly note that questions from IFRS's questions are written in italics.

Comment to questions of S1 proposed rule, IAF would like to address comments to the following questions:

Question 1 – Overall approach

a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

IAF agrees the assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value. The perspective is clear, but IAF recommends a multi-stakeholder and a double-materiality approach.

b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

IAF agrees for IFRS S1 should provide a definition for the meaning of 'significant' in relation to risks, impacts, and opportunities.

c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

IAF recommends SC 1 and SC2 should refer to use the accredited verification and assurance for these documents.

d) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

IAF supports that disclosure requirements cover a forward-looking perspective and a long-term nature. S1 document needs some additional specific guidance about the disclosure of assumptions, forecasts and projections would be helpful as follows:

- a) defining methods to risks and impacts in short, medium and long term
- b) defining methods to link the looking forward information regarding non-financial issues with financial information

Question 2 - Objective

a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

IAF support the proposed objectives of disclosing sustainability related financial information.

However, there are not clear of definitions between Sustainability-related financial disclosures and Sustainability-related financial information in these documents.

Question 3 – Scope

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

IAF support this scope.

Question 4 – Core Content

a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

IAF agrees with the requirement for entities to disclose information about the effects of sustainability-related risks and opportunities on financial position, performance and cash flows. However, some guidance and instructions would be helpful.

Question 5—Reporting entity

a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

IAF recommends that, in the case of groups, sustainability disclosure should be provided both in the consolidated management report and in the parent company separate one. Disclosures on sustainability at the operating segment level (as defined by IFRS 8) is needed.

(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

IAF recognizes the sustainability related risks and opportunities could arise in any point of the value chain. Thus, the reference to the value chain is fair, on IAF's view. Collecting information and disclosing facts which arise out of the company boundaries creates some difficulties; thus, further guidance is needed.

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

IAF agrees with proposed requirements, however, if sustainability disclosures are presented in the management report it should be clear and obvious which are the related financial statements.

Question 6 —Connected information

a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

IAF agrees the connectivity between various sustainability related risks and opportunities and agree with proposed requirements to identify and explain the connections between sustainability- related risks and opportunities and information in general purpose financial reporting including financial statements.

Question 7— Fairly presentation

No comment. Not assessed.

Question 8— Materiality

No comment. Not assessed.

Question 9—Frequency of reporting

No comment. Not assessed.

Question 10— Location of information

No comment. Not assessed.

Question 11— Comparative information, sources of estimation and outcome uncertainty, and errors

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

IAF recommends the entity shall identify metrics it has disclosed that have significant estimation uncertainty and disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties as to reduce the sustainable related risk on the outcome uncertainty and errors. If accredited verification apply for the report, these risks of uncertainty and errors will be able to reduce.

Question 12—Statement of compliance

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

This statement of compliance shall be verified by an ISO/IEC 17029:2019 accredited Certification Body, a to reduce the sustainable related risk and increase the opportunities.

IAF recommends that ISSB recognize or collaborate with existing accreditation frameworks such as ISO/IEC 17029 that require attestation providers for any type of validation and verification in related sustainable discloser information.

Comment to questions of S2 Proposed Rule, IAF would like to address comments to the following questions:

Question 1- Objectives of the Exposure Draft

- (a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?*
- (b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?*
- (c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?*

IAF agrees with the objective that has been established for the Exposure Draft. The rate of disclosures from publicly traded companies overall is still low and the lack of complete reporting by all companies is an indication that the urgency of the climate crisis is not yet fully acknowledged. We believe the information in the exposure draft is important for investors and should be disclosed. We suggest that the text remain as stated as it aligns with decision-useful climate-related information that management and boards of directors should be monitoring.

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?

IAF agrees with the proposed disclosure requirements for governance processes, controls and procedures could apply to SME to large organizations and in a variety of industrial sectors. Top management must be engaged with climate-related information as the proposed requirements make clear.

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?*
- (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?*

IAF agrees with the requirements to identify climate-related risks and opportunities and for the most part (see our answer to Question 13) believes the exposure draft expresses them in clear and verifiable language. Executives and board members who have previously considered the guidance of the Task force on Climate-related Financial Disclosures and other voluntary reporting standards will recognize these requirements and their pertinence to their industry sector.

IAF also agrees with the proposed disclosure requirements for significant climate and climatic related risks and opportunities and strongly agree with

- the differentiation between climatic and climate risks as these can have orders of magnitude difference in their financial costs,
- the defining of short-, medium- and long-term climate and climatic risks as these will depend on the risk and industry, and the tailoring, yet standardization, of disclosures and metrics to industries for comparability and efficiency of reporting.

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

- (a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?*
- (b) 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?*

IAF agrees with the proposed disclosure requirements for significant climate and climatic related risks and opportunities and agree with the use of the concept and definition of value chain rather than life cycle chain as it includes other, often overlooked, expense categories necessary to conduct business. We agree with the use of the term significant rather than material in this context as significant will address the future components of the strategy better than the term material.

Question 5—Transition plans and carbon offsets

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

IAF strongly supports the proposed disclosure requirements for transition plans. Reporting entities need to move beyond the quantification of their emissions to specific plans for reducing them. We believe the S2 standard has adequately specified the nature of disclosures associated with transition planning.

The UN's International Civil Aviation Organization defined principles for carbon offsets that are eligible for use in their Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Voluntary organizations have formed to develop principles and guidelines for assessing the quality and integrity of carbon offsets. We believe the disclosure requirements in this paragraph of S2 will require entities to consider issues associated with carbon offsets and to explain their policies and actions with respect to them.

We have no comment on the balance of costs.

Question 6—Current and anticipated effects

No comment. Not assessed.

Question 7—Climate resilience

No comment. Not assessed.

Question 8—Risk management

No comment. Not assessed.

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

- (a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?*
- (b) Are there any additional cross-industry metric categories related to climate related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.*
- (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?*
- (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))?*
- (e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:*
 - (i) the consolidated entity; and*
 - (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?*
- (e) 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?*

IAF strongly disagrees with the use of the GHG Protocol as a basis of reporting for the following reasons

- The GHG Protocol has been developed as a voluntary reporting standard and as has been proven in many regulatory systems, the transition between voluntary and regulatory is fraught with problems and blind adoption will likely cause problems.
- The GHG Protocol is not policy neutral. The use of Scope 1, 2, and 3 introduce policy. IAF prefers the categorization of what to report be based on entity responsibility, thus aligning with financial reporting.

ISO uses the concepts of direct (for sources and sinks you are responsible for) and indirect (for sources and sinks that are in the value chain but are not responsible for).

- The GHG Protocol does not align well with accounting standards. We have discovered that complex entities (particularly ones with US GAAP and IFRS subsidiaries) struggle with the GHG Protocol's requirements for reporting scope 1 and setting targets.

IAF strongly recommends aligning GHG accounting and reporting with the international financial accounting methodology as much as possible. As a reporting framework, the analogue of a balance sheet works well for GHG reporting

- Assets (Removals and Carbon Financial Instruments)
- Liabilities (Emissions)
- Shareholder Loans (Storage)

ISO 14064-1:2018 recommended reporting formats have been designed to mimic financial reporting and appear like a balance sheet with analogue line-item classification (assets = removals, liabilities = emissions, shareholder equity = storage). In addition, ISO demonstrates how to properly report and disclose carbon financial instruments understanding that they are not necessarily fungible units with the inventory or with themselves (e.g., renewable energy certificate (RECs) measured in kWh and Offsets measured in t CO₂e/a) but affect stakeholders' decisions. The GHG Protocol does not align similarly in structure but rather has a list of reporting categories.

We also recommend aligning the GHG accounting and reporting boundaries with the financial accounting methodology to ensure that metrics chosen are structured appropriately. Thus, assets that appear on the financial balance sheet should be represented as sources/sinks/storage on the GHG balance sheet.

ISO 14064-1:2018 is flexible enough to align with financial reporting requirements; whereas the GHG Protocol, particularly for Scope 3, Category 15 on financial investments is quite prescriptive and may not align with the mandatory financial disclosures. We believe that sound disclosure for GHG accounting will need to align as closely to the financial reporting because many of the indicators that shareholders and stakeholders examine rely on both GHG and financial data. Flexibility is needed to account for the wide variety of organizational structures found in financial reporting.

IAF recommends that categorization of emissions be done on a responsibility basis because entities can only manage what they are responsible for and influence what they are not responsible for. The concept of responsibility has implications on setting targets and assurance as sources and sinks that they do not have responsibility for are difficult to set targets for and usually do not have the same information access as those that an entity is responsible for. This approach also aligns well with entities data management systems and the uncertainty inherent in the quantification and data.

ISO 14064-1:2018 uses the concept of direct and indirect to distinguish between sources/sinks/storage that they are responsible for and those that lie in the value chain. This type of approach would work well for the ISSB Climate Disclosures.

IAF recommends that entities should report scope 1 and scope 2 emissions separately at the consolidated entity level. We also believe that entities should address GHG emissions in the same way that they treat financial reporting for associates, joint ventures, unconsolidated subsidiaries and affiliates.

IAF agrees with the disclosure of the entity's absolute gross greenhouse gas emissions expressed in tonnes of CO₂e for the same period as the financial period.

IAF suggests that the ISSB uses the same approach it uses in the financial statements to include emissions for the consolidated accounting group, associates, joint ventures, unconsolidated subsidiaries or affiliates rather than using the structure of the GHG Protocol.

IAF agrees with the requirements to disclose significant indirect emissions, including the quantification methodology.

Question 10—Targets

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

IAF recommends a general requirement to disclose the methodology upon which the targets have been based. Science based targets evenly distribute the requirement to reduce emissions rather than focusing on industries with the most emissions and emission reduction potential. There are some industries where it will be difficult to reduce emissions because of their high efficiencies. Net-Zero definitions are evolving and in practice, there are many industries that will not meet this standard without offsets.

Question 11—Industry-based requirements

No comment. Not assessed.

Question 12—Costs, benefits and likely effects

No comment. Not assessed.

Question 13—Verifiability and enforceability

The GHG Protocol does not address audit and auditor requirements to any great extent. We hope international standard ISO 14064-3:2019. Greenhouse gases-Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions, the most widely used standard for greenhouse gas verification and validation, includes requirements and guidance for dealing with the variety of challenges that scope 3 emissions pose to bodies performing assurance engagements. Bodies performing verification and validation should be encouraged to follow the provisions of this document.

IAF recommends that ISSB recognize or collaborate with existing accreditation frameworks such as ISO 14065 that require attestation providers to demonstrate expertise in measuring, analyzing, reporting, and validating and verifying GHG emissions. Notwithstanding that many public accounting firms have expertise in GHG accounting, reporting and assurance; there is a much larger professional network of organizations that can offer assurance under the Proposed Rule. These organizations include specialized environmental consultants, engineering firms, and other service providers. IAF believes that these qualified organizations should be permitted to provide assurance as long as they undertake engagements in accordance with these international standards or other standards which could serve as a basis for consistent and transparent reporting under the Proposed Rule. Expanding assurance beyond accounting firms has the added benefit of provided a much larger pool of assurance providers which could potentially lower compliance costs.

IAF also recommends that ISSB endeavor to develop an oversight system including accreditation requirements and robust assurance requirements that are fit for purpose, can be implemented in a phased-in approach, and can be improved upon over time. The standards below can provide that system.

- ISO 14065, *General principles and requirements for bodies validating and verifying environmental information.*
- ISO 14064-3, *Greenhouse gases – Specification with guidance for the verification and validation of greenhouse gas statements*
- ISO 14066, *Greenhouse gases – Competence requirements for greenhouse gas validation teams and verification teams.*

Such a system is now widely utilized to support a wide variety of environmental disclosure schemes. In most cases it serves as the basis upon which regulators or voluntary programs layer additional requirements or assurance procedures. Furthermore, the World Trade Organization's Technical Barriers to Trade (TBT) Agreement strongly encourages members to base their measures on international standards as a means to facilitate trade. Below are just some examples of the application of ISO 14065 accreditation to support GHG disclosure schemes globally:

- European Union Emissions Trading Scheme¹,
- Canadian Greenhouse Gas Offset Credit System Regulations: SOR/2022-111².
- Canadian Output-Based Pricing System Regulations³.
- Canadian Clean Fuel Regulations⁴,
- Colombia Emissions Trading Scheme⁵,

¹ https://ec.europa.eu/clima/eu-action/eu-emissions-trading-system-eu-ets/monitoring-reporting-and-verification-eu-ets-emissions_en

² [Canada Gazette, Part 2, Volume 156, Number 12: Canadian Greenhouse Gas Offset Credit System Regulations](#)

³ <https://laws-lois.justice.gc.ca/eng/regulations/SOR-2019-266/index.html>

⁴ https://publications.gc.ca/collections/collection_2020/eccc/En4-419-4-2020-eng.pdf

⁵ <https://www.funcionpublica.gov.co/eva/gestornormativo/norma.php?i=87765>

- Costa Rica Country Program for C-Neutrality⁶,
- German National Emissions Trading System⁷,
- Japanese Program; Support for High-efficiency Installations for Facilities with Targets
- Kazakhstan Emissions Trading System⁸
- Korea Emissions Trading Scheme
- Province of Alberta, Technology Innovation and Emissions Reduction Regulation⁹,
- Mexico GHG Reporting Program, SEMARNAT¹⁰
- The Climate Registry's Greenhouse Gas (GHG) Reporting Program or Carbon Footprint Registry¹¹.
- UK Emissions Trading Scheme¹²
- International Civil Aviation Organization (ICAO), Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)¹³

⁶ <https://cambioclimatico.go.cr/programa-pais-carbono-neutralidad/>

⁷ https://www.dehst.de/EN/national-emissions-trading/national-emissions-trading_node.html

⁸ <https://adilet.zan.kz/rus/docs/K2100000400>

⁹ <https://www.alberta.ca/technology-innovation-and-emissions-reduction-regulation.aspx>

¹⁰ http://www.diputados.gob.mx/LeyesBiblio/regley/Reg_LGCC_MRNE_281014.pdf

¹¹ <https://www.theclimateregistry.org/>

¹² <https://www.legislation.gov.uk/uksi/2020/1265/contents/made>

¹³ <https://www.icao.int/environmental-protection/CORSIA/Pages/CCR.aspx>