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International Sustainability Standards Board Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and Exposure Draft IFRS S2 *Climate-related Disclosures*

Lloyds Banking Group (LBG) welcomes the opportunity to comment on the International Sustainability Standards Board (ISSB) Exposure Draft (ED) IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information' and ED IFRS S2 'Climate-related Disclosures'.

LBG strongly supports the objective of the ISSB to develop a comprehensive global baseline of sustainability disclosures. LBG has been making progress against the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and enhancing climate-related financial disclosures since our 2018 Annual Report and Accounts. As the UK's largest financial services provider, we recognise the significant opportunity we have to support the UK's transition to net zero, supporting the aims of the 2015 Paris Agreement, the UK Government's net zero target, the Ten Point Plan for the Green Industrial Revolution and the recommendations of the TCFD.

LBG appreciates the ongoing dialogue with the ISSB on the EDs, particularly the focus on the use of safe harbour provisions to allow preparers the ability to disclose important information to the best of their capabilities. Sustainability and climate reporting capabilities are developing across all market participants, with many challenges still to overcome in the journey to provide consistent, complete, comparable, and verifiable sustainability-related financial information.

LBG has contributed to, and supports, the responses to the consultation from both UK Finance and the Institute of International Finance.

There are number of points that we would like to raise from the perspective of LBG, namely:

- We recommend both IFRS S1 and S2 be principles-based with flexibility to accommodate an IFRS 8 'through the eyes of management' approach in disclosing the management of sustainability-related risks and opportunities. Facilitating disclosure in a manner consistent with the way Boards and Senior Management assess performance and make resource-allocation decisions.
- As there is no definition of 'sustainability' there is a risk that disclosures will not be consistent and comparable. A clear definition of 'sustainability', or clarity on firm-specific disclosures to describe how sustainability should be interpreted by a firm, would be helpful to promote transparency to the primary users of sustainability-related financial information.
- Whilst we have developed experience and capability with regard to the TCFD 2017 recommendations, the additional recommendations as included in 2021 require further capability development. This is particularly concerning transition plans, financial impacts and cross-industry climate-related metrics. Thus, further guidance on how the proposals should be applied by financial institutions would be appreciated e.g. on how the value chain should be defined to provide the most valuable information to investors and primary users.

- TCFD and SASB implementation can be interpreted as a spectrum, that is, a firm can be compliant with the requirements whilst recognising that a number of areas are being developed and are still a work-in-progress. By contrast, we feel that compliance with the ISSB proposals risks being more binary, as a result requiring a higher compliance threshold that may lead to lower actual compliance and as a consequence, misinterpretation of and inability to compare relative progress by market observers. The ISSB should allow for some self-attestation of where a firm has, and has not, met the requirements — noting reasons why it has not been possible. This will enable progress to be made, maintain internal and market pressure to iterate, whilst recognising implementation challenges and risks and avoid conflict with the TCFD.
- The ISSB proposals would benefit from consistency with the proposed SEC rule on 'The Enhancement and Standardization of Climate-Related Disclosures for Investors', safe harbour provisions covering the disclosure of Scope 3 emissions, transition plans and scenario analysis disclosures in recognition of the difficulty of calculating Scope 3 emissions (including double counting, variability in methodologies, and incomplete guidance and reporting).
- Access to data and data quality remain key barriers to the reliability and comparability of disclosures, given the ability to gather and develop this data is dependent upon supply chains and customers. For firms in the banking sector, particularly but not exclusively those with international operations or lending exposures, a single set of comprehensive disclosure standards— applying to both financial and non-financial firms consistent with the TCFD— will be critical in building the necessary data sets to facilitate better investment and financing decisions. However, real economy disclosure needs to mature, particularly in less developed sectors, in order for financial services firms' Scope 3 disclosures to improve fully. We recommend consistency with the TCFD for Scope 3 disclosures where this is strongly encouraged rather than mandated, recognising the data availability and quality improvements required across firms. A sector phase-in, aligned to the Partnership for Carbon Accounting Financials (PCAF) standard and the Net Zero Banking Alliance (NZBA) timeline combined with a materiality-based approach for the disclosure of Scope 3 financed emissions would be a pragmatic proposal.
- Where consolidated disclosures are prepared, we do not agree with the proposal to also present emissions separately for subsidiaries, associates, joint ventures, unconsolidated subsidiaries or affiliates. Providing disclosures at a consolidated level will minimize the significant burden on firms, and also enable streamlined, consistent reporting for individual firms. For climate-related disclosures, ISSB should encourage jurisdictions to allow consolidated disclosures to meet local requirements for large/multinational institutions; with incremental disclosure only required where they support local supervisory objectives and net zero commitments/pledges.

The Annex to this letter provides responses to the specific questions posed in the EDs as relevant for LBG.

In conclusion, we welcome the ISSB's EDs, in particular the ability to use safe harbour disclosure provisions as sustainability and climate reporting capabilities are established and develop across firms.

We would welcome further discussion and would be happy to work with the ISSB on these points.

Yours sincerely,

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Annex: Responses to questions in the Exposure Drafts as relevant for LBG

<u>ED IFRS S1: Question 2—Objective</u>
(b) is the definition of 'sustainability-related financial information' clear? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

It would be useful to provide more clarity as to the expected scope of 'sustainability' to promote consistent and comparable disclosures. The Global Reporting Initiative, SASB and WEF Stakeholder Capitalism Metrics have established the concept of sustainability to encompass environmental and social performance. It would be useful if the ISSB proposals could provide a framework of what is expected to be covered, alternatively provide clarity on sector-specific disclosures to provide a description of how sustainability is defined by a firm or more broadly by the sector.

<u>ED IFRS S1: Question 4—Core content</u>
(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

We believe there are inconsistencies on objectives within the ED. For example, paragraph 25 states the risk management objective is to show how "sustainability-related risks and opportunities are identified, assessed and managed." Paragraph 26 also refers to both risks and opportunities. However, paragraph 11(c) states an entity shall provide disclosures on "the processes the entity used to identify, assess and manage sustainability-related risks." It is unclear why paragraph 11(c) excludes opportunities. Further, it is unclear what is envisioned by including 'opportunities' as part of the section on risk management.

<u>ED IFRS S1: Question 5— Reporting entity</u>
(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?

We believe the scope of a reporting entity should be aligned with the general purpose financial reporting. While the ISSB proposal states that, in general, a reporting entity's boundary for its sustainability-related financial disclosures is the same as for its financial statements, Draft IFRS S2 is proposing additional climate-related disclosures for a broader set of firms. For instance, a consolidated group would be required to disclose GHG emissions by associates and joint ventures separately from those by the consolidated group. Access to data remains a key barrier and challenge, in particular for financial institutions that are key consumers of such information. We therefore do not support this additional reporting burden for entities and investments that are not under the direct control of the consolidated group. We encourage the ISSB to review this proposal.

<u>ED IFRS S1: Question 6—Connected information</u>
(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?

It would be challenging for a company to evaluate effects of all sustainability-related risks and opportunities on its financial position, financial performance, and cash flows. We therefore would recommend that the ISSB provide further guidance on this proposed feature as well as more illustrative examples presenting the connectivity between various sustainability-related risks and opportunities and information in general purpose financial reporting.

ED IFRS S1: Question 7—Fair presentation

(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

This proposal will be clear once there is clarity on the definition of sustainability – whether that be driven by an ISSB definition or a firm-specific definition.

Given the vast sources of guidance to identify sustainability-related risks and opportunities, the scope of disclosure could be very wide and subject to different interpretation resulting in non-comparable information between firms.

ED IFRS S1: Question 8—Materiality

(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

While this question is only raised in ED IFRS S1, we see practical challenges of applying the materiality definition set forth in both Exposure Drafts.

The ISSB's definition of materiality as the impact on enterprise value in the short, medium, and long term implies materiality determinations must be made considering a company's long-term value. This differs from the current materiality determination for financial reporting. This is also not consistent with the subsequent exposure draft discussion which states that information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general-purpose financial reporting make on the basis of that reporting. Information that affects the assessment of enterprise value is narrower than information that may influence decision making.

We recommend the definition of materiality is focused on the information that could reasonably be expected to influence the decisions of primary users, removing the reference to the assessment of enterprise value. This would better align to the materiality definition within IAS 1.

We do believe some form of a materiality baseline would be sensible. Focusing on less material components of sustainability-related and climate-related information could distract from more important, bigger picture objectives and messages in disclosures. For example, materiality could be applied at the sub-category level of Scope 3 emissions. Also, the disclosure requirements are not clear for subsidiaries, particularly small subsidiaries in different sectors (e.g., a bank with an insurance or asset management subsidiary as prescribed in Appendix B).

Concrete examples of the link between the ISSB's materiality definition with different concepts of materiality—such as financial materiality and double materiality—would help to better illustrate the interaction. Also, the Exposure Drafts use the term 'significant' risks and opportunities which is distinct from 'material' risks and opportunities and could create confusion.

ED IFRS S1: Question 9—Frequency of reporting

Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

There are challenges in the feasibility of publishing sustainability-related and climate-related financial information at the same time as financial statements. Due to the complexity of delivering such analysis, it often takes longer for firms to produce non-financial disclosures compared to disclosures of purely financial information. As a bank we need to close the balance sheet position as a starting point for calculating financed emissions. The calculation of financed emissions is based on outstanding balances at year-end, and therefore requires finalised year-end financial data. Thus, it is challenging for such information to be published contemporaneously, considering the dependencies among data sources.

To address this challenge, we recommend a staggered approach to sustainability reporting through the introduction of a reporting lag for sustainability-related and climate-related financial information from the fiscal reporting year of one quarter to one year. In effect this would mean the disclosure would be done at the same time as the financial statements while the data sources used as a basis for the sustainability-related disclosure would be from previous quarter. Such a staggered approach to reporting of sustainability information is already being taken in the UK.

ED IFRS S1: Question 10—Location of information

(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?

We support the flexibility in approach as to the location of sustainability-related financial disclosures. In particular the proposal that information required by the IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available at the same time as general purpose financial reporting.

ED IFRS S1: Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63-65, 79-83 and 84-90)

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

We recommend the guidance on updates to estimates is enhanced to encourage firms to refresh estimates and disclosures as science and capabilities evolve. Due to climate science developing at a rapid rate, along with data and capabilities, updates to estimates should be permitted without the constraint of restating comparatives. This will encourage firms to adopt the new science, use the data as its available and refresh disclosures to remain relevant and at pace with industry progress.

We support the recognition that restating a comparative period can be impracticable, the proposal to disclose that fact when data is not available to restate comparatives is considered sensible. However, removing the comparative period requirement would encourage a greater adoption of refreshed estimates and more relevant disclosures.

ED IFRS S2: Question 1—Objective of the Exposure Draft

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

Paragraph 1 of ED IFRS 2 sets out the proposed objective of the standard according to which an entity is required to disclose information about its exposure to climate-related risks and opportunities. However, financial institutions have not yet gained as much experience with the disclosure of climate-related opportunities as they have with climate-related risks which has implications for the level of preparedness and capabilities.

Certain jurisdictions focus solely on the disclosure of climate-related risks or make the disclosure of climate-related opportunities optional at this stage—such as the U.S. Securities and Exchange Commission (SEC) in their proposed rule on *‘The Enhancement and Standardization of Climate-Related Disclosures for Investors.’* We believe that more flexibility will be needed for the disclosure of climate-related opportunities in order not to negatively impact the organization's success with some strategies.

ED IFRS S2: Question 4 —Concentration 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?

Consistent with the TCFD we agree the requirements are aligned to disclose the effects of significant climate-related risks and opportunities on an entity's business model and value chain. We also support the qualitative nature of the disclosures at this stage given the constraints concerning both access to and quality of data with value chain reporting. As capabilities across the economy improve over time, disclosure requirements can be enhanced, however qualitative expectations are considered a pragmatic and accessible solution at this time.

ED IFRS S2: Question 5— Transition plans and carbon offsets

(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?

We would encourage that the EDs set out clearer expectations and guidance on how firms should disclose how carbon offsets may be considered within Scope 1, 2, and 3 carbon emissions accounting; e.g., whether preparers would be expected to disclose net GHG emissions (reflecting carbon offsets) or total GHG emissions with carbon offsets being separately disclosed.

ED IFRS S2: 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?

Access to data and data quality remain key barriers to the reliability and comparability of disclosures. Given certain limitations, such as the lack of standardised scenarios and methodologies, the relative infancy of capabilities and data limitations, we suggest qualitative disclosures be provided and to phase in quantitative disclosures over time. We encourage the ISSB to consider the current challenges associated with consistent high quality data and in particular the extreme difficulty for financial institutions to calculate Scope 3 emissions with a high degree of confidence given the reliance on corporate and counterparty data. We particularly encourage the ISSB to consider these challenges for certain sectors and asset types for Scope 3 financed emissions and we recommend the introduction of a sector phase-in aligned to the methodology of PCAF, the NZBA timeline, and a materiality-based approach for the disclosure of Scope 3 financed emissions.

ED IFRS S2: 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?

Considering the evolving climate science and climate scenarios, we would recommend that firms also disclose any data limitations and judgements made to improve consistency and enable comparisons to be made.

We propose limiting disclosures to only material items. Also, given certain limitations, such as the lack of standardised scenarios and methodologies, the relative infancy of climate modelling and data limitations, we suggest qualitative disclosures be provided and to phase in quantitative disclosures over time.

ED IFRS S2: 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?

We are supportive of the integration of the TCFD's cross-industry metrics categories, which provide a consistent framework while providing the flexibility for institutions to apply metrics relevant to their business models. While some financial institutions are starting to use internal carbon prices as a variable within internal climate scenario analysis exercises, it is not a metric many are comfortable publishing for reasons related to the relative infancy of this process, confidence in data quality and perceived relevance to climate risk measurement and portfolio alignment activities. While this might be sensible for some firms, this information is not helpful for other financial institutions. Carbon pricing (as well as directors' remuneration) should be examples rather than prescribed disclosures.

Noting investors' concerns about greenwashing, more flexibility with respect to the disclosure of opportunities and/or more clarification on the criteria for climate opportunities would be helpful.

ED IFRS S2: 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?

The GHG Protocol is the most common methodology used which would make it easier to compare disclosures and require no change in current data collection.

ED IFRS S2: Question 9—Cross-industry metric categories and greenhouse gas emissions

(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))?

We consider CO2 equivalents to be the most practical way to disclose GHG emissions and agree that aggregate emissions should be disclosed. The general disclosure of disaggregated emissions will pose an unnecessary compliance burden.

ED IFRS S2: Question 9—Cross-industry metric categories and greenhouse gas emissions

(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?

The inclusion of unconsolidated entities in Scope 1 disclosures could lead to double counting with corporates who have the same subsidiary consolidated. Similarly, there is a double counting issue with firms that report against the same associates and joint ventures. We encourage the ISSB to allow consolidated disclosures to meet local requirements for large/multinational firms to ease the operational burden and promote the integrity of the metric assessment.

ED IFRS S2: Question 9—Cross-industry metric categories and greenhouse gas 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?

The proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all firms, subject to materiality must be supported by additional guidance and illustrative examples.

ED IFRS S2: 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?

(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?

(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

We generally support the ISSB's proposal to leverage the industry-based standards by SASB as the most well-established industry-based investor-focused reporting initiative. We also note and welcome that addressing international applicability of the SASB Standards is mentioned as a priority and will form part of the ISSB's initial work plan as the SASB Standards have a U.S. focus.

As the SASB standards are voluntary with firms able to disclose against industry-based requirements where they can, we recommend the ISSB adopts a similar approach in recognition of capability development and data constraints. We recommend firms should disclose what they can, providing an explanation to support their position, enhancing their disclosures as capabilities develop and data improves. This would support the integrity of this industry-based information.

ED IFRS S2: Question 11—Industry-based requirements

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

Alignment with the PCAF methodology will ensure clarity in the classification and treatment of the financial products in scope.

We ask for further clarification on financed emissions requirements:

- We question the requirement 'Scope 3 Financed Emissions Product Scope—Derivative' which is not yet defined by the (PCAF) standards. Derivatives can be executed along with a loan facility to a client. Including both products can lead to unnecessary double counting. There can also be unintended consequences for different types of derivatives. For example, an interest rate swap allowing netting may produce a much smaller cash flow compared to a cross-currency swap that cannot be netted due to notional exchange in two different currencies.
- Currently, ED IFRS S2 requires all the Scope 3 financed emissions to be calculated for all sectors. The ISSB defines mortgages to include Home Equity Line of Credit (HELOC), but the PCAF standard excludes HELOC from its methodology. Appendix B-19 for Mortgage Finance does not mention financed emissions disclosure. We encourage alignment between ED IFRS S2 and the PCAF methodology.
- ED IFRS S2 currently does not have explicit language about how trading book assets are to be treated. Under PCAF, most of the trading book loans and investments are currently considered out-of-scope for financed emission calculations. We note the absence of standards or defined methodologies for securities financing transactions (i.e., Reverse repo).

- There are open questions regarding the right treatment of securitised assets. If both the assets (e.g. mortgage loan portfolio) and the liabilities (e.g. notes issued) are on the bank's balance sheet, this implies that the bank doesn't directly fund the asset. We are seeking clarification as to the appropriate treatment of securitised assets within the bank's financed emissions calculation. In particular the double counting consideration when it comes to assessing Scope 3 emissions?
- It is difficult to calculate financed emissions for an undrawn loan considering PCAF does not have explicit guidance and there would be risks of double counting by different lenders.

The disclosures recommended by the B64 Rental and Leasing appendix do not align to motor finance and fixed-term leasing operations, this is supported by discussions with the British Vehicle Rental and Leasing Association (BVRLA). We propose further clarification on disclosures required for fixed-term leasing versus short term rental operators.

Proposed metrics for leasing would be:

- Proportion of total fleet stock which is EV (Battery and Plug In Hybrid)
- Proportion of new in year deliveries which is EV

ED IFRS S2: Question 11—Industry-based requirements

(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

We agree with the industries covered. However, as different jurisdictions may have different sector definitions, we would appreciate more detailed guidance on the sectors (e.g., homebuilding vs. real estate management and development).

It's important that industries classified as 'carbon-related' are consistent across ISSB proposals, SASB & TCFD requirements, supporting the consistent collation of data and development of capabilities. The current ISSB list of carbon-related sectors is not fully aligned with the October 2021 TCFD or the NZBA classifications (e.g. TCFD specifies agriculture and capital goods as carbon-related sectors however they are not listed within the Commercial Banking appendix (Volume B16)).

ED IFRS S2: Question 11—Industry-based requirements

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

We agree as it aligns with the PCAF expectation, however any Scope 3 disclosure should be subject to a materiality assessment..

ED IFRS S2: Question 11—Industry-based requirements

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

We agree with this proposal as it would aid transparency.

ED IFRS S2: Question 11—Industry-based requirements

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

At this point in time, we think it premature for the ISSB to prescribe a specific metholology given that Scope 3 financed emissions methodologies are still developing. Alignment with the PCAF methodology would ensure clarity in the classification and treatment of the financial products in scope.

ED IFRS S2: Question 11—Industry-based requirements

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

The categorisation of 'transition risk exposure' in the industry-based requirements is not the most accurate description, as financed emissions are not just related to transition risk.

The proposals require the inclusion of financed emissions from derivatives, yet there is limited guidance from the existing methodologies such as PCAF. Therefore, we would appreciate more guidance on this.
For indicators like FN-CB-3 which relate to financed emissions, we would appreciate the focus to be on the balance sheet first, allowing firms to disclose the relevant financed emissions first, a capability which is much more mature at this stage.

For comparability purposes, we would suggest that the ISSB recommend firms disclose the data quality score for financed emissions as suggested by PCAF.

ED IFRS S2: 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 support the ISSB's overall goal of proposing a global baseline standard not only for climate-related disclosures but also for broader sustainability-related information. This will ensure alignment with evolving market and supervisory practices going forward. However, it is important to recognise that climate-related disclosures, even though data challenges remain, have seen increased stakeholder interest and have developed faster than broader ESG disclosures where a similar level of progress has not yet occurred. For instance, the work of the Taskforce on Nature-related Financial Disclosures (TNFD) might be crucial to have a common understanding of nature-related information. However, the TNFD is not expected to publish its final recommendations before September 2023. We therefore support the ISSB's decision to start with a climate-related specific standard (IFRS S2).

We understand Draft IFRS S1 to work as the overarching disclosure standard which topic-specific standards (such as Draft IFRS S2 for climate-related disclosures) will build upon and to which they will add more detail. If this is the intention, it makes sense to publish Draft IFRS S1 at the same time as Draft IFRS S2 in order to establish a baseline standard with which jurisdictions, which decide to look at ESG issues beyond climate, can work. Otherwise, we expect a risk of fragmentation of the global sustainability disclosure landscape.

However, we do acknowledge that many jurisdictions will not mandate the disclosure of non-climate-related information in the foreseeable future and might not decide to adopt IFRS S1. At the same time, we see a bigger downside risk of jurisdictions pushing ahead on their own, therefore adding to further fragmentation, than of having a global baseline standard which is not immediately adopted by all jurisdictions.

ED IFRS S2: Question 17—Other comments

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

Preparers would benefit from having illustrative examples setting out methodologies and calculations, e.g., enterprise value and the calculation of financed emissions where the allocation of the emissions data is required at the subsidiary level; however, data may only be available at the consolidated level of a counterparty and not at the legal entity level.