29 July 2022

Mr. Emmanuel Faber
Chair
International Sustainability Standards Board

Re: Exposure Draft "IFRS S2 Climate-related Disclosures"

Dear Mr. Faber:

The Sustainability Reporting Committee (SRC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the Exposure Draft "IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*" (Draft S1: after it comes into effect, S1) and "IFRS S2 *Climate-related Disclosures*" (Draft S2: after it comes into effect, S2) published by the International Sustainability Standards Board (ISSB) on 31 March 2022. This is the comment letter on Draft S2.

The SAAJ is a not-for-profit organization for professionals in the areas of investment and finance, offering education and certification programs in these fields. Its certified member analysts (holding the CMA designation) number around 28,000.

The SRC is a standing committee of the SAAJ established in March 2021. It is composed of eight members including equity and credit analysts, portfolio managers, public accountants, and academics.

The SAAJ sent questionnaire surveys regarding Draft S1 and Draft S2 to members of the SRC and CMAs; some 20 responded to the Draft S2 questionnaire survey. This comment letter is based on Draft S2 questionnaire results and the discussions among members of the SRC. Please see the attached questionnaire results.

<u>General Comments</u>

We welcome that the ISSB has published its first exposure drafts on IFRS Sustainability Disclosure Standards. We have advocated the urgent need on the part of analysts and investors for high quality, consistent, and comparable global sustainability disclosure standards. We appreciate the leadership of the IFRS Foundation and the ISSB in publishing the exposure drafts in such a short time in responding to this urgent need.

The disclosure framework for sustainability information is evolving. We hope that, in developing and amending IFRS Sustainability Disclosure Standards, the ISSB will be agile enough to capture this evolution while taking into account the stability of standards.

We basically agree with each of the proposals in Draft S2 as they meet our needs.

However, there are some concerns that requiring overly high disclosure standards would result in fewer entities being able to meet them, and would in turn prevent analysts and investors from obtaining the disclosure information they need.

For example, while we as users appreciate the usefulness and importance of the industry-based disclosure requirements, we are concerned that there are still various issues to be addressed and that there is currently not a sufficient global consensus to establish them as disclosure requirements. For these reasons, we propose that Appendix B Industry-based disclosure requirements be developed separately from Draft S2, and that they be developed as a subsequent modification of S2 with a set time frame and sufficient discussion between the ISSB and relevant stakeholders so as to develop a global consensus.

To address such concerns, we believe some improvements to Draft S2 are needed, and we discuss these suggested improvements in our comments on each question.

While we appreciate that the exposure drafts have been published in a short period of time thanks to the efforts of the IFRS Foundation and the ISSB, from the perspective of global consensus building we would like to mention that there was only one opportunity for consultation on the exposure drafts and that the consultation period is only 120 days. We hope that, in its future standard development process, the ISSB will consider the balance between the urgent need for sustainability-related disclosure standards and the consensus building that will form the basis of the global baseline. This would solidify the ISSB's legitimacy as a standard setter.

Question 1—Objective of the Exposure Draft
Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting: • to assess the effects of climate-related risks and opportunities on the entity's enterprise value;

- to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and
- to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.

Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

We agree with the proposed objective in Draft S2. Some 85.0% of respondents to **Q1** of our questionnaire answered that the proposed objective of Draft S2 was appropriate and clear.

Climate change problems have become increasingly serious in recent years. Under such circumstances, we believe that the proposed objective of disclosing information on significant climate-related risks and opportunities in Draft S2 is clear enough and will be useful for users to understand an entity's significant risks and opportunities and assess its enterprise value.

As with Draft S1, we highly appreciate that sustainability-related financial information is defined as part of an entity's general financial reporting and that the objective of disclosing sustainability-related financial information is defined as being useful to users to assess the entity's enterprise value. Since both IFRS Sustainability Disclosure Standards and IFRS Accounting Standards share the target audience, i.e. the primary users of an entity's general purpose financial reporting, it would be possible for the entity to provide combined financial and non-financial information useful for users to assess the entity's enterprise value.

However, of the three parallel disclosure objectives listed, the first one, 'to assess the effects of climate-related risks and opportunities on the entity's enterprise value' should be the primary one. The description of these three disclosure objectives should be reorganized to clarify the relationship that the second and third disclosure objectives are subordinate to the first.

Some commented that regarding 'information on exposures to climate-related risks and opportunities', the definition of 'exposure' should be clarified.

Question 2—Governance
Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities. The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities. Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. 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?

We agree with the proposed disclosure requirements for governance in Draft S2. Some 85.0% of respondents to **Q2** of our questionnaire agreed with this proposal.

Draft S2 is based on the TCFD Recommendations, which comprise an excellent framework, and that have already become the de facto standard for climate-related disclosures. However, as the TCFD Recommendations are only a framework, they do not ensure that all entities can provide sufficient and comparable information to enable users to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. The information provided by an entity in compliance with the disclosure requirements in Draft S2 would enable users to better understand the governance processes, controls and procedures, enhancing comparability among entities.

However, we believe the disclosure requirement on remuneration in paragraph 21(g) of Metrics and targets should be included in the part on Governance. This is because an entity's executive management remuneration structure is useful information for users to assess the effectiveness of governance.

Question 3—Identification of climate-related risks and opportunities
Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B). Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (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?

We agree with the proposed requirements to identify and disclose a description of significant climate-related risks and opportunities in Draft S2. Some 60.0% of respondents to **Q3** of our questionnaire agreed with this proposal.

It is important for assessing an entity's enterprise value to identify significant climate-related risks and opportunities surrounding the entity. Therefore, we fully agree with the proposed direction to utilize the disclosure topics in Appendix B Industry-based disclosure requirements in this identification.

However, as stated in our comment letter on Draft S1, since there is no explanation of ‘significant’ in Draft S1 or Draft S2, it should be explicitly explained in the text of S1 and S2.

Although disclosure according to a time horizon of short, medium, and long term should be included in a requirement, depending on each entity’s business model there may be some cases where the time horizon is not necessarily broken down into these three. While disclosure according to a time horizon should be included in a requirement, a certain degree of flexibility should be allowed so that an entity can determine the breakdown of the time horizon.

In addition, with regard to ‘access to finance,’ some commented that additional disclosure of the breakdown of financing instruments as the source of funds (e.g., sustainability bonds/loans) should be included in a disclosure requirement because this requirement provides more valuable information for users.

Question 4—Concentrations of climate-related risks and opportunities in an entity’s value chain
Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity’s business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity’s value chain. As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity’s value chain. The proposals would also require an entity to disclose where in an entity’s value chain significant climate-related risks and opportunities are concentrated. Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals. (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?

We agree with the proposed disclosure requirements for an entity's concentration of climate-related risks and opportunities in its value chain in Draft S2. Some 90.0% of respondents to **Q4** of our questionnaire agreed with this proposal.

Since information on value chains is essential for users to identify the effects of significant climate-related risks and opportunities, we agree with this proposal.

However, it is not necessary to stipulate that the information should be qualitative rather than quantitative. Since quantitative information is more useful to users, the wording should be changed to allow disclosure only in the form of qualitative information, but encourage additional disclosure in the form of quantitative information.

Question 5—Transition plans and carbon offsets
Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value. Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity. An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

> The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.
>
> The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.
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> Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.
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> (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?

We agree with the proposed disclosure requirements for transition plans and carbon offsets in Draft S2. Some 95.0% of respondents to **Q5** of our questionnaire agreed with this proposal.

To address climate-related risks, the most urgent sustainability-related issue, transition to a low-carbon economy should be tackled at the individual entity level. We believe that the proposed disclosure requirements in Draft S2 cover information that is useful and necessary for users to understand an entity's transition plan and specific strategies for carbon offsetting.

However, we have some suggestions for improvement as follows:

The disclosure of carbon offsets should importantly be clarified with emphasis on 'additionality' and 'permanence' as described in paragraphs BC82 and BC83, so as not to be abused by greenwashing.

The disclosure requirement in paragraph 13(b)(ii) 'the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain' overlaps with the 'climate-related targets' in paragraph 23. The ISSB should reconsider how S2 should stipulate this requirement to avoid duplication.

Question 6—Current and anticipated effects
The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate. The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks). Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the

Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

(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?

(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?

We agree with the proposed disclosure requirements for current and anticipated effects in Draft S2. Some 80.0% of respondents to **Q6** of our questionnaire agreed with this proposal.

We agree with the direction to encourage an entity to disclose quantitative information. When assessing an entity's enterprise value, it is essential for users to understand the effects of the entity's significant climate-related risks and opportunities on its current financial position as well as on its future financial position after implementing its strategy. Considering that climate-related financial disclosure is information from a long-term perspective, it would be inevitable to allow an entity to disclose only qualitative information to some extent. However, we, as users, would like to propose the ISSB require an entity to disclose quantitative information as much as possible.

We agree with expressing the information as a single amount or as a range, depending on the situation. Since a single estimate of anticipated effects is not necessarily reliable, we believe that allowing an entity to disclose the information as a range would make it easier for users to obtain the information they need.

However, we have some suggestions for improvement as follows:

Methodology for measuring amount and applied assumptions should also be disclosed so that users can understand the characteristics and limitations of the disclosed figures.

It should be clearly stated that the baseline year of assessment should be disclosed for the effects on the most recently reported financial position, and that the reporting year should be the baseline year of assessment for the effects on the future financial position to ensure the usefulness and comparability of information in assessing the effects on the entity's financial position.

Paragraph 14(b) states, "significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year", but since the effects of climate change on an entity's financial statements are expected to be long term, this requirement needs not be limited to the next financial year.

Since the connectivity between the effects on an entity's financial position, financial performance and cash flows as stipulated in paragraph 14 and the results of the climate resilience analysis as stipulated in paragraph 15 is essential for users to understand the entity, the importance of the connectivity between two should be clarified in S2.

Question 7—Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

- what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and
- whether the analysis has been conducted using:

- climate-related scenario analysis; or
- an alternative technique.

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk-management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represent an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

(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?

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

We agree with the proposed disclosure requirements for climate resilience in Draft S2. Some 70.0% of respondents to **Q7** of our questionnaire agreed with this proposal.

We agree with the direction of Draft S2 because it is essential for users to understand an entity's resilience to climate-related risks in assessing the entity's enterprise value. We believe that it is inevitable for an entity to disclose information as a range when providing quantitative information as it is future information. We believe disclosure as a range may be more useful to users in some cases.

The use of scenario analysis is, in principle, desirable, but, on the other hand, it requires considerable resources and knowledge on the part of an entity. Given the current situation where many entities do not conduct scenario analysis, it would be inevitable to allow an entity to use alternative methods or techniques. We also understand that there is currently a lack of comparability in the results of scenario analysis of each entity. However, since it is essential to encourage more entities to use scenario analysis, we believe the requirement to disclose an explanation of why the entity was unable to use scenario analysis appropriate.

Question 8—Risk management
An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to

assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities. Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response. Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. 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?

We agree with the proposed disclosure objective and requirements for risk management in Draft S2. Some 95.0% of respondents to **Q8** of our questionnaire agreed with this proposal.

As explained in our comments on the risk management disclosure objectives and requirements in Draft S1, it is essential for users to understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.

Question 9—Cross-industry metric categories and greenhouse gas emissions
The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are: • indicative of basic aspects and drivers of climate-related risks and opportunities; • useful for understanding how an entity is managing its climate-related risks and opportunities;

- widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and
- important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- separately Scope 1 and Scope 2 emissions, for:
    - the consolidated accounting group (the parent and its subsidiaries);
    - the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
- the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes non-mandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

(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?

We agree with the proposed disclosure requirements for cross-industry metric categories and greenhouse gas emissions in Draft S2. Some 70.0% of respondents to **Q9** of our questionnaire agreed with this proposal.

We agree that the disclosure requirements for cross-industry metric categories should be developed based on the TCFD Recommendations. The disclosure requirements in the TCFD Recommendations have become the global de facto standard, and the disclosure practice based on them has already been established to a considerable extent. This is the best choice in terms of understandability and continuity of disclosure because the additional burden on preparers would be minimized and the metrics and categories are familiar to users.

The disclosure of Scope 3 GHG emissions, as explained in paragraph BC 117, faces a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. Many entities may find it difficult to measure Scope 3 emissions in terms of both technology and cost. However, Scope 3 emissions are essential information for users to understand an entity's climate-related risks that the entity is facing.

We also agree with the disclosure requirement on internal carbon prices because it is essential information for users to understand how an entity has considered climate-related risks in making decisions on capital expenditures and others.

However, we have some suggestions for improvement as follows:

Draft S2 requires disclosure of Scope 1 and 2 emissions of associates, joint ventures etc., separately from the consolidated accounting group. We understand that there is a concern that information on Scope 1 and 2 emissions of entities such as associates and joint ventures with a high degree of accuracy would be difficult to obtain as they are not the members of an entity's consolidated group. However, if material, this information is necessary for users. Therefore, we propose the ISSB clarify that estimates can also be used and that additional illustrative guidance be developed in order to facilitate the disclosure of material information on Scope 1 and 2 emissions of associates, joint ventures etc.

With respect to Scope 3 emissions, paragraph 21(a)(vi)(4) stipulates, 'if the entity excludes (Scope 3 emissions), it shall state the reason for omitting them'. However, since material information on Scope 3 emissions is necessary for users, we do not believe they can be permitted to be excluded from disclosure for practical reasons, e.g., because it is unable to obtain a faithful measure. Material information on Scope 3 emissions should be required to be disclosed despite practical difficulties. In addition, we propose the ISSB clarify that estimates can also be used and that additional illustrative guidance be developed in order to facilitate the disclosure of material information on Scope 3 emissions.

For 'assets or business activities vulnerable to' in the description of transition and physical risks, 'vulnerable' should be defined or explained. For 'assets or business activities aligned with climate-related opportunities' in the description of climate-related opportunities, 'consistent with' should be explained.

Since the disclosure requirement in paragraph 21(g) regarding executive management remuneration is related to the effectiveness of governance from the users' point of view, it should be included in a disclosure requirement on Governance instead of Metrics and targets.

Some commented that internal carbon prices should be required to be disclosed only when material, because they are of little importance to less carbon-intensive industries.

Question 10—Targets
Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change. The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement. Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (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?

We agree with the proposed disclosure requirements for targets in Draft S2. Some 90.0% of respondents to **Q11** of our questionnaire agreed with this proposal.

Climate-related targets based on the 'latest international agreement on climate change', such as the Paris Agreement, which enable an entity to clarify its initiatives to achieve its targets, are useful information for users to assess an entity's enterprise value. We highly appreciate that Draft S2 sets specific disclosure requirements for such information.

However, not only targets but also performance and its evaluation by the entity should be required to be disclosed.

Question 11—Industry-based requirements
The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype. The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype. The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents. Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the 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? The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The

proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. 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).

Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions.

(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?

(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?

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

(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?

(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?

(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity's business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity's performance on the topic.

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

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

(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.

(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

The proposed disclosure requirements for industry-based requirements in Draft S2 need significant revisions. Some 45.0% of respondents to **Q10** of our questionnaire disagreed with this proposal, exceeding the 40.0% who agreed.

The survey comments show that most respondents were in favor of developing industry-based requirements. Industry-based requirements have the benefit of increasing comparability for users, while they are also useful for preparers in identifying significant climate-related risks and opportunities.

Having said that, we recognize the following issues regarding Appendix B Industry-based disclosure requirements, which is based on the SASB Standards:

1. Appendix B has been developed by extracting disclosure topics and metrics related to the dimension of Environment from the SASB Standards. The SASB Standards include research papers for respective industry standards, which describe the specific evidence that was used as references in developing the standards and where each disclosure topic affects sales, expenses, assets/liabilities and others. However, Draft S2 does not explain the process and rules for selecting such disclosure topics and metrics. We are concerned that both users and preparers may not understand the importance of each disclosure topic and metric.

2. Although revised from the SASB Standards, several proposed metrics appear not to be internationally applicable. In addition, each metric needs to be developed separately for internationally applicable metrics and those that should be left to each jurisdiction, in accordance with the approach set forth in paragraph BC132.

3. We understand that SICS used in industry classifications are well suited for setting sustainability-related standards, but they are not as widely and globally used as GICS are. As a result, entities are often at a loss to determine which industry classifications to apply to their business segments, which may cause a risk that appropriate disclosures will not be undertaken. Users may also not be able to efficiently use the industry-based disclosure requirements because the proposed industry classifications differ from the ones they normally use for their current portfolio management.

Despite the utility and importance of the industry-based disclosure requirements, it would be impossible to resolve such important issues and reach a global consensus within the 120-day public consultation period and the ISSB's review period ending 31 December 2022. On the other hand, given the urgent need of climate-related disclosures, the effective dates of Draft S1 and Draft S2 should not be delayed.

For these reasons, Appendix B Industry-based disclosure requirements should be developed separately from Draft S2, and be developed as a subsequent modification of S2 with a set time frame and sufficient discussion between the ISSB and relevant stakeholders so as to develop a global consensus.

On the other hand, we believe that the disclosure topics in the industry-based disclosure requirements provide important reference points in identifying information related to significant climate-related risks and opportunities. Many disclosure topics are cross-industry or cross-sectoral. If all disclosure topics are excluded from the disclosure requirements when Draft S2 is finalized, the identification of information related to significant climate-related risks and opportunities would be entirely dependent on the judgment of each entity. Such a situation is undesirable for users.

Based on the above, we would like to make the following suggestions regarding industry-based requirements:

(1) Disclosure topics
The ISSB should consolidate and systematize the disclosure topics in Appendix B Industry-based requirements. The systematized disclosure topics should be stipulated in the text of S2. An entity is required to refer to the systematized disclosure topics in identifying information related to significant climate-related risks and opportunities.

(2) Appendix B Industry-based disclosure requirements
Appendix B Industry-based disclosure requirements should be developed separately from Draft S2, and be developed as a subsequent modification of S2 with a set time frame and sufficient discussion between the ISSB and relevant stakeholders so as to develop a global consensus.

Question 12—Costs, benefits and likely effects
Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits. (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? (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider? (c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

Please see our comments on Question 16 of our comment letter on Draft S1.

Question 14—Effective date
Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information requires entities to disclose all material information about sustainability-related risks and opportunities. It is intended that [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information could take longer to implement.

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

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

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

The effective date of Draft S2 should be the same as that of Draft S1. Some 75.0% of respondents to **Q12** of our questionnaire answered thus.

Draft S1 consists of two parts: (1) content that forms the basis for the disclosures of an entity's sustainability-related financial information (Objective, Scope, and Core content), and (2) general features that stipulate the fundamental qualitative characteristics of sustainability-related financial disclosures. S2 cannot become effective without S1 coming into effect.

On the other hand, Draft S1 requires an entity to identify sustainability-related financial information other than climate-related information and disclose it if material, which could be very time consuming in the absence of relevant disclosure standards. We are seriously concerned that this may be a factor to delay the effective date of Draft S2, which addresses more urgent needs. In order to avoid such a concern, we propose to divide the development process of Draft S1 into two stages and encourage the ISSB to finalize the latter, general features first so as to facilitate Draft S2 becoming effective as early as possible.

Also, Draft S2 should be developed separately from Appendix B Industry-based disclosure requirements, which are expected to take time to address and adjust.

Question 15—Digital reporting
The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption of sustainability-related financial information, as compared to paper-based consumption, is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* Standards are the sources for the Taxonomy. It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation. Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

Please see our comments on Question 15 of our comment letter on Draft S1.

Question 16—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others

including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

Please see our comments on Question 14 of our comment letter on Draft S1.

Question 17—Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

Please see our comments on Question 14 of our comment letter on Draft S1.

Sincerely yours,

George Iguchi

George Iguchi
Chair
Sustainability Reporting Committee

Attachment: Questionnaire Results on Draft S2

The SAAJ sent questionnaire surveys regarding Draft S1 and Draft S2 to members of the SRC and CMAs; some 20 responded to the Draft S2 questionnaire survey.

Q1: Objective

Draft S2 sets out the proposed objective: an entity is required to disclose information about its exposure to significant climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:

(1) to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value;

(2) to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its significant climate-related risks and opportunities; and

(3) to evaluate the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities.

Do you think that the objective of Draft S2 is appropriate and clear? **Question 1 in Draft S2**

(a) Yes	17	85.0%
(b) No	2	10.0%
(c) Neither "Yes" nor "No"	1	5.0%
Total	20	100.0%

Q2: Governance

Draft S2 proposes that the objective of climate-related financial disclosures on governance be to enable users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage sustainability-related risks and opportunities.

To achieve this objective, Draft S2 proposes that an entity be required to disclose the following information about the governance body or bodies (boards, committees, etc.) with oversight of climate-related risks and opportunities:

(1) the identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities;

(2) how the body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies;

(3) how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities;

(4) how and how often the body and its committees are informed about climate-related risks and opportunities;

(5) how the body and its committees consider climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies;

(6) how the body and its committees oversee the setting of targets related to significant climate-related risks and opportunities, and monitor progress towards them; and

(7) a description of management's role in assessing and managing climate-related risks and opportunities, including information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions.

Do you agree with these proposals? **Question 2 in Draft S2**

(a) Yes	17	85.0%
(b) No	1	5.0%
(c) Neither "Yes" nor "No"	2	10.0%
Total	20	100.0%

Draft S2 proposes that the objective of climate-related financial disclosures on strategy be to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant climate-related risks and opportunities.

To achieve this objective, Draft S2 proposes that an entity be required to disclose information about:

I. Climate-related risks and opportunities

II. Business model and value chain

III. Strategy and decision-making

IV. Financial position, financial performance and cash flows

V. Climate resilience

Q3: Strategy – I. Climate-related risks and opportunities (Identification of climate-related risks and opportunities)

Draft S2 proposes that an entity be required to disclose the following information where significant climate-related risks and opportunities could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term:

(1) a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities, an entity shall refer to the disclosure topics defined in the industry disclosure requirements (Appendix B);

(2) how it defines short, medium and long term and how these definitions are linked to the entity's strategic planning horizons and capital allocation plans; and

(3) whether the risks identified are physical risks or transition risks.

Do you agree with these proposals? **Question 3 in Draft S2**

(a) Yes	12	60.0%
(b) No	4	20.0%
(c) Neither "Yes" nor "No"	4	20.0%
Total	20	100.0%

Q4: Strategy – II. Business model and value chain (Concentrations of climate-related risks and opportunities in an entity's value chain)

Draft S2 proposes that an entity be required to disclose the following qualitative (rather than quantitative) information on effects of significant climate-related risks and opportunities on its business model and value chain:

(1) a description of the current and anticipated effects of significant climate-related risks and opportunities on its value chain; and

(2) a description of where in its value chain significant climate-related risks and opportunities are concentrated.

Do you agree with these proposals? **Question 4 in Draft S2**

(a) Yes	18	90.0%
(b) No	0	0.0%
(c) Neither "Yes" nor "No"	2	10.0%
Total	20	100.0%

Q5: Strategy – III. Strategy and decision-making (Transition plans and carbon offsets)

Draft S2 proposes that an entity be required to disclose the following information on the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans:

(1) how it is responding to significant climate-related risks and opportunities including how it plans to achieve any climate-related targets it has set, including:

① information about current and anticipated changes to its business model, including information about direct and indirect adaptation and mitigation efforts it is undertaking; and

② how these plans will be resourced.

(2) information regarding climate-related targets for these plans including:

① the processes in place for review of the targets;

② the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain; and

③ the intended use of carbon offsets in achieving emissions targets, including the type, the extent to which the targets rely on the use of carbon offsets, whether the offsets will be subject to a third-party offset verification or certification scheme, etc.

(3) quantitative and qualitative information about the progress of plans disclosed in prior reporting periods.

Do you agree with these proposals? **Question 5 in Draft S2**

(a) Yes	19	95.0%
(b) No	1	5.0%
(c) Neither "Yes" nor "No"	0	0.0%
Total	20	100.0%

Q6: Strategy – IV. Financial position, financial performance and cash flows (Current and anticipated effects)

Draft S2 proposes that an entity be required to disclose the following information on the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (an entity shall disclose quantitative information [single amounts or a range] unless it is unable to do so):

(1) how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows;

(2) information about the climate-related risks and opportunities for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year;

(3) how it expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities;

(4) how it expects its financial performance to change over time, given its strategy to address significant climate-related risks and opportunities; and

(5) if the entity is unable to disclose quantitative information for (1)–(4), an explanation of why that is the case.

Do you agree with these proposals? **Question 6 in Draft S2**

(a) Yes	16	80.0%
(b) No	3	15.0%
(c) Neither "Yes" nor "No"	1	5.0%
Total	20	100.0%

Q7: Strategy – V. Climate resilience

Draft S2 proposes that an entity be required to disclose the following information on the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties (the entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so; if an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience; when providing quantitative information, an entity can disclose single amounts or a range):

(1) the results of the analysis of climate resilience, which shall enable users to understand:

① the implications of the entity's findings for its strategy;

② the significant areas of uncertainty considered in the analysis of climate resilience;

③ the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments.

(2) how the analysis has been conducted, including:

① when climate-related scenario analysis is used, scenarios used, time horizons and inputs, etc.; and

② when climate-related scenario analysis is not used, used methods or techniques, assumptions, time horizons, inputs, and an explanation of why the entity was unable to use climate-related scenario analysis.

Do you agree with these proposals? **Question 7 in Draft S2**

(a) Yes	14	70.0%
(b) No	1	5.0%
(c) Neither "Yes" nor "No"	5	25.0%
Total	20	100.0%

Q8: Risk management

Draft S2 proposes that the objective of climate-related financial disclosures on risk management be to enable users of general purpose financial reporting to understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.

To achieve this objective, Draft S2 proposes that an entity be required to disclose the following information:

(1) the process, or processes, it uses to identify climate-related risks and opportunities;

(2) the process, or processes, it uses to identify climate-related risks for risk management purposes, including when applicable:

① how it assesses the likelihood and effects associated with such risks;

② how it prioritizes climate-related risks relative to other types of risks, including its use of risk-assessment tools;

③ the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and

④ whether it has changed the processes used compared to the prior reporting period;

(3) the process, or processes, it uses to identify, assess and prioritize climate-related opportunities;

(4) the process, or processes, it uses to monitor and manage the climate-related risks and opportunities;

(5) the extent to which and how the climate-related risk identification, assessment and management process, or processes, are integrated into the entity's overall risk management process; and

(6) the extent to which and how the climate-related opportunity identification, assessment and management process, or processes, are integrated into the entity's overall management process.

Do you agree with these proposals? **Question 8 in Draft S2**

(a) Yes	19	95.0%
(b) No	1	5.0%
(c) Neither “Yes” nor “No”	0	0.0%
Total	20	100.0%

Draft S2 proposes that the objective of climate-related financial disclosures on metrics and targets be to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant climate-related risks and opportunities.

To achieve this objective, Draft S2 proposes that an entity be required to disclose:

I. Cross-industry metric categories

II. Industry-based metrics

III. Other used metrics (Note: no related **Q**)

IV. Climate-related targets

Q9: Metrics and targets – I. Cross-industry metric categories (Cross-industry metric categories and greenhouse gas emissions)

Draft S2 proposes that an entity be required to disclose information relevant to the cross-industry metric categories of:

(1) greenhouse gas emissions:

① Scope 1 emissions, Scope 2 emissions, and Scope 3 emissions (absolute gross greenhouse gas emissions and greenhouse gas emissions intensity measured in accordance with the Greenhouse Gas Protocol Corporate Standard);

② for Scope 1 and Scope 2 emissions disclosed in accordance with (1)①, the entity shall disclose emissions separately for:

(i) the consolidated accounting group (the parent and its subsidiaries);

(ii) associates, joint ventures, unconsolidated subsidiaries or affiliates;

③ the approach it used to include emissions for the entities included in ②(ii) (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard), the reason, or reasons, for the entity’s choice of approach, and how that relates to the disclosure objective;

④ for Scope 3 emissions disclosed in accordance with ①:

(i) an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;

(ii) an entity shall disclose the categories included within its measure of Scope 3 emissions;

(iii) when the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement;

(iv) if the entity excludes those greenhouse gas emissions in (iii), it shall state the reason for omitting them;

(2) transition risks;

(3) physical risks;

(4) climate-related opportunities;

(5) capital deployment;

(6) internal carbon prices;

(7) remuneration.

Do you agree with these proposals? **Question 9 in Draft S2**

(a) Yes	14	70.0%
(b) No	2	10.0%
(c) Neither "Yes" nor "No"	4	20.0%
Total	20	100.0%

Q10: Metrics and targets – II. Industry-based metrics (Industry-based requirements)

The industry-based disclosure requirements in Draft S2 (11 sectors and 68 industries in Appendix B) have been derived from the SASB Standards (with some modifications for international applicability and the addition of metrics relevant to the financial sector).

The SASB Standards have the following characteristics:

(1) They were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner.

(2) They classify industries according to the Sustainable Industry Classification System (SICS).

(3) They identify and define disclosure topic(s) (climate-related risks and opportunities that are most likely to be significant to entities in that industry).

(4) They identify metrics associated with disclosure topic(s) which are most likely to result in the disclosure of information that is relevant to an assessment of enterprise value.

(5) They identify activity metrics, along with the above metrics, which quantify the scale of specific activities or operations by an entity and are intended for use in conjunction with metrics to normalize data and facilitate comparison.

(6) For entities whose operations are integrated horizontally across industries (such as conglomerates) or vertically through the value chain, more than one set of industry-based requirements may be required to be applied.

An entity shall disclose information related to a specific requirement when it concludes that the information is material to the users of the information in assessing the enterprise value of the entity.

Do you agree with these proposals? **Question 11 in Draft S2**

(a) Yes	8	40.0%
(b) No	9	45.0%
(c) Neither “Yes” nor “No”	3	15.0%
Total	20	100.0%

Q11: Metrics and targets – IV. Climate-related targets

Draft S2 proposes that an entity be required to disclose its following climate-related targets:

(1) metrics used to assess progress towards reaching the target and achieving its strategic goals;
(2) the specific target the entity has set for addressing climate-related risks and opportunities;
(3) whether this target is an absolute target or an intensity target;
(4) the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives);
(5) how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party;
(6) whether the target was derived using a sectoral decarburization approach;
(7) the period over which the target applies;
(8) the base period from which progress is measured; and
(9) any milestones or interim targets.

Do you agree with these proposals? **Question 10 in Draft S2**

(a) Yes	18	90.0%
(b) No	0	0.0%
(c) Neither “Yes” nor “No”	2	10.0%
Total	20	100.0%

Q12: Effective date

The ISSB questions whether the effective date of Draft S2 should be the same as that of Draft S1 or whether it should be earlier or later than that of Draft S1.

This is because the requirements included in Draft S1 could take longer to implement.

How do you think the effective date of Draft S2 should be set compared to that of Draft S1?

Question 14 in Draft S2

(a) The effective date of Draft S2 should be the same as that of Draft S1.	15	75.0%
(b) The effective date of Draft S2 should be earlier than that of Draft S1.	3	15.0%
(c) The effective date of Draft S2 should be later than that of Draft S1.	2	10.0%
Total	20	100.0%

Q13: Costs, benefits and likely effects

The ISSB is committed to ensuring that implementing Draft S2 proposals appropriately balances costs and benefits.

If you have any comments on this, please give them. **Question 12 in Draft S2**

Q14: Other comments

If you have any other comments not included in **Q1-Q13** above, please give them.

Question 17 in Draft S2