

July 29, 2022

International Sustainability Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London, E14 4HD

*Re: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures*

Dear International Sustainability Standards Board Trustees,

The Vanguard Group Inc. (Vanguard) appreciates the opportunity to respond to the exposure drafts<sup>1</sup> published by the Trustees of the International Financial Reporting Standards Foundation (IFRS), exploring general requirements for sustainability-related financial information and climate-related disclosures.<sup>2</sup> Vanguard manages assets on behalf of more than 30 million individual investors around the world who are saving for long-term goals such as retirement or a new home. Our core purpose is to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success. As a steward of lifetime savings for our clients, Vanguard recognizes the value of meaningful disclosure to support the ability of investors to evaluate risk and make informed investment decisions.

Corporate disclosures about sustainability and climate risks and opportunities inform Vanguard's efforts on behalf of our funds' investors in various ways. For example, clear, comparable disclosures inform the investment decisions of portfolio managers for our actively managed funds and inform the engagement efforts and proxy voting decisions of our investment stewardship team on behalf of our clients. We undertake these activities with a long-term perspective and with the objective of protecting and enhancing long-term shareholder value. Therefore, we view climate and sustainability-related risks through the lens of financial materiality and expect companies to disclose them as relevant to their industries.

### Consistency & building blocks

We are supportive of efforts to drive greater international consistency in sustainability reporting, and we believe these efforts will improve the effective functioning of the capital markets. We welcome the formation of the International Sustainability Standards Board (ISSB) and support the "building blocks" approach, which provides a baseline founded on existing frameworks and standards, particularly those enterprise-value, industry-specific requirements set forth by the Sustainability

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<sup>1</sup> [Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#)

<sup>2</sup> [Exposure Draft IFRS S2 Climate-related Disclosures](#)

Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). We also support that this approach preserves different jurisdictional contexts in implementation, such as Corporate Sustainability Reporting Directive (CSRD), in Europe which requires a multi-stakeholder focus on materiality.

### Role of the board in assessing material risks

At Vanguard, we assess risks—including sustainability-related risks—in terms of long-term shareholder value. We start with the premise that our equity index funds typically hold companies' stock for long periods and are near-permanent investors in just about every public company and every industry. With this indefinite horizon, our funds must focus on how companies are setting themselves up for success today, next year, and well into the future. We expect that the companies in which our funds invest, and their boards, have a similar focus.<sup>3</sup> We believe that boards are responsible for effective oversight of a company's long-term strategy and any relevant and material risks, including sustainability opportunities or concerns. Vanguard works with boards of companies in which we invest across the globe to ensure they are effectively identifying and managing material risks to give our clients the best chance for investment success. We ask boards to be a key voice on strategy, to identify and govern material risks, and to have structures in place to consider emerging and event-driven risks, including those material risks related to environmental and social sustainability issues in their industry. We believe boards are in the best position to define risks material to a particular entity and disclose them utilizing widely accepted frameworks to ensure comparability across companies and sectors.

### Financial materiality

Vanguard views corporate disclosures—including disclosures pertaining to sustainability—through the lens of materiality to the firm's long-term value, and we focus on the risks that are most relevant to particular companies, while acknowledging that those risks might evolve over time. Disclosure and assessment of material risks, including sustainability risks, is important for price discovery and long-term shareholder returns. As disclosure of financially material sustainability risks improves, we believe security prices will more accurately reflect these risks, and all investors will benefit. We support the SASB approach that companies are responsible for determining which disclosure topics represent financially material risks and opportunities for their business and which associated metrics to disclose, taking the company's business model, business strategy, and relevant legal requirements into account.

### Climate-related disclosures

We appreciate that the ISSB framework would ensure clear, consistent, and comparable foundational climate-related information—including uniform reporting of Scope 1 and Scope 2 greenhouse gas (GHG) emissions in alignment with the TCFD—in line with the local legislative requirements. This information will help investors better understand a company's exposure to, and management of, climate risk without imposing an undue burden on companies. In most cases, the disclosures

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<sup>3</sup> [Global investment stewardship principles \(vanguard.com\)](https://www.vanguard.com/global-investment-stewardship-principles)

described in the proposal should provide investors with adequate information about material climate risks.

We recognize that Scope 3 GHG emissions represent the majority of emissions for many companies and sectors, but these disclosures come with challenges including data availability, use of estimates, and varying calculation methodologies. These challenges may place an undue burden on companies if required to report all categories of Scope 3, including emissions which may not be material. Given that the data required to provide these disclosures may be difficult to ascertain, and some information may be subject to different interpretations, disclosures should include information about key assumptions the company makes for its calculations or projections, the limitations or exclusions within those calculations, and limited to material Scope 3 categories. Investors would be best served by more targeted and flexible disclosures than the full Scope 3 requirement proposed, which includes significant data requirements and potentially broad applicability.

It may be appropriate, however, to require additional climate-related disclosures for a subset of companies or sectors that have more acute climate risks or that have set climate-related targets. For example, a company or sector that faces acute risk with respect to one or more categories of its Scope 3 emissions—such as purchased goods and services or use of sold products—or that has set a target with respect to that element, should be required to disclose only the information necessary to help investors understand that risk or progress toward the target. This would reduce any unintentional disincentives to setting targets while ensuring that companies more fully describe the climate risks material to their organizations. We encourage the Trustees to ensure that any additional disclosure burdens that flow to companies that have set Scope 3 targets, or with more acute climate risks, are limited to the specific data elements required to describe the target set or the more acute risk.

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Vanguard appreciates the opportunity to comment on this proposal. If you have any questions or would like to discuss our views further, please contact me at [john\\_galloway@vanguard.com](mailto:john_galloway@vanguard.com).

Sincerely,

/s/ John Galloway

John Galloway

Principal and Investment Stewardship Officer

The Vanguard Group, Inc.