CHARTERED PROFESSIONAL ACCOUNTANTS CANADA
COMPTABLES PROFESSIONNELS AGRÉÉS CANADA

Chartered Professional Accountants of Canada
277 Wellington Street West Toronto ON CANADA M5V 3H2
T. 416 977.3222 F. 416 977.8585
www.cpacanada.ca

Comptables professionnels agréés du Canada
277, rue Wellington Ouest Toronto (ON) CANADA M5V 3H2
T. 416 977.3222 Téléc. 416 977.8585
www.cpacanada.ca

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

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

Dear International Sustainability Standards Board:

Chartered Professional Accountants of Canada (CPA Canada) appreciates the opportunity to comment on the International Sustainability Standards Board's (ISSB) first two proposed IFRS Sustainability Disclosure Standards – [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1 or General Requirements Standard) and [Draft] IFRS S2 *Climate-related Disclosures* (IFRS S2 or Climate Standard) (collectively the 'Exposure Drafts').

CPA Canada is one of the largest national accounting organizations in the world, representing more than 220,000 members. It works collaboratively with the provincial, territorial and Bermudian CPA bodies, as it represents the Canadian accounting profession, both nationally and internationally. This collaboration allows the Canadian profession to champion best practices that benefit business and society, as well as prepare its members for an ever-evolving operating environment.

CPA Canada has a long history of leadership in sustainability. We have been actively involved in domestic and global sustainability-related policy, regulatory and standards setting initiatives including but not limited to the Global Reporting Initiative, Sustainability Accounting Standards Board, and the Task Force on Climate-related Financial Disclosures (TCFD). We have conducted extensive research on sustainability and climate reporting trends, practices, and challenges, and issued many resources on these topics.[1] Some recent initiatives include guidance for boards and public companies on environmental and social issues, research on net-zero disclosures, and various publications on implementing the TCFD recommendations in the

[1] CPA Canada's sustainability-related resources can be accessed at: [Sustainability is good business (cpacanada.ca)]

private and public sectors. Our sustainability and capital markets research and expertise have informed our assessment of the ISSB proposals.

CPA Canada has been a strong supporter of the IFRS Foundation's work to establish the ISSB and we are proud to be a member of the group known as the Canadian Champions for Global Sustainability Standards, a coalition of organizations from the private and public sector that supported the successful bid to host the ISSB in Canada. We also welcome the establishment of a Canadian Sustainability Standards Board which is in the early stages of development and is expected to be operational in mid-2023. We look forward to continuing to engage with the ISSB as it progresses this important work.

In developing our response, we conducted extensive outreach with a wide variety of stakeholders including preparers, directors, investors, auditors, lawyers, and academics. We also consulted with CPA Canada's Sustainability Reporting Advisory Committee and Canadian Performance Reporting Board which are comprised of experts in sustainability, financial reporting, and capital markets issues. We conducted targeted outreach with Indigenous Peoples, smaller companies, and representatives from the oil and gas and mining sectors.

In addition, amongst other efforts, we conducted research on the development and use of the GHG Protocol's standards for the measurement and reporting of greenhouse gas (GHG) emissions. We also considered feedback on climate disclosure proposals published by the Canadian Securities Administrators (CSA) and reviewed many of the submissions to the U.S. Securities and Exchange Commission (SEC) with respect to its climate disclosure proposals. Like IFRS S2, the Canadian and U.S. climate disclosure proposals are modeled on the TCFD framework but there are some significant differences compared to the ISSB proposals with respect to the disclosure of GHG emissions, GHG emission targets, scenario analysis, and anticipated financial impacts of climate-related risks and opportunities.

Overall comments

We believe the ISSB is best positioned to develop a global baseline of sustainability disclosure standards for the capital markets. We commend the ISSB staff for their efforts in developing the comprehensive proposals which address many important areas and cover a broad range of environmental, social and governance (ESG) issues. We would also like to acknowledge and thank ISSB staff for their contributions to our outreach on the Exposure Drafts.

Based on our research and outreach, it is clear that preparers would face significant costs and challenges in applying and interpreting the proposed standards. Many stakeholders found the volume and complexity of the material overwhelming. There is also confusion about how the proposals will interact with other local regulatory proposals (e.g., climate disclosure proposals issued by CSA, SEC, as well as European Sustainability Disclosure Standards being developed by the European Financial Reporting Advisory Group (EFRAG)).

The feedback we received calls into question the appropriateness of the ambitious timeline set by the ISSB to issue final standards later this year. At the same time, we also recognize the urgent need for the ISSB to deliver disclosure standards on climate change. Accordingly, we believe the ISSB should focus its resources in the short-term on addressing issues related to the Climate Standard which we believe can, and should, be adopted by jurisdictions more quickly. We also believe more due process, research and outreach is necessary before the industry standards (that are part of the climate proposals) and General Requirements Standard are issued.

Summary of key issues

We have outlined below a summary of the key issues we believe require closer attention from the ISSB. It is critical that the ISSB address these issues to improve the proposed standards and increase uptake of the standards globally. Our responses to select consultation questions are included in the Appendix.

a) *Coordination and collaboration in developing a global baseline of sustainability disclosure standards*

   We are concerned that there will be different sustainability disclosure requirements adopted around the world. While the various sustainability-related disclosure proposals may be conceptually aligned, they require significantly different disclosures which will result in unnecessary cost, complexity, and inconsistency in sustainability reporting.

   The ISSB and local regulators should work together to minimize differences to the greatest extent possible. We are pleased that the ISSB has formed a jurisdictional working group to help address these concerns and enhance compatibility between the ISSB's Exposure Drafts and ongoing jurisdictional initiatives. Given the similarities between the ISSB proposals and those of the CSA and SEC, we also encourage the ISSB to consider the feedback received on local jurisdictional proposals in finalizing its standards. We found many of the letters to the CSA and SEC to be highly informative.

b) *Materiality*

   We find the paragraphs in IFRS S1 dealing with materiality confusing and inconsistent. In particular, stakeholders struggled with the link to 'enterprise value,' which is not reflected in the definition of materiality under IFRS Standards. Stakeholders also question the practicality of considering low impact, high probability outcomes and are concerned with the legal implications of this requirement. It is essential that stakeholders be provided further guidance and illustrative examples for there to be consistent approaches to determinations of materiality. Further work is also required to ensure that key terms and definitions are clear, concise, and understandable. For example, the distinction between the terms "significant" and "material" to describe sustainability risks and opportunities is not clear.

   In our view, the ISSB should more closely align the definition of materiality used in sustainability standards with the definition of materiality used in financial reporting.

c) *Reference to other standards and guidance*

   Overall, we support the ISSB's general approach of leveraging existing reporting frameworks and standards in developing its proposals. However, we have some concerns with the way the ISSB has implemented the approach:

- In some areas, the Exposure Drafts direct entities to consider other frameworks, standards and guidance developed by other bodies in developing their disclosures. For example, IFRS S1, paragraphs 51 and 54 require that an entity "shall consider" other sources of guidance to support the disclosure of significant sustainability-related risks and opportunities not specifically addressed by an IFRS Sustainability Disclosure Standard. We think this approach is inappropriate for a number of reasons. For example, it requires that entities identify and understand material that may not be consistent and has not been subject to an appropriate due process.
- In addition to the standards and guidance specifically mentioned in IFRS S1 (SASB, CDSB etc.), there are a wide range of sustainability frameworks, standards, and guidance in the market which stakeholders find overwhelming and challenging to monitor. It is unrealistic to expect companies to assess and consider all these other sources to develop their disclosures.
- It is not clear how preparers would practically comply with this requirement without a clear hierarchy or guidance to assist in the selection of the appropriate standards, frameworks and/or guidance. This requirement also presents challenges with the comparability and verifiability of the related disclosures.
- A broader question is what type of due process the ISSB should follow when referencing external frameworks, standards, and guidance within its standards. For example, what further analysis needs to be done on these external frameworks, their development, and their use to ensure that that they are fit for purpose in the context of sustainability reporting for the capital markets? How will the ISSB monitor and review modifications to such frameworks?

Based on the above issues, we do not believe that this approach of frequently referring to other external frameworks to comply with the standard will achieve the objective of consistent and comparable sustainability reporting. If the ISSB decides to proceed down this route, further guidance is needed on how to comply with such requirements.

d) *Approach to industry-based SASB Standards*

An industry-based approach to setting sustainability-related reporting requirements is valued by investors. The ISSB incorporates industry-based content from the SASB Standards in two ways:

- As noted above, the General Requirements Standard requires an entity to consider the disclosure topics included in the industry-based SASB Standards to identify and determine disclosures about the significant sustainability-related risks and opportunities to which it is exposed.
- The climate-related content from the SASB Standards forms part of the Climate Standard and is included in Appendix B. Preparers are required to identify and disclose in accordance with the requirements applicable to their industry.

Appendix B is over 600 pages long and we and other Canadian stakeholders have not had the opportunity to properly assess and understand these disclosure requirements. More due process is needed to deal with the significant amount of industry-based material, and we recommend a dedicated consultation take place on this specific aspect of the Exposure Drafts.

We believe more guidance is needed to help preparers navigate the industry-based disclosure requirements in Appendix B and better understand the relationship between the cross-industry and industry-specific metrics.

e) *Financial impacts and connectivity between sustainability and financial information*

We heard conceptual support for connectivity between sustainability and financial information. However, the material in IFRS S1 raises questions about whether it would be practicable to explain connectivity. For example, concerns were raised about the requirement to disclose information related to 'trade-offs' (explanation of the potential options that were evaluated when assessing sustainability-related risks and opportunities in IFRS S1 paragraph 44(b)). Stakeholders noted they do not disclose this information for other aspects of their business, would be hesitant to disclose the information to competitors, are unclear how they would isolate the sustainability-related aspects of a strategic decision, and believe this disclosure could be misleading to investors.

In addition, we heard that the forward-looking financial information required by the proposed climate standard (e.g., anticipated effects of significant climate-related risks and opportunities on financial performance, financial position, and cash flows) will be challenging to prepare because companies are still developing their understanding of these effects and it is also difficult to isolate climate-specific effects. For example, a fixed asset might be purchased for many reasons, and it is not clear how a preparer would decide whether a potential purchase is an anticipated effect of a significant climate-related risk. In addition, it is not clear how the result of this arbitrary assessment is useful to investors. We note that this information is currently the least reported aspect of the TCFD recommendations which makes us question companies' ability to provide this information. We believe further research is required to better understand whether it is practicable to determine the required disclosures and whether they are useful to investors.

f) *Greenhouse gas (GHG) emissions measurement and disclosure*

The Climate Standard refers to the GHG Protocol standards for the measurement of GHG emissions. We note that the GHG Protocol is a leading source of guidance on the measurement and reporting of GHG emissions and its standards are being referenced/incorporated into climate disclosure standards and rules being developed in local jurisdictions.

Generally, stakeholders indicated that disclosure of Scope 1 and Scope 2 emissions is critical information for investment decision-making. In contrast, we consistently heard about the difficulty in gathering Scope 3 emissions data and concerns over the reliability and usefulness of this information. Significant diversity in Scope 3 measurement and reporting practices that are allowed in applying the GHG Protocol's standards limits the usefulness of such information for investors. As a result, we do not believe that Scope 3 disclosures should be required at this time.

Given the increasing importance of GHG emissions metrics, we believe more work should be done on the GHG Protocol standards and guidance at a global level to ensure that they meet evolving stakeholder needs and expectations. Based on our research on the GHG Protocol, we identified a number of important considerations for regulators and standards setters relying on the GHG Protocol (refer to our response to IFRS S2 Question 9 in the appendix for further details). We encourage the ISSB to conduct further analysis on the GHG Protocol and work closely with the World Resources Institute and World Business Council for Sustainable Development to determine how the GHG Protocol's standards and accompanying guidance may need to be updated and enhanced to support the disclosure of audited GHG emissions data in a regulatory filing.

g) *Timing of sustainability reporting*

There are concerns with the proposal to report sustainability-related financial disclosures at the same time as the financial statements and the burden that this would impose, particularly for smaller issuers with limited resources. We heard from many issuers that they currently obtain and report GHG emissions data in sustainability reports several months after regulatory filings are made.

While we see the benefits of aligning the timing of financial and sustainability reporting, we have not seen evidence that it is necessary to have this information reported at the same time. Therefore, we recommend that the ISSB reconsider this requirement. We believe that the timing of such reporting should be determined by individual jurisdictions. and take into account other factors such as other existing emissions reporting obligations.

h) *Assurance/verifiability of disclosures*

Independent assurance on sustainability disclosures would enhance the credibility of the information and provide investors and other providers of capital with more confidence in the quality of the sustainability reporting. It is important that the ISSB develop standards that have the essential characteristics necessary to enable an independent assurance provider to perform an assurance engagement.[2]

Providing assurance on sustainability information brings some challenges that need to be addressed. Sustainability reporting is complex and subject to significant judgement and estimation uncertainty, as illustrated by some of the issues identified in this letter. It is therefore very important that the ISSB work closely with the International Auditing and Assurance Standards Board (IAASB) to ensure that assurance can be provided on sustainability information resulting from the application of the IFRS Sustainability

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[2] CPA Canada published guidance to assist standard setters in developing standards that have the characteristics necessary to enable an independent practitioner to perform an assurance engagement: Guidance on Suitable Criteria and Other Assurance-Related Considerations for Developing Subject Matter Reporting Standards

Disclosure Standards. We are pleased that the IAASB has introduced a project on the need for new sustainability assurance standards and encourage the ISSB to participate in the project.

i) *Engagement with Indigenous Peoples*

Further engagement needs to be conducted with Indigenous Peoples in the development of sustainability disclosure standards. The disproportionate impact of climate change on some Indigenous Peoples should be acknowledged and considered when developing disclosure requirements. We heard in our consultation with Indigenous Peoples concerns that some of the proposed disclosures could have a disproportionate negative economic impact on them because, for example, they may not be able to supply the information requested of them by customers and might then be excluded from supply chains. In addition, there is investor interest in the disclosure of an entity's relationship with Indigenous Peoples including, for example, efforts taken to obtain free, prior and informed consent in relation to major projects that impact Indigenous Peoples and their territories. We believe more work and outreach needs to be done with Indigenous Peoples to understand how these perspectives should be considered in disclosure requirements.

j) *Education and guidance*

Sustainability reporting is a new concept for many preparers and users and there is a need for education and guidance to build professional skills and support high quality implementation of IFRS Sustainability Disclosure Standards. The ISSB should determine what its role will be in providing education and guidance and make that position clear. As noted throughout our response, additional guidance and examples of disclosures are needed in a number of complex areas (e.g., materiality, connectivity with financial information, Scope 3, scenario analysis) in order to enable preparers to apply the proposals effectively and consistently.

k) *Costs/benefits*

The widespread adoption of the requirements in the Exposure Drafts would result in significant annual compliance costs in addition to the costs of initial adoption and other indirect costs such as those resulting from the added exposure to legal liability. We encourage the ISSB to reassess its cost and benefit analysis, including considering whether some of the more onerous disclosures (e.g., Scope 3 emissions, scenario analysis, anticipated financial impacts) will provide investors with the decision-useful, comparable information they are looking for given the significant subjectivity and lack of standardized practices and methodologies.

Conclusion

We strongly support the ISSB and appreciate the significant effort that has been put into developing the detailed proposals. We hope that our comments and suggestions will help the ISSB improve the proposed standards and move closer towards achieving a global baseline that is capable of consistent application and over which assurance can be provided.

We do not believe it is feasible to appropriately address all the issues identified and finalize both standards by the end of the year as we have heard may be the goal of the ISSB. We believe the ISSB should prioritize its efforts on finalizing the Climate Standard and work in a timely manner to address the issues relating to the General Requirements Standard and the industry standards material.

Thank you for the opportunity to comment on the proposals. We would be pleased to share further insights and answer any questions you may have. Please contact Rosemary McGuire, Director, Research, Guidance and Support (rmcguire@cpacanada.ca).

Yours truly,

Pamela Steer, FCPA, CA
President & CEO

Appendix

IFRS S1 Question 1 - Overall approach

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

d. **Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why.**

The scope of IFRS S1 is very broad and unclear (we note that even the term “sustainability” is not defined). Providing the required disclosure will be a substantial undertaking for issuers, especially in the absence of specific IFRS Sustainability Disclosure Standards (other than for climate disclosures). IFRS S1 seems to be a combination of a conceptual framework and specific requirements. We believe it would be preferable to bifurcate these two aspects and issue a conceptual framework first. This will help to ensure that other standards are prepared in a consistent fashion and with appropriate concepts in mind. We also believe that some of the proposed material that belongs in a conceptual framework document requires enhancements. For example, as noted elsewhere, we believe more guidance is needed on the meaning and relevance of enterprise value.

As indicated in our cover letter, we do not agree with the proposals regarding consideration of other standards and frameworks which would result in an unreasonable burden on preparers and create challenges in assessing compliance with the proposals. Stakeholders indicated they are not knowledgeable about all the existing sustainability frameworks and standards. Comparisons were made with International Financial Reporting Standards (IFRS) – for example, IFRS Standards require fair value measurement in many circumstances and IFRS 13 provides clear guidance, including the hierarchy to be applied, and very detailed additional guidance that renders the estimate of fair value auditable. These hierarchies and detailed guidance are needed in the ISSB standards themselves. This is one of the reasons why we believe the ISSB should do more work before issuing a general requirements standard.

IFRS S1 Question 6 - Connected information

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

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

As noted in the cover letter, we conceptually agree with the proposed requirement to disclose connected information but there are concerns about the extent to which this can be achieved in a way that will be helpful to investors.

We are concerned that the requirement does not recognize the amount of estimation and measurement uncertainty involved and could result in excessive disclosures of little value to investors. Preparers and board members questioned the benefit of this information to investors in part because it would be highly subjective and hard to quantify. The requirement is also not practical given that entities deal with complex and dynamic systems, and decision-making is not linear with direct connections between risks, opportunities, metrics, and financial outcomes. These factors also lead to concerns about the time, effort, and ability to provide assurance over these types of disclosures.

Similarly, concerns were raised about the requirement to disclose information related to 'trade-offs' (explanation of the potential options that were evaluated when assessing sustainability-related risks and opportunities) in IFRS S1 paragraph 44(b)). Stakeholders indicated that this could involve an extremely wide range of matters considered, with varying degrees of relevance and perhaps even contradictory perspectives. In effect, this would require management and the board to describe everything they considered and discarded in their decision-making. While entities should talk about the risks and the impact of decisions, it is impractical for issuers to have to "show their work" when it comes to trade-offs. This type of disclosure is also not typically required for other matters.

IFRS S1 Question 8 - Materiality

a. **Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?**
c. **Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?**

As stated in the cover letter, we believe the ISSB should more closely align the definition of materiality used in sustainability standards with the definition of materiality used in financial reporting. Together with a significant amount of additional guidance about how to apply materiality in a sustainability reporting context, this change would help to resolve the many concerns we have heard.

There are significant concerns about materiality as currently defined. Materiality is a fundamental concept for both internal and external decision making so it is critical to have it clearly defined and capable of consistent application. Materiality assessments for sustainability disclosures are challenging because of the many differing views about the meaning of the definition and how to apply it.

The Illustrative Guidance provided is not sufficient to address the concerns we have heard. Detailed guidance on conducting materiality assessments for sustainability disclosures, including practical examples, is needed.[3]

[3] In 2019, CPA Canada published Disclosing the Impact of Climate Change: A Process for Assessing Materiality

More specific areas of concerns with the definition and assessment of materiality under the proposed standard include:

- Unclear definition.
  - Paragraph 56 provides the same description of materiality as the one used in financial reporting, but Paragraph 57 then modifies the definition by linking it to enterprise value. The language in BC71 compounds the problem by indicating that materiality judgments about sustainability-related financial information will differ from general purpose financial statements and states that it is assessed in relation of enterprise value. No clear guidance is provided in the standard, Illustrative Guidance, or Basis for Conclusion.
- Materiality and enterprise value
  - Stakeholders have different ideas about the connection to enterprise value which would lead to inconsistent materiality determinations. It is also not clear why the fair value of debt is relevant in assessing materiality
- Low probability, high impact outcomes
  - Challenges were identified with the proposed requirement to consider inclusion of information about low probability, high impact outcomes. For example, how do you quantify potential extreme weather changes that could impact development plans 30 years out? It is not possible to anticipate all low probability, high impact outcomes and this requirement could introduce significant liability exposure.
- Significant risks and opportunities
  - The Exposure Draft refers to providing information about "significant" risks and opportunities. It is not clear what "significant" means and how this relates to the definition of materiality under the proposed standard.

The comments above also indicate that there will be challenges for assurance providers in determining whether appropriate materiality assessments have been conducted. We also note that there is guidance in the GHG Protocol in Chapter 10 on how to assess materiality for GHG emissions disclosure, but it is not clear how this materiality definition reconciles to materiality requirements under the proposed ISSB standards. This raises further questions about how issuers and assurance providers would interpret materiality.

Refer to additional comments on materiality in the cover letter.

IFRS S1 Question 14 - Global baseline

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?

In our view, the proposals go beyond what we, and most of those we have heard from, think of as a baseline. Stakeholders commented that the proposed standards could be interpreted as a 'gold standard' in the current landscape and potentially limit the ability of IFRS Sustainability Disclosure Standards to be used as a global baseline upon which jurisdictions could add their own requirements

We also heard concerns that the proposals are not consistent with certain aspects of our regulatory regime. For example, the definition of materiality is different under Canadian securities regulation than the one in the proposals. In addition, for regulatory purposes, emissions information is often required for periods that do not coincide with the financial year-end.

As noted in the cover letter, we believe it would be best to scale-down some of the requirements in the near term to reduce the possibility of potential amendments to the ISSB's standards for local regulatory use.

Given that a number of sustainability and climate-specific disclosure proposals have been issued by local jurisdictions, it is critical that the ISSB and local regulators continue to work together to promote harmonization and convergence.

Refer to additional comments in the cover letter.

IFRS S2 Question 1 - Objective of the Exposure Draft

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

Generally, we agree with the objective of the Climate Standard and support alignment of the standard with the TCFD recommendations. However, there are opportunities to streamline and minimize duplication of some of the requirements. For example, we note that there are overlapping requirements around climate-related targets in paragraphs 13 and 23.

As noted in the cover letter and responses to Questions 7 and 9 below, we believe it is too early to introduce mandatory requirements for scenario analysis and Scope 3 emissions as methodologies to develop this information are not sufficiently mature and for other reasons. This is an important area for the ISSB to monitor and may be introduced at a later stage as a broader range of preparers become more educated, GHG Protocol standards on Scope 3 are updated, and further guidance is available.

We also believe that industry standards should be subject to separate consultation before being incorporated within the Climate Standard. Please also refer to our comments on industry standards in the cover letter.

IFRS S2 Question 5, 10 - Transition plans and climate-related targets

5a. Do you agree with the proposed disclosure requirements for transition plans? Why or why not?

10a. Do you agree with the proposed disclosure about climate-related targets? Why or why not?

Stakeholders generally appreciate the need for and robustness of the disclosure requirements and believe they help ensure that companies are not just setting arbitrary targets without real plans to achieve them. Overall, this is viewed as a positive step forward but the time it takes to develop the information should not be underestimated in in thinking about the total amount of burden that will be imposed on preparers. Additional time is needed to develop controls and processes to allow entities to comply with these disclosures.

There are also other practical issues that need to be addressed in guidance material such as how targets should be adjusted due to acquisitions and divestitures.

IFRS S2 Question 6 - Current and anticipated effects

a. **Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?**
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?**

As noted elsewhere, stakeholders expressed significant concerns about these matters, particularly the disclosure of anticipated effects. For example, how do you accurately separate the climate change aspects from the non-climate change aspects? There are significant judgements and speculations involved which could result in information that is not helpful or even misleading to investors. Further work needs to be done by the ISSB to understand the challenges that issuers will face in developing forward-looking disclosures and the legal exposures that would result.

We also note that this is the least reported category for those applying the TCFD recommendations and we question if the disclosure is feasible/practical. It may be preferable for management to provide qualitative disclosures.

This aspect may need to be addressed jointly by the International Accounting Standards Board (IASB) and the ISSB, as there are already accounting requirements that would likely capture material information of this nature.

IFRS S1 Question 7 - Climate resilience

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

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." There was widespread agreement among stakeholders that scenario analysis is challenging and time consuming and that most companies do not currently have the internal resources/expertise to conduct it. Additionally, the methodologies are not well-developed and there is a lack of standardized sets of assumptions, which limits the comparability and usefulness of the disclosure. Requiring scenario analysis is likely premature. We note that the Canadian Securities Administrators have not included a requirement to include scenario analysis in their recent climate disclosures proposal for these reasons.

We have only seen a small number of disclosures of scenario analysis and question their usefulness to investors at this time. This is another area where we believe more work is needed to determine how and why investors use scenario analysis information and whether the cost of preparing it exceeds the benefits. We also note that according to the most recent TCFD Status Report, relatively few companies are disclosing scenario analysis information.

In addition, it is unclear what "unable to do so" means in the proposed standard. For example, does this include lack of time/resources? Is relying on the "unable to do so" exception allowable for companies that have identified all climate risks and opportunities and set targets?

As a practical and perhaps better alternative, stakeholders suggested that the standard focus on what methods or tools management is currently using to assess its resilience. An analogy can be made to IFRS 8 *Operating Segments* which focuses on the information used by the chief operating decision maker.

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

a. **The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?**

Preparers generally felt that too many metrics are being required and the disclosure requirements are overly prescriptive. For example, the requirement in paragraph 21 (e) related to capital deployment is challenging as it is difficult to isolate the portion related to climate change. Further guidance is also needed with respect to the requirement to disclose the amount and percentage of assets or business activities vulnerable to transition and physical risks because it is not clear what "vulnerable" means.

Stakeholders suggested that the standard should instead contain a principle that disclosure is required of the metrics most important to the entity and that some of the currently proposed mandatory metrics could be provided as examples of the types of metrics to disclose, rather than mandatory disclosures. Companies should be reporting the metrics they are already monitoring, and investors should decide if they need more information.

As noted in our cover letter, we also recommend that the SASB industry-based standards included in the Climate Standard be subject to a future consultation.

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?**

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?**

As noted in our cover letter, we agree with the proposed requirement to disclose Scope 1 and 2 emissions. We do not believe that Scope 3 emissions disclosure should be required at this time.

Because of the urgent need for the ISSB to deliver a climate standard, we believe it is reasonable to rely on the GHG Protocol's Corporate Accounting and Reporting Standard (Corporate Standard) for the measurement of GHG emissions. However, as noted in our cover letter and below, we believe further work is required on the GHG Protocol to ensure it is fit for purpose.

We acknowledge that there is wide-spread recognition and use of the GHG Protocol's Corporate Standard. However, we have also heard that the Corporate Standard provides wide latitude in making and applying judgments and assumptions. Users relying on GHG emissions data would benefit from greater transparency around the choices companies make, the methodologies used, accompanied by a warning about the potential lack of comparability and measurement uncertainty associated with the data.

We recently completed research on the GHG Protocol in collaboration with the Institute of Sustainable Finance. We noted the following:

- The Corporate Standard contains a combination of standards and guidance material. The standard is not very prescriptive and requires significant application guidance. It is not always easy to discern between the standards and guidance material. This mixed approach could be confusing to preparers and create challenges for assurance providers.
- The GHG Protocol's due process, independence, funding, and governance structure, are not fully clear and should be reviewed to determine if they are appropriate given expanded role of the GHG Protocol.
- The Corporate Standard acknowledges challenges with measuring Scope 3 emissions and states that Scope 3 estimation is optional. More prescriptive guidance on the calculation of Scope 3 emissions is needed.

- There is a range of other standards and guidance material available for calculating GHG emissions (e.g., Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry) that could be confusing to preparers and result in diverse interpretations. There should be more clarity on whether use of this other material is acceptable and how it interacts with the Corporate Standard
- The Corporate Standard contains guidance on how to assess materiality for GHG emissions disclosure which is not consistent with materiality definitions and guidance in IFRS Sustainability Disclosure Standards.
- There are significant judgements and assumptions involved in the calculation of GHG emissions. Decisions around GHG reporting boundaries, emission factors, and which Scope 3 activities to include can lead to disclosure that is not consistent or comparable.
- The findings listed above can result in challenges for providing assurance over GHG emissions.

The full report will be available in August 2022.

IFRS S2 Question 12 - Costs, benefits, and likely effects

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?**

As noted in the cover letter, we encourage the ISSB to reassess its cost and benefit analysis, including considering whether some of the more onerous disclosures (e.g., Scope 3 emissions, scenario analysis, anticipated financial impacts) will provide investors with the decision-useful, comparable information they are looking for.

A number of large Canadian companies have published extensive ESG reports for many years and have had to report emissions information for some time. We reviewed many of these ESG reports as well as a significant number of analyst reports issued by investor advisors. We found that even for companies providing extensive reports and emissions information, analysts rarely made mention of this information in their reports. Recommendations and comparisons were made almost entirely based on more traditional metrics, many of them cash flow based. Analysts seemed interested primarily in high level assessments of ESG issues and not in the numerous granular information available to them. This suggests there may be merit in the views of those who favour qualitative disclosure over quantitative disclosure. Overall, we believe more work should be done to understand how investors and analysts are factoring this information into their decision making.