Comment letter on proposed standards being developed by the International Sustainability Standards Board of the IFRS Foundation

28 July 2022

Dear Members of the International Sustainability Standards Board,

The Secretariat for the Organisation for Economic Co-operation and Development (OECD) welcomes the publication of the International Sustainability Standards Board (ISSB) Exposure Drafts IFRS S1 “General Requirements for Disclosure of Sustainability-related Financial Information” (General Requirements Exposure Draft) and IFRS S2 “Climate-related Disclosures”.

The OECD Secretariat supports the objectives of the ISSB and the ambition to deliver a comprehensive global baseline of sustainability-related disclosure standards to provide investors and other stakeholders with information about companies’ sustainability-related risks and opportunities. Strengthening the availability and use of reliable, comparable and high-quality data to assess sustainability risks and opportunities is imperative for markets to be able to operate effectively and to limit financial stability risks.

This letter provides OECD Secretariat perspectives and technical feedback to inform discussion on the questions outlined in the ISSB’s invitation for stakeholder feedback on the two Exposure Drafts with the aim of improving the facilitation of reliable, comparable and of high-quality sustainability information. It also provides information about relevant OECD instruments and work that could support this aim.

This document has been developed by the OECD Secretariat1 under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein should not be interpreted as views of OECD member countries.

The OECD Secretariat looks forward to continuing its engagement with the ISSB and other relevant stakeholders on developing international benchmarks for sustainability disclosures and stands ready to facilitate cooperation between the ISSB and relevant OECD Committees in this regard.

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1 This document was developed by the OECD’s Directorate for Financial and Enterprise Affairs in close collaboration with the Environment Directorate, the Development Co-operation Directorate and the OECD Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE).
IFRS S1 – General Requirements Exposure Draft

Question 4 (a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

Corporate governance and risk management reporting

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be to enable the users of general purpose financial reporting to understand the processes by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into an entity’s overall risk management processes and to evaluate the entity’s overall risk profile and risk management processes.

The OECD Secretariat welcomes this proposal. With the emergence and greater awareness of environmental, social and digital security risks, investors’ need for quality disclosure from companies regarding ESG information including on governance, strategy and risk management processes has increased. Risk management practices help companies assess, address and report on material sustainability-related risks – including those related to their supply chains and business relationships.

As currently drafted, however, the requirement to disclose information about sustainability-related risk management processes may require further specificity in order to generate meaningful and comparable disclosures. The ISSB may consider recommending alignment around certain basic principles to ensure comparability and reliability of risk management practices. OECD instruments on corporate governance (OECD/G20 Principles of Corporate Governance) and environmental and social risk management (OECD Guidelines for Multinational Enterprises and associated Due diligence guidance for responsible business conduct) may serve to inform such principles (see section on Potentially relevant OECD instruments and work at the end of this letter).

Metrics and targets

While Appendix C of the Exposure Draft on General Requirements sets out the importance of comparable information, the section on “Metrics and targets” gives entities significant discretion on deciding which metrics to use when disclosing their sustainability-related performance, and only refers to the need for metrics to be consistent over time (Article 34).

One of the key benefits of developing an international sustainability-related disclosure requirement is for users to have access to comparable and harmonised metrics related to entities’ sustainability-related risks, opportunities, impacts and dependencies. The ISSB standards could underline the importance of using comparable metrics, and provide more detailed guidance on how entities should compile metrics in a harmonised and comparable manner, so that users can accurately compare the performance of different entities. Existing OECD analysis indicates that the lack of consistency and

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comparability of ESG metrics and scores of major ESG rating providers undermines the effective use of ratings for investor decision-making, and has contributed to market fragmentation of sustainable finance. The OECD is currently undertaking a comparative study of ESG metrics used by leading sustainability ratings providers which can help inform such guidance. Reporting requirements for specific sustainability topics as may be developed in the future by the ISSB should also suggest core metrics to improve clarity and comparability.

More specifically, the General Requirements Exposure Draft could more clearly articulate the different types of metrics required by reporting entities, including those related to dependencies and impacts on people and the planet (such as greenhouse gas emissions, which is a cross-industry impact metric in the climate standard). In this respect the Draft acknowledges that understanding an entity’s impacts and dependencies on resources and its impacts on resources is relevant for users interested in assessing entities’ sustainability risks and opportunities, which may in turn affect estimations of enterprise value. While the relationship between impacts, dependencies as drivers of sustainability-related risks and opportunities is acknowledged in the description of sustainability-related risks and opportunities, this is not reflected in subsequent sections. The section on “Risk management” covers both risks and opportunities and it might therefore be clearer to align the title accordingly. Additionally Article 17 could be rephrased to state more clearly that an entity’s sustainability-related risks and opportunities arise from its dependencies and its impacts on natural, human, social and economic resources.

The draft directs users to use the metrics associated with the disclosure topics included in the industry-based SASB Standards, the ISSB’s non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), and the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting. The ISSB may, in addition, wish to highlight that in view of the varied and dynamic nature of sustainability risks, other standards may be relevant. This may include standards that are not expressly designed to meet the purpose of financial reporting, but which may nevertheless provide metrics and remain relevant for certain issuers for the purpose of financial reporting. In order to avoid restricting issuers’ access to use of metrics relevant to their specific operating and risk context, this reference could therefore be expanded to “pronouncements of other standard-setting bodies whose requirements can be used to meet the needs of users of general purpose financial reporting.”

ISSB requirements would benefit from providing more clarity as to what elements should be included within sustainability-related risks and opportunities, and how they should be identified and disclosed in a way market participants can easily interpret and is not open to subjective interpretation. Furthermore, it would be useful to provide guidance to help users identify what constitutes “significant” sustainability risks and opportunities, to avoid the risk of greenwashing and promote consistency in materiality assessments. Additionally, setting out key time horizons (e.g. in months, quarters or years) would be important in promoting clarity and comparability across disclosures.

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Question 5 (b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

ISSB disclosure requirements covering value chains, together with the broad definition of “value chain” set out in Appendix A, form an important and positive component of the ISSB draft. The impact of COVID-19 exposed both vulnerabilities and strengths in global value chains, and the interconnectedness and interdependencies of production networks has put a spotlight on the risk of ripple effect when value chains are disrupted.5 As drafted, however, the requirement in the current General Requirements Exposure Draft to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, lacks specificity for how value chain sustainability-related risks and opportunities should be identified or assessed. It also does not clarify the level of detail at which such risks should be reported (i.e. general areas of risk and opportunities — at a geographic, product or sector level, or specific risks and opportunities associated with specific business relationships, etc.). Furthermore, the examples provided of potential relevant disclosures likely do not reflect the most material sustainability risk and opportunities associated with value chains and thus may risk misleading users of the ISSB framework. Future IFRS Sustainability Disclosure Standards that further elaborate on this disclosure obligation should seek to provide further specificity on these issues to promote a common understanding of value chain risk-assessment and reporting.

OECD instruments on environmental and social risk management (OECD Guidelines for Multinational Enterprises and due diligence guidance for responsible business conduct) may serve to inform this. (see section on Potentially relevant OECD instruments and work at the end of this letter).

Question 8(a). Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not? (b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

Proposals in the Exposure Drafts aim to ensure that an entity discloses material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Proposals to ask entities for information on approaches in addressing sustainability-related risks and opportunities that may affect an entity’s business model and strategy over the short, medium and long term are important.

As sustainability metrics need to be clearly aligned with financial materiality for the purposes of financial reporting, the relationship between financial, environmental and social materiality merits further attention. Reporting entities, whether on a voluntary or mandatory basis, will also need to consider environmental and social impacts (e.g. including material risks and impacts of corporates on the environment, with respect to climate change and biodiversity loss, and on human and labour rights etc.) in their disclosures. The financial relevance and impact of environmental and social factors is

6 The Draft provides that these risks and opportunities relate to activities, interactions and relationships and to the use of resources along its value chain, such as a) its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain; (b) the assets it controls (such as a production facility that relies on scarce water resources); (c) investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture)6.
dynamic and evolving. In particular, many environmental issues become financially material over time and contribute to long-term (financial) value, as physical climate impacts are becoming more widespread, damaging and costly, and as climate and other regulation becomes more ambitious. In addition, reputational risks, due diligence considerations, and increasing attention to environmental and social risks and opportunities are creating a basis for corporates to broaden the scope of their disclosures beyond factors that they believe impact (or may be seen as impacting) their financial performance in the short term. The need to ensure that sustainable finance considers the environmental materiality of climate change is of increasing concern to various stakeholders.

While the FSB’s Task Force on Climate-related Financial Disclosures (TCFD) has been instrumental in achieving a transition in thinking amongst investors, its focus on financial materiality of climate change may be insufficient to foster reallocation of capital to align with the low-carbon transition. To address this challenge, numerous institutional investors are increasingly adopting commitments to align their portfolios with climate alignment goals. These investors are also trying to better understand how they can progressively align their portfolios with climate goals that limit climate risks to people and the planet, e.g. 2 degrees or even 1.5 degrees. These considerations should be reflected in discussions and decisions with respect to the “building blocks” approach outlined by major disclosure framework providers.

Disclosure with a financial materiality lens should take into account the impacts of a full range of non-financial (i.e. environmental and social) activities and risks in determining potential long-term impacts to financial materiality. Furthermore, it should provide transparency with respect to the environmental and social materiality of factors and metrics. Whereas the ISSB has noted that it initially intends to focus its efforts on financially material aspects of sustainability reporting, a global disclosure standard for financially material sustainability reporting should benefit from a broad assessment of environmental and social risks and impacts, and identify factors which may become financially material over time and impact long-term value. It should also explain where material environmental and social factors are omitted. Over time, this work will need to take into account improved measurement and management of material sustainability risks and long-term value, so that business activities can better align with growing societal expectations, including the Sustainable Development Goals and the Paris Agreement.

**Draft IFRS S2 – Climate-related Disclosures**

Regarding the scope, the Climate-related Disclosures Exposure Draft notes that the general objective is to assess the effects of a company’s activity on the climate and to understand how the entity’s use of resources, and corresponding inputs, activities, outputs and outcomes aligns or do not align with the objective of keeping global warming below 1.5°C.

We support this objective, but suggest more precise explanation be provided as to the reporting requirements that serve to implement this objective. The environmental integrity of an entity and its climate governance, transition plans and targets may not be fully assessable based on the provisions in the current Draft. More specific suggestions follow below.
Question 3. (a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

The OECD Secretariat supports the need to disclose climate risks and opportunities in line with (and building on) TCFD guidance. However, the current draft does not make it sufficiently clear exactly how the description of climate risks and opportunities should be communicated. OECD analysis has underlined the lack of correlation between selected metrics being used to measure corporates climate transition pathways.7 Therefore, ISSB requirements should ensure that there is clarity as to which elements should be included within climate risks and opportunities, how they should be identified and disclosed in a way that is interpretable to market participants and not open to subjective interpretation. Furthermore, it would be useful to provide guidance to help users identify what constitutes “significant” climate-related risks and opportunities, to avoid the risk of greenwashing and promote consistency in materiality assessments. The ISSB also may wish to consider incorporating climate related biodiversity risks, impacts, dependencies and opportunities (such as nature-based solutions) in their disclosure framework.

The relationship between climate impacts and financial materiality is is highly dynamic due to uncertainties regarding the environmental as well as socio-economic consequences of climate in addition to evolving regulatory landscapes. Time horizons which are not sufficiently long enough may not capture potentially significant financial risks associated with climate impacts. The uncertainties described above may also leave room for a significant degree of subjectivity in assessing the financially material nature of these issues. As such it would be useful for users of disclosures to have information related to adverse climate impacts from business or investment decisions on people and the planet, to be able to assess whether determinations of financial materiality have been appropriately made. These considerations should be reflected in discussions and decisions with respect to the “building blocks” approach outlined by major disclosure framework providers

Opportunities related to transition are also not sufficiently defined in the current draft. The description alludes to opportunities from physical climate change, yet later in the draft, references “increased revenue from or costs of products and services aligned with a lower-carbon economy”. Further information on what constitutes transition opportunities would be valuable. For example, the draft OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans (to be published in autumn 2022) includes the following elements for opportunities: “Transition opportunities may include, amongst others, increased sales from products and services that are vital for the transition like the manufacturing and / or installation of renewable energy equipment such as wind turbines or solar panels (sometimes referred to as ‘enabling activities’, as set out above), first-mover advantages, long-term cost savings, and efficiency gains.” Relevant examples from throughout the document should be included in one place in the document for clarity, e.g. in the glossary.

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While the TCFD scope includes both risks and opportunities, TCFD recommendations have, de facto, largely been implemented in relation to climate-related risks. Such practice constitutes a departure from TCFD recommendations. Building on lessons from TCFD implementation, it would be useful for the ISSB Draft to provide guidance and recommendations on how corporates and financial actors can assess and report on broader climate-related opportunities. Depending on the circumstances of various jurisdictions this may require additional guidance for corporates and financial market participants (investors, insurers and banks) to: (i) develop transition plans consistent with the identification of significant climate risks and opportunities, as well as with the climate targets adopted accordingly, across portfolio-level (e.g. for investors) or balance sheets (e.g. for corporates or banks), and (ii) for investors, within each asset class, to identify and select investment strategies available to manage significant climate-related risks and opportunities. This could make reference to OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans (See section on Potentially relevant OECD instruments and work at the end of this letter). This could be added to the ISSB Draft, including a list of available investment strategies (e.g. engagement, thematic investing, divestment, exclusion, ESG titling, etc.). There is a reference to “divestments” in Articles 13 and 14 but there is no reference to aforementioned available investment strategies.

In addition, Article 9 includes reference to short, medium and long-term climate-related risks and opportunities. These could be expressed in specific time horizons to ensure that disclosures are comparable. While TCFD guidance does not specify the exact time horizons, given that ISSB aims to build on such guidance and intends for these expectations to become requirements, we suggest that they are clarified with key time horizons set out in years. For example, net-zero and interim targets are often expressed at 2030 and 2050, yet it will be important to include clear requirements that leave little possibility for misinterpretation by the user. Furthermore, for information to be verifiable, quantitative disclosures should be encouraged with options for unguided, qualitative disclosure reduced.

**Question 5. (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.**

The OECD is supportive of a focus on current and anticipated impacts from climate change on business models. The draft document uses the language “current and anticipated changes to its business model”. In order to avoid misinterpretation, the requirements could make it clear what framework and specific metrics should be used to report on such changes. Furthermore, when outlining disclosure requirements for climate-related targets in line with Articles 13-15, there should be clear requirements on disclosure of the scenarios used in line with TCFD recommendations. OECD policy recommendations state that targets should follow a clear methodology built on up-to-date and internationally recognised scientific advice that should allow market participants to understand the extent to which such actions support a reduction in carbon emissions in line with the goals of the Paris Agreement.8

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In line with this, ISSB requirements could better reflect and build upon TCFD guidance in this area. For example, the following areas (among others) are reflected in TCFD but do not appear well-reflected in the exposure draft’s section of transition plan specific information:

- **Assumptions in the plan:** According to TCFD, the transition plan should describe the organisation's assumptions, particularly regarding transition path uncertainties and implementation challenges. The assumptions should be consistent with those used by the organisation in its financial accounts, capital expenditure and investment decisions.

- **Methodologies:** Although ISSB gives ample room for the definition of metrics and targets, TCFD requires that these metrics and targets in a transition plan should be based on widely recognised and transparent methodologies, expressively defined as science based. This last element was not emphasised in the ISSB Draft.

- **Action plans:** ISSB generally refers to disclosing efforts and quantifying actions, but does not mention the importance of disclosing practical plans and describing actions in transition plans. In fact, TCFD requires that the transition plan outlines short-term and medium-term tactical and operational plans and describes how related actions address material sources of greenhouse gas emissions. The plan should include current and planned initiatives to reduce climate-related risks and increase climate-related opportunities.

- **Prioritized opportunities:** TCFD points out the importance in a transition plan to describe how the organization intends to maximise its prioritised climate opportunities as the world transitions to a low-carbon economy.

Further elements of disclosure of metrics in credible corporate transition plans are included in forthcoming OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans, and the guidance on ESG and climate transition, which could be usefully referenced by the ISSB in this context (see section on Potentially relevant OECD instruments and work at the end of this letter). Another area not identified in the Draft relates to conflicts of interest, and the extent to which this may hinder a company’s ability to meet targets set out in transition plans, including for example, the extent to which board members may sit across multiple corporate boards with differing levels of exposure to industries affected by transition plans.

**Question 6. (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?**

While we support the need to assess “how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows”, Article 14 could provide more detail on how companies should interpret the required disclosure. Notably, overall terms such as financial position are repeated, yet without reference to the detailed elements that should be reported to provide market participants with the information needed to assess such, this is also true for the General Disclosures Exposure draft. There are also no specifics regarding the justification and explanation required for entities that state that they are unable to disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities. This could enable entities to avoid disclosing information even if they were capable of providing it. Some further specifics on reasonable justifications would help prevent this provision becoming a loophole (e.g. SMEs may not have capacity to provide this information, due to lack of access to or cost of data).
In addition, as current and wide ranging methodologies to assess aspects such as stranded assets, asset write-downs and transition costs remain under development, with little consensus as to appropriate methodologies for industries and firms, this will undercut the value of the requirements in Article 14. Importantly Article 14 allows companies to disclose qualitative information, which may not be verifiable.

TCFD guidance identifies three areas in which gaps exist in current disclosures. ISSB may wish to better reflect on how the requirements can bring clarity and thus improve disclosure of such elements:

- **Disclosure of proportion of an organization’s assets and/or operating, investing, or financing activities exposed to material climate-related physical risks.** The TCFD emphasises certain gaps in the disclosure of these items which the ISSB could clarify, such as requiring that companies disclose the potential financial exposure with respect to issues such as impairment or impaired assets, the value of assets and liabilities, and changes in the cost of business interruption.

- **Disclosure of proportion of assets and/or operating, investing, or financing activities materially exposed to transition risks, based on key categories of commonly accepted risks.** Setting out clearer requirements for this element of disclosure would allow companies and market participants to better understand, track, and estimate potential exposure regarding such issues as possible impairment or stranding of assets, value of assets and liabilities, and change in demand for products or services.

- **Disclosure of proportion of assets and/or operating, investing, or financing activities aligned toward climate-related opportunities, based on key categories of commonly accepted opportunities.** TCFD guidance includes the proportion of assets and/or operating, investing, or financing activities aligned to climate opportunities of a given industry provides insight into the relative position of organizations, stating that this allows users to understand likely transition pathways and potential changes in revenue and profitability over time. The ISSB guidance could better reflect such elements clearly in the Draft.

We would therefore encourage that the Draft include elements of methodologies used to assess the impact on financial position, financial performance and cash flows, and ensure that repetition and potential misinterpretation are avoided.

**Question 7. (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.**

References to scenario analysis should make explicit reference to the need to undertake “forward-looking” scenario analysis. Given that climate change is complex, non-linear, and uncertain, ex-post assessment of carbon footprint is not sufficient to correctly assess and manage climate-related risks. It will be important to make this explicit, despite caveats provided in the draft on the emerging practices with scenario analysis. It is not clear why scenario analysis is only referred to under Article 15 on climate resilience and Question 7 on climate resilience, given that scenario analysis is extremely relevant for assessing transition risks. We suggest that this gap be addressed.
Question 10. (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 are supportive of the need to establish clear requirements for climate-related targets, yet Article 23 uses the term ‘metrics’ without clear requirements or expectations on what these should be. Similarly, elements outlined in appendix B ‘Industry-based disclosure requirements’ do not sufficiently address how metrics should be used, and explanations of such metrics could be open to interpretation. In addition, while the proposed guidance focuses primarily on cross-industry metrics, TCFD underlines the importance of organizations measuring and disclosing information with a high level of granularity including company-specific and key industry climate-related metrics.

TCFD guidance defines cross-industry, climate-related metrics broadly to allow for flexibility in how organisations implement it, and this approach has been incorporated in the ISSB Draft. However, standardization is considered a valuable element for both preparers and users of climate-related information, and we encourage the ISSB to provide further guidance on operationalising these metrics, and for preparers to use common taxonomies, where available.

TCFD allows companies to set different targets so long as the enterprise explains how it relates to the goals of the Paris Agreement, but leaves the level of ambition open. There are a number of ongoing international efforts, including by the G20 and GFANZ, which emphasise alignment with the Paris Agreement, and often alignment with 1.5 degrees (such as in the case of GFANZ), as well as increasing numbers of countries setting net-zero targets. It may be beneficial to set clearer boundaries as to what type of temperature target is acceptable as part of a transition plan. The forthcoming OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans provides suggestions on how this could be done as part of corporate transition plans, even in countries where net-zero targets are set for later than 2050 (see section on Potentially relevant OECD instruments and work at the end of this letter).

More could also be done to ensure that such targets are robust and in line with up-to-date internationally agreed scientific research. For example, the requirement in Article 15 notes that as a reporting expectation “whether the entity has used, among its scenarios, a scenario with the latest international agreement on climate change”, which could be open to interpretation. Given the need to have clear, comparable and quality information on climate-related targets, having requirements as to at least two standardised pathways would ensure that market participants can compare companies. This will be important to ensure that there is not a fragmentation in the pathways used for reporting across companies (i.e. some using 2 degrees, and others using 1.5 or other degree scenarios). Furthermore, the draft is very much focused on how to disclose use of carbon offsets, which appears limiting. Moreover, the proposed requirements on offsets/removals/avoided emissions should specify when their use is acceptable and when not. Without additional clarifications on when offsets are acceptable, it may be difficult for users to compare their use in different transition plans and impacts on enterprise value. Furthermore the prominent profile given to offsets combined with non-stringent criteria risks undermining environmental integrity.

The approach adopted sets out that upstream and downstream scope 3 emissions should be provided, however, entities may exclude scope 3 emissions provided they explain why. The proposed drafting is unclear as to whether entities always have to provide an explanation for why scope 3 emissions have

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9 The Glasgow Financial Alliance for Net Zero (GFANZ) is a global coalition of leading financial institutions committed to accelerating the decarbonisation of the economy. See: https://www.gfanzero.com.
been excluded. It would be useful for entities to be required to state the reason for the exclusion in all cases, and not just when it comes to emissions information reported by entities in their value chain.

**Question 13, Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.**

As noted throughout this response, the draft requirements allow for qualitative information to be disclosed in a number of areas. Qualitative information, without strict requirements for its reporting, may limit the verifiability of such information by auditors and regulators. Where possible, and building on TCFD guidance, requirements for quantitative information are favourable and necessary to support interpretability and verifiability of such disclosures.

Qualitative information is welcome to explain the significance and materiality of quantitative information, yet it is imperative that core quantitative metrics be suggested to improve clarity and comparability. Importantly where it is possible or plausible for companies to disclose quantitative information, this should be the requirement, so that difficult to compare qualitative information does not replace quantitative disclosure.

In this respect the OECD’s work on ESG and climate transition has called for a core set of quantitative metrics on environmental factors including climate transition, and its forthcoming guidance on market practices for ESG and climate transition highlights the need for international comparability of decision-relevant metrics.10 (see section on *Potentially relevant OECD instruments and work* at the end of this letter).

**Question 16. 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 as a global baseline? If so, what aspects and why? What would you suggest instead and why?**

Strengthening the availability and use of reliable, comparable and high-quality data to assess climate risks and opportunities is imperative for markets to operate effectively and to limit financial stability risks. Establishing a global baseline for reporting and disclosure is an important aspect of this. While we supports the overall objectives of the ISSB in their contribution to this, a number of aspects of the draft should be clarified to ensure that the information disclosed is reliable, comparable and high-quality.

First, there should be sufficient requirements as to the transparency of such methodologies adopted by reporting entities to ensure that such methodologies are interpretable by market participants. Companion guidance on international good practices should be considered. Second, on the clarity of requirements throughout the Draft, the requirements should be sufficiently clear, so that there is little to no chance that these can be open to interpretation (which would both reduce the comparability of information and increase the burden on companies and market participants in reporting and using disclosed information). Third, greater attention is needed to ensure that the Draft covers all aspects of the TCFD guidance and builds on such where required (i.e. in relation to gaps in disclosure outlined by TCFD in the 2021 document). Where possible TCFD guidance should be made clearer in a format

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suitable for reporting requirements, to ensure that these can contribute to a global baseline for reporting and disclosure on climate-related aspects.

Further consideration should be paid to the feasibility of uptake and impact of the proposed framework in the context of emerging economies as well as SMEs and on how to mitigate potential risks of negatives impacts such as disengagement from entities which are not able to produce this information.

Finally, the current Draft does not make explicit reference to potential climate-related social risks and opportunities. In this respect the cross-industry metrics identified in the current draft could feature potential social risks and opportunities related to climate change, such as current and potential future job losses, skills needs in the workforce and entities’ investments in the resilience of workforces.

**Potentially relevant OECD instruments and work**

The G20/OECD Principles of Corporate Governance (‘G20/OECD Principles’) are the global standard for corporate governance and were endorsed by the G20 at the Leaders’ Summit in 2015. They are designed to help policy makers evaluate and improve the legal, regulatory, and institutional framework for corporate governance, with a view to supporting economic efficiency, sustainable growth and financial stability. The G20/OECD Principles are currently being reviewed. The review, in which all OECD, G20 and FSB members participate, started in November 2021 with the objective of presenting revised Principles for OECD and G20 endorsement in Q3 2023. The review’s overall goal is to strengthen the Principles, in particular by adapting relevant elements to the post COVID-19 environment, taking into account the structural effects of the crisis on capital markets and corporate governance practices.

Building on national experiences during the COVID-19 crisis and on longer-term developments in corporate governance and capital markets, countries agreed that the review should focus on 10 priority areas, including the management of climate change and other environmental, social and governance (ESG) risks. In looking at the implications of climate change for corporate governance, the review is focusing on the roles and rights of shareholders and stakeholders, corporate disclosure, and the responsibilities of company boards. The revised Principles will aim to strengthen corporate sector resilience through better risk management and to improve companies’ access to finance from capital markets.

This work is guided by the understanding that the corporate governance framework should provide incentives for companies to make financing and investment decisions, as well as to manage their risks, in a way that contributes to the sustainability and resilience of the corporation, and that the transition to a low-carbon economy at reasonable cost will only be possible if companies have the incentives to innovate and the flexibility to respond to rapidly changing circumstances. This requires a corporate governance framework that allows investors and companies to consider and manage the risks and opportunities associated with the transition. It is therefore expected that the revised Principles will reflect the growing challenges corporations face in managing climate-related impacts and risks, and will offer guidance in this respect. As such, it will provide a comprehensive set of recommendations on sustainability disclosure as well as the role, rights and interests of shareholders, boards and stakeholders in sustainability matters.
The Review process for the G20/OECD Principles of Corporate Governance and the Stocktaking of the OECD Guidelines for MNEs (see below)\textsuperscript{11} are consensus building exercises that involve targeted discussions amongst Governments on sustainability related issues. They provide opportunities that the ISSB could leverage and build on to evaluate difficult choices related to materiality, risk management processes or the use of metrics for instance. The OECD looks forward to updating the ISSB on the review process and stands ready to provide a platform for further technical discussions.

The OECD Guidelines for Multinational Enterprises (OECD Guidelines for MNEs) are the most comprehensive set of government-backed recommendations on responsible business conduct in existence today, and are the only multilaterally agreed code of responsible business conduct that governments have committed to promoting. The Guidelines are adhered to by 51 countries.

The OECD Due Diligence Guidance for Responsible Business Conduct (RBC) adopted in June 2018, is the first government-backed reference on environmental, social and governance due diligence that applies to all sectors and all businesses. The scope of OECD RBC due diligence is focused on risks and impacts to people, society and the environment that enterprises create or are associated with in the context of their activities and value chains, regardless of whether or not those risks are material to the company. It outlines the process by which such risks and impacts should be identified and assessed and the key measures and characteristics to ensure that due diligence processes are meaningful and effective. In this respect OECD RBC due diligence is intended to be risk-based and dynamic – i.e. to maintain flexibility to adapt to the operating context and risk exposure of a firm and to respond to changing circumstances over time, emphasizing improvement through engagement and avoiding of de-risking. OECD RBC due diligence calls on companies to publicly report on their due diligence policies, processes, and activities conducted to identify and address actual or potential adverse impacts, including the findings and outcomes of those activities.\textsuperscript{12} This common and government backed approach to how business should identify and prioritise risks and impacts to people, environment or society can enable users of sustainability information to discern how robust such processes are and thereby in turn the relevance and credibility of related disclosures regarding material sustainability as defined by the ISSB.


\textsuperscript{12} See OECD (2018) Due diligence guidance for Responsible Business Conduct, Section II.5.1.
OECD RBC standards form the basis of corporate disclosure requirements in the U.S., the EU, and the African Great Lakes region, as well as government-backed industry standards in Japan, China, and India, for example. Business federations are also integrating OECD RBC principles into standards and guidance, and GRI recently modified its universal reporting standards to integrate and align with recommendations of the OECD Due Diligence Guidance for RBC.

The OECD’s Committee on Financial Markets is developing forthcoming guidance to central banks, financial authorities and market participants on good market practices with respect to ESG investing and financing the climate transition. The recommendations focus on the need for transparency, consistency and comparability of high-quality data, and also of sufficient transparency of underlying methodologies, so that investors have decision-useful information regarding sustainability. The guidance emphasises the need for net-zero and science-based interim targets, consistent with the goals of the Paris Agreement. Such improvements in the quality and comparability of climate-related disclosures may also benefit from third party verification, and more active use in investor engagement strategies to assess issuers' actions against their forward-looking business strategy, including decarbonisation metrics.

The draft OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans (to be published in autumn 2022) sets out elements of credible corporate climate transition plans. Given the need for making the net-zero transition inclusive of sectors and geographies, the concept of transition finance has been gaining traction among market actors and policy-makers. In this context, transition finance focuses on the dynamic process of becoming sustainable, rather than...

15 OECD RBC standards are also referenced in Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment (also known as the EU Taxonomy), and in Regulation 2019/2088 on sustainability-related disclosures in the financial sector (known as Sustainable Finance Disclosure Regulation or SFDR). They also form the basis of forthcoming legislation currently under consideration, namely the European Commission’s proposal for a Corporate Sustainability Reporting Directive (CSRD), which includes enhanced due diligence reporting expectations aligned with the recommendations of the OECD Due Diligence Guidance for RBC, and the European Commission’s proposal for Corporate Sustainability Due Diligence Directive, which in explicitly modelled on OECD RBC due diligence recommendations.
providing a point-in-time assessment of what is already sustainable, which can be the case with traditional sustainable finance approaches.

However, transition finance has been criticised for opening the door to greenwashing by corporates and financial market participants, when sacrificing environmental integrity for inclusiveness. In order to support efforts towards minimising this risk, the OECD Guidance on Transition Finance proposes that transition finance has to be grounded in credible corporate climate transition plans. Such plans can provide confidence to investors that the corporates that are aiming to raise transition finance are on a credible path to net zero.

To this end, the guidance presents key elements of credible corporate climate transition plans. In order to not duplicate other initiatives on transition finance; these elements build on existing regulatory and market-led approaches, including the draft ISSB proposal. They cover, amongst others, net-zero and interim targets, use of metrics and KPIs, use of carbon credits and offsets, inclusion of just transition aspects, as well as issues surrounding transparency and verification. In addition to what is covered by existing approaches, the guidance also proposes new elements, including ways to consider non-climate-related sustainability impacts in transition planning, mechanisms for preventing carbon-intensive lock-in, and tailored approaches for SMEs and certain companies operating in EMDEs that may encounter challenging enabling conditions. Lastly, the guidance also sets out ways to use other sustainable finance tools like taxonomies, corporate sustainability disclosure standards, and tools for RBC to inform transition planning. This approach allows the guidance to act as an umbrella for existing transition finance initiatives, including those that do not explicitly use corporate transition plans.