BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

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EXECUTIVE SUMMARY

(for BETTER FINANCE readers' benefit, not in the draft replies to the public consultation below)

Explanation	The International Sustainability Standards Board (ISSB) has published both of its Exposure Drafts including IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (General Requirements Exposure Draft) which sets out the overall requirements for an entity to disclose sustainability-related financial information about all its significant sustainability-related risks and opportunities, to provide the market with a complete set of sustainability-related financial disclosures. As well as Exposure Draft IFRS S2 *Climate-related Disclosures* (Climate Exposure Draft). From out understanding the feedback for both General Requirements for Disclosure and Climate-related Disclosure will influence the way non-financial reporting is implemented as well as its impact for all stakeholders involved, including individual investors.
General comments	BETTER FINANCE welcomes the initiative of the ISSB to harmonise sustainability disclosures and improve the content and quality of the information investors need. We strongly recommend the ISSB seeks a global approach to sustainability reporting in line with other existing and developing standards in order to ensure comparability on one hand and enhance investors' understanding on the other. We are concerned about the lack of clarity of certain notions including 'materiality' and 'enterprise value' and the way information may be interpreted without concrete and granular definitions.

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About BETTER FINANCE

BETTER FINANCE, the European Federation of Investors and Financial Services Users, is the public interest non-governmental organisation advocating and defending the interests of European citizens as financial services users at the European level to lawmakers and the public in order to promote research, information and training on investments, savings and personal finances. It is the one and only European-level organisation solely dedicated to the representation of individual investors, savers and other financial services users.

BETTER FINANCE acts as an independent financial expertise and advocacy centre to the direct benefit of European financial services users. Since the BETTER FINANCE constituency includes individual and small shareholders, fund and retail investors, savers, pension fund participants, life insurance policy holders, borrowers, and other stakeholders who are independent from the financial industry, it has the best interests of all European citizens at heart. As such its activities are supported by the European Union since 2012.

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Comment letter

Emmanuel Faber
ISSB Chair
IFRS Foundation

Brussels, 28th July 2022

BETTER FINANCE response to the International Sustainability Standards Board (ISSB) Exposure Drafts 'IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information' and 'IFRS S2 Climate-related Disclosures'

Dear Mr Faber,

I am writing to you in my capacity as Managing Director of BETTER FINANCE, the European Federation of Investors and Financial Services Users. We are the EU-level public interest non-governmental organisation dedicated to advocating for the interests and defending the rights of individual and small shareholders, fund investors, savers, pension fund participants, life insurance policy holders, borrowers, and other financial services users.

Executive Summary

As an independent financial expertise centre to the direct benefit of European financial services users, BETTER FINANCE through its member organisations is the European level dedicated representative organization of millions of individual investors in Europe and thereby a main beneficiary of the draft non-financial reporting Standards developed by ISSB. Since sustainability reporting is one our core areas of interest, BETTER FINANCE welcomes the opportunity to comment on both the Exposure Draft of IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information and the Exposure Draft of IFRS S 2 – Climate-related Disclosure.

In light of the proposals put forward by the ISSB, BETTER FINANCE would like to draw your attention to the overarching themes that will ensure investors receive consistent, comparable, and reliable information and enable them to make informed judgements about the impact of climate-related risks on current and potential investments, and also – hopefully – on the climate-related impact of investee companies.

- **Consistency and coordination with other disclosure standards and initiatives** such as the European Sustainability Reporting Standards (ESRS)[1], the Task Force on Climate-Related Financial Disclosures (TCFD)[2], the Global Reporting Initiative (GRI)[3], and the Sustainability

[1] The European Financial Reporting Advisory Group (EFRAG) was mandated by the European Commission to prepare for new European Sustainability Reporting Standards - a set of exposure drafts that outline reporting requirements, Public consultation on the first set of Draft ESRS - EFRAG

[2] The Task Force on Climate-Related Financial Disclosures (TCFD) was created in 2015 by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders, Task Force on Climate-Related Financial Disclosures | TCFD) (fsb-tcfd.org)

[3] The Global Reporting Initiative (GRI) provides the world's most widely used standards for sustainability reporting, GRI - Home (globalreporting.org)

Accounting Standards Board (SASB)[4] would ensure a common set of internationally accepted high-quality sustainability reporting standards, which provide comparable and consistent information for "individual" investors[5]. It is important to remember that more than 60% of the worldwide market value of listed companies' is coming from US-listed companies. This of course has a heavy impact on the asset allocation of non-US and European investors. We therefore strongly support harmonisation with existing and currently developing standards to promote consistency and uniform data for "individual" investors and encourage the ISSB to work closely with EFRAG and other international initiatives. By extension, a comprehensive and globally coordinated baseline better prevents greenwashing and provides mutually complementary investment landscape for investors and other stakeholders alike. The consistency should also apply to accounting and financial reporting standards as well as audit standards and assurance.

- **Clarity and consistency of "materiality" and "enterprise value" throughout the ISSB's Standards** will benefit "individual" investors' understanding and usability of the standards. The terminology relating to the identification of risks and opportunities as 'significant' and 'material' and relating to "enterprise value" should be clarified and made consistent across the standards not least to prevent greenwashing and provide investors a better information about the impact of their investments. BETTER FINANCE wishes to remind that EU Law rightly requires information provided to individual investors to be **CLEAR**, i.e. "*presented in a way that is **likely to be understood** by, the average member of the group to whom it is directed, or by whom it is likely to be received*"[6]. Subsequently, the role of external 'impacts' in assessing "enterprise value" creation should be better refined and be consistent with the impact identification process of other standard setting initiatives. We recommend the ISSB to expand from "single" materiality to "double" materiality as the overwhelming majority of respondents to the 2020 ISSB consultation favoured, either immediately or as soon as possible. This result was not reflected in the IFRS's feedback statement on the consultation. Additionally, in line with our previous point, a prerequisite is to clearly define these two concepts so that they are intelligible for individual investors. Similarly, the ISSB should clarify the seemingly interchangeable notions of "material" and "significant".

- **Integrating sustainability and financial reporting** is key for investors. Access to appropriate data and the quality of that data remain key barriers to reliable and comparable key disclosures. A single set of comprehensive disclosure standards which apply both to financial and non-financial entities is critical in building the necessary data set which can facilitate better investment and financing decisions by all stakeholders. A single - common - management report will ensure that all information is based on the same requirements with respect to precision, quality and comparability and thus improve decision-making processes of "individual" investors. Similarly, the ISSB Standards should improve their level of granularity and limit the scope on interpretation for entities, which will ultimately improve the quality and relevance of the reported data for all stakeholders.

[4] The Sustainability Accounting Standards Board (SASB) – a US standard provider - focus on ESG issues expected to have a financially material impact on the company, aimed at serving the needs of most investors and other providers of financial capital, [About Us - SASB](#)

[5] In reference to "individual" investors the meaning and definition refers to "individual non-professional investors"

[6] MiFID DELEGATED REGULATION (EU) 2017/565, article 44.2.d

1. A global, collaborative approach to consistent sustainability reporting

We welcome the ISSB's objective of developing a global baseline of sustainability disclosures, which focuses on the provision of information for investors' needs. "Individual" investors are progressively interested in sustainable investments – be it directly through equity investments in companies or indirectly through sustainable investment funds.[7] The increased investment flows into sustainable investments goes along with an increased need for understanding sustainability- and climate-related risks: "individual" investors seek to understand how companies are planning to mitigate risks and capture opportunities associated with the transition to a low carbon economy. This is especially important because both the existing lack of information and the increasing concern regarding "greenwashing" serve as obstacles for "individual" investors to invest for a sustainable economy. According to a study of the French financial market supervisory (AMF), investors consequently expect concrete examples of projects and proof of the impact of these investments[8] and the standards are expected to create a tool for entities to provide such information in the future.

Investors including "individual" investors do not only need more data on climate- or sustainability-related risks and opportunities[9] they need better, more comparable, and comprehensible data to understand the risks and opportunities entities are exposed to. Entities on the other hand face a growing need to report in detail and comprehensively on their material, non-financial sustainability information. The requirements for entities on sustainability reporting are manifold encompassing the ESRS, Corporate Sustainability Reporting Directive (CSRD), Taxonomy, Corporate Sustainability Due Diligence Directive (CSDDD), and Markets in Financial Instruments Directive (MiFID) sustainability preferences. BETTER FINANCE therefore welcomes that the ISSB has developed Standards that provide a comprehensive global baseline of sustainability disclosures. As climate risk is a global theme, **investors need regulators and standard setters to take a global and coordinated approach that paves the way for high-quality, distinct and comparable sustainability- and especially climate-related disclosures**.

Comparable disclosures will strengthen "individual" investors' understanding of how the transition to a lower carbon economy is progressing across the entire economy. It is furthermore key to avoid unnecessary regulatory fragmentation that may have negative consequences for globally invested investors and globally operating companies. It is encouraging that for climate reporting aspects of the CSRD for example, the European Financial Reporting Advisory Group (EFRAG) has been closely aligned with the ISSB technical work and the two standards are overall well aligned – with the important exception of EFRAG's inclusion of the Taxonomy related disclosures. Further cooperation between the ISSB and EFRAG is **necessary to ensure full comparability of standards and subsequent usability for "individual" investors**.

BETTER FINANCE therefore **encourages the ISSB to go beyond its original approach of a "global baseline" by actively contributing to the process of convergence of sustainability reporting standards at the global level** in line with it stated aim to facilitate the provision of comparable information for global markets. We welcome the ISSB's stated intent to include SASB Standards in the Exposure Drafts

[7] BF-Report-New-Retail-Investing-Environment-for-Retail-Investors-01062022.pdf (betterfinance.eu)

[8] https://www.esgtoday.com/france-regulator-amf-study-finds-high-retail-investor-interest-low-participation-in-sustainable-investing/

[9] According to a survey of PwC, more than three out of four investors state that they would be able to make better-informed decisions if companies applied uniform ESG standards in their reports and relied on a recognised framework: https://www.pwc.de/de/nachhaltigkeit/pwc-global-investor-survey-2021.pdf

and its commitment to internationalise their applicability.[10] To that end, diverging or – even worse - competing standards would have negative and significant consequences for investors and entities while a collaborative approach would create an effective regulatory model to support existing and future national, international, and inter-governmental policies, such as the Paris Agreement.

Appropriate convergence and full compatibility are key to avoid "duplicative reporting" for EU entities operating globally, with ESRS inside the EU and non-EU local regimes inspired from the ISSB's global baseline standards outside the EU. The same applies to non-EU entities reporting to EU investors. This will facilitate transparency and ease of applicability as well as generate more uniform data which remains a vital element for "individual" investors and stakeholders alike. At least, we recommend ISSB to clarify the relationship between global standards and other standards (e.g., jurisdictional standards set out in the EU) to ensure that these are mutually complementary.

Consistency

- **with the accounting and financial reporting standards**

BETTER FINANCE reiterates a dire need for a strong consistency and connections between financial statements and sustainability reporting. And these should also be reflected in the underlying IFRS accounting standards.

- **with audit standards and assurance**

The same should also apply to the auditing. Reporting and audit assurance must go hand-in-hand. Audit is vital to increase trust in financial and in non-financial information, and it is this trust that turns the wheels of the capital markets and funding of the economy. Investors use audit assurance for credibility of an entity's financial and non-financial disclosures and given that the draft Standards use various terms that leave a distinct amount of judgement or are of qualitative nature (see also above) auditing are expected to play an even bigger role in non-financial reporting.

When developing reporting standards, audit standards must therefore be adapted in order not to create an unnecessary gap. The ISSB Standards should be reviewed in that respect to ensure that auditing is ensuring the expected credibility not only by reviewing the Standards against the final text of the CSRD, but also by engaging closely with international and national audit standard setters.

In particular, BETTER FINANCE recommends that the key audit matters identified by the external auditors would also apply to sustainability reporting.

2. **Clarity on the concepts of "materiality" and "enterprise value"**

ISSB's focus is on meeting the information needs of investors by developing standards that will require entities to provide all material information related to significant sustainability matters that are relevant to investors' decision-making, including thematic and industry-based requirements. Already in its introductory remarks, the ISSB consequently lays down that sustainability risks and opportunities arise "from an entity's dependencies on resources and its impacts on resources, and [that] the relationship the entity maintains that may be positively or negatively affected by those impacts and dependencies"; and continues that "when such impacts, dependencies and relationships create risks or opportunities, they can create or erode the value of the enterprise, the financial returns to providers of financial capital, and the assessment of enterprise value by primary users." To ensure that investors can make

[10] IFRS - ISSB communicates plans to build on SASB's industry-based Standards and leverage SASB's industry-based approach to standards development

informed decisions, companies are required to disclose information if that information is considered "material".

Lack of standardisation of the "impact" side of materiality may contribute to the greenwashing narrative that makes it more difficult for investors to target. Definitions of ''material'' and ''significant'' are challenging and the current ISSB approach to identifying materiality would benefit from further clarity and guidance since it remains open to interpretation by entities, auditors, users, or supervisory authorities. A common framework and scope of the materiality concept will ensure consistency across entities' disclosures and support "individual" investors' understanding and usability of the standards. If the ISSB does not develop plans to reduce the interchangeable use of ''material'' and ''significant'' and broader definitions of materiality, there is a risk that other initiatives will fill the void and further increase fragmentation. In any case**, more guidance by clarifying the difference between 'significant' and 'material' information would be needed**.

BETTER FINANCE welcomes the ISSB's focus on investors, which is aligned with the longstanding and well understood and perceived approach in IFRS reporting. However, "enterprise value" may need further clarification and enhancement as there is a potential for varying interpretations in different jurisdictions and subsequent comparability issues. Financial materiality and the enterprise value are in our view interconnected with impact materiality, i.e. the impact an entity has on climate or any other dimension of sustainability. Material environmental impacts may also translate into financial risks. This would make disclosures more useful to the growing number of "individual" investors seeking to align their investment practices with climate or wider sustainability goals. It will also provide the information and level of transparency that is necessary for investors to get a full picture of an entity's sustainable performance.

An entity's financial sustainability is interdependent with the sustainability of other economic activities, of the planet and of the society. The entities' ability to address their negative externalities effectively and substantially is ultimately dependent on the adaptation of their business model. There seems to be a dynamic nature of the two materiality perspectives often referred to respectively as "single" and "double" materiality. Very easily, sustainability matters can come to be considered as financial dependencies, risks, and opportunities over time.

We assume that the gap between both approaches will diminish in the future. Negative influence factors of the entity on the environment are being understood as a risk in the valuation of the entity. Especially from the perspective of "institutional" investors (agency owners for the most part), the entity's influence on climate change is already recognized and integrated as transitory risk. **The approach currently pursued by the ISSB risks that important information, for example about material negative externalities the entity might cause, may not find their way to investors**. This applies also to SASB. As mentioned before, US listed entities representing today more than 60% of the world's market value, and EFRAG's (EU standard draft setter) currently opting for "double materiality" non-financial reporting, means that investors – EU ones especially - will de facto not be able in most cases to compare investment options based for example on climate change impact information.

We acknowledge, however, that the reporting obligations for entities are currently increasingly demanding and that the Standards had been drafted in a very short timeframe only. As representative organisation of users of non-financial and financial reports, we consider that **a phased-in approach starting with a focus on financial "single" materiality can only be acceptable on the condition that an expanding of the Standards is clearly pursued, and no diverging disclosure is required from entities**.

In this context, we would like to point to another issue not necessarily directly related to the Standards but of wider importance. ESG or sustainability investments have recently been growing significantly.[11] It can be noted that companies like Microsoft or Apple can be found in most of so-called ESG or sustainable indices and that their weightings in those indices are very often even higher than in the standard market indices.[12] While these companies perform very well in relation to various E, S or G factors[13], they cannot be viewed in isolation but must be considered in their wider environment. We are concerned that specific factors, are not taken into account when analysing the environmental impact. As an example, we question whether the raw materials needed to produce the hardware or the cloud server on which Microsoft products are running are captured by the assessment of the "greenness" and thereby its impact on the enterprise value of this specific entity. In other words, Microsoft cannot even exist without computers, servers and data transmission providers from all over the world. Equally, these businesses' sustainability is dependent on software providers such as Microsoft. The lack of measurement of positive impact in relation to the climate by focusing only on "enterprise value" should therefore be addressed. As a matter of fact, a vast part of the new incoming legislation in Europe, but also in other jurisdictions around the world, is targeted at protecting investors from the perspective of both risks and opportunities as well as impacts. It is, therefore, important that in the corporate disclosures domain the impact perspective is also adequately captured. **BETTER FINANCE therefore advocates to review and enlarge the scope of the term "materiality" in the mid- to long-term**.

3. Integrating sustainability and financial reporting

Non-financial and financial reporting as a common part of the management report (integrated reporting)

BETTER FINANCE as the leading European association of "individual" investors shares a common interest in comparable, consistent, and reliable sustainability related information on investment and stewardship decisions. From the investors' point of view the objective is to link the sustainability reporting with the financial reporting in order to publish a common management report. So, **consistency between financial and non-financial statements are key for investors**. This can only work if the financial data in the sustainability part comply with the data and assumptions in the financial reporting part. Therefore, it is decisive that all information is based on the same requirements with respect to precision, quality and comparability.

Digital reporting for investors

BETTER FINANCE welcomes the ISSB plans to enable digital consumption of sustainability-related financial information. Several sustainability frameworks such as SASB, GRI, and TCFD already have machine-readable versions or taxonomies, which enable easier extraction and comparison of information. However, investors and in fact all stakeholders, will benefit from greater accessibility of standards and disclosures through other media including smartphones. "Individual" investors have a different level of knowledge and expertise, and the digital disclosures should serve in their interests and be accessible as well as inviting for a broad spectrum of investors. This will improve investor experience and help them make more informed investment decisions.

[11] GSIR-20201.pdf (gsi-alliance.org) Global Sustainable Investment Review / ESG funds provided better returns for investors in 2020 (europa.eu)
[12] ESG scores of the worlds' largest companies 2021 | Statista
[13] Recognition | Microsoft CSR / 2022 Apple ESG Report (q4cdn.com)

Generality vs. granularity

Where standards leave too much room for diverging interpretations they will not lead to harmonisation and may be prone to the risk of greenwashing. In addition, reports drafted based on such disclosures will be challenging to audit and of less use for investors. BETTER FINANCE therefore welcomes the announcement of ISSB and GRI on a potential collaboration, as the harmonisation of the sustainability reporting landscape at an international level would give entities greater clarity on reporting expectations and will ultimately improve the quality and relevance of reporting data.

However, we consider that there is a need for the ISSB to go a step further: the stated aim of the ISSB Standards is to provide investors, lenders and other creditors with more consistent, complete, comparable and verifiable sustainability-related financial information to help them assess an entity's enterprise value, but the Standards lack a certain degree of granularity and preciseness, leaving entities room for a considerable amount of judgement and interpretation.

One of the important terms that need to be clearly defined is the term "**significant risks and opportunities**" as it is one of the basic determinants decisive for application of the Standards. It is therefore important for investors to understand the key points of the identification process and the entity's assessment of significance. BETTER FINANCE recommends that the ISSB provides a definition for the term "significant" which can be highly subjective. The same holds true for the definition of "**short/mid/long term**") where concrete timeframes or at least guidance for entities on how to determine these timeframes would be helpful.

In a similar way, **requirements regarding transition plans and carbon offsetting need further clarifications**. Given the key role of transition plans in fighting climate change and helping investors navigate and understand their investment landscape, uncertainties around the content of transition plans will cause further divergence among entities and stakeholders. The ISSB should develop reporting requirements on the absence of transition plans as well as target dates, mid/long term reviews, GHG emissions in absolute terms and carbon offset alignment with other existing standards. Lack of appropriate guidance and level of detail under the requirements, could compromise the integrity of the information reported and thus increase greenwashing.

On the other hand, we are aware of the necessity to keep the sustainability Standards short enough to make their implementation by reporting entities, and their clarity and comparability for users more effective.

Furthermore, the ISSB could benefit from further guidance on its approach to fair presentation which encompasses varied levels of integration of other standards. Entities need clarification regarding which standards would prevail in cases of divergence in order to ensure consistency of information for investors. Given the expected difficulty in navigating other important aspects of sustainability from other standards, especially since different standards may contradict one another as well as the ISSB, it would be beneficial to have further clarity for the sake of all stakeholders.

We would like to point out that the SASB Standards, which are supposed to serve as a starting point for industry-based reporting requirements, have only a limited scope. This means that for many entities, significant amounts of material information would fall outside of the scope of these standards. BETTER FINANCE therefore considers that when SASB Standards are adopted by the ISSB, the topics that are deemed material for each industry as well as the metrics used, would need to be significantly expanded. Otherwise, investors will be unable to access information that are key for assessing sustainability risks and opportunities of companies.

We also suggest to define the term 'sustainability' as part of IFRS S1 in order to help entities to better determine the scope and boundaries of their assessments for sustainability risks and opportunities. In addition, **BETTER FINANCE would welcome if the Standards would provide entities with a guideline on how to use/determine comparable metrics. Accounting comparability has proved to have several economic effects for investors and entities in financial accounting**[14].

Higher comparability ensures that investors can access more relevant peer and overall industry information. In addition, it lowers investors' firm-specific information processing costs and thereby facilitates a more precise valuation of financial information. Similar effects can be expected in the sustainability-related reporting area. Where entities can select the standard that fits them the best this will lead to even more diverse, not comparable reporting and to a higher degree of confusion on the investors' side. Similarly, where entities are free to choose own metrics and metrics from various other sources, comparability will thus be shrinking, leading to a reduced usefulness of the reports for the investors.

Please find more detailed comments on the Exposure Drafts set out in the Annexes A and B.

We remain available for answering any questions concerning our "comment letter" you may have.

Yours sincerely,

[14] Gross, C., Perotti, P. (2017). Output-Based Measurement of Accounting Comparability: A Survey of Empirical Proxies. Journal of Accounting Literature 39, December 2017, pp. 1-82.

ANNEX A: BETTER FINANCE comments to specific questions for IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Question 2 (Objective)

(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

The Standards in our view lack a certain degree of granularity or preciseness, leaving entities room for a considerable amount of judgement. One example is under paragraph 1 of the General Requirements which requires a distinct amount of judgement to decide whether information is "useful to the primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity."

Question 3 (Scope)

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

According to paragraph 8, "An entity shall apply this [draft] Standard in preparing and disclosing sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. An entity may apply IFRS Sustainability Disclosure Standards when the entity's related financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP." BETTER FINANCE questions why in case entities are using IFRS or other GAAP only "may" apply the IFRS Sustainability Disclosure Standards as the word "may" implies rather a suggestion than a recommendation.

Question 4 (Core content)

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

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

We consider that already the objective mentioned in paragraph 12 is too narrowly framed: "enable users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage sustainability-related risks and opportunities". Based on the information provided, investors will not be able to monitor the actions of the governance bodies nor will they be able to assess them against that of their peers. Furthermore, an understanding of an entity's governance requires that investors are enabled to understand who is responsible for what, not only in abstract terms but also concretely.

The Governance section (under paragraph 13) however contains mainly requirements to publish general/generic information about the relevant governance body/committee or its remuneration. For example, there is no requirement to disclose who within the body has which skills, knowledge, and experience, or why a certain member of a governance body had been chosen for appointment nor do the Standards include a requirement to disclose how remuneration during the year under review has matched sustainability- or climate-related metrics. In addition, disclosure of processes or policies of identifying significant risks and opportunities and materiality assessment is not required despite it

being key for investors' understanding.

BETTER FINANCE raises similar concerns regarding the Strategy section (under paragraph 14). According to the Standards, disclosures should enable an investor "to understand the effects of significant sustainability-related risks and opportunities that could reasonably be expected to effect the entity's business model, strategy and cash flows, its access to finance and its cost of capital over the short, medium or long term". While the Standards require certain information relating to the strategy, there is no requirement to disclose the strategy itself. What the Standards refer to seems to be rather a management approach to risk and opportunity than a strategy and we would recommend a clarification of what exactly is required by the Standards. In addition, it is not only important for investors to understand how an entity is responding to significant sustainability-related risks and opportunities but also within which timeframe to understand the entity's strategy and build an assessment. The Standard should reflect this, even more as the terms "short/mid/long" can be defined by the entities themselves (under paragraph 16(b) of the General Requirements for Disclosure).

The Standards include in some instances very special examples (for example under paragraph 17 or 21 (c) in the General Requirements for Disclosure). While examples are helpful to understand the meaning behind the Standards, they impact readability and distract from the main content, i.e. the requirements foreseen in the Standards. In our view, any such examples would be better combined in an annex or additional guidance.

According to paragraph 34 where metrics or targets need to be redefined or replaced, entities shall "provide restated comparative figures unless it is impracticable to do so". Here again, we consider that more concrete guidance to the term "impracticable" is needed to ensure the reporting to remain verifiable for investors. In addition, it is unclear to us for which periods a restatement would be required.

Another example is under paragraph 22 of the General Requirements which require that "An entity shall disclose quantitative information unless it is unable to do so." The term "is unable" also leaves ample room for judgement for entities which in the end may lead to a decreased level and less comparable information for investors.

According to paragraph 28, entities shall use metrics defined in IFRS Sustainability Standards, metrics from other sources (e.g. SASB) and metrics developed by the entity itself. On the other hand, in appendix C (C17), it is noted that the Standard is more useful if it can be compared to information provided by other entities.

Question 7 (Fair presentation)

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

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

The reference in paragraph 51 (c) of the standards on General Disclosure Requirements recommends that entities in addition to the IFRS Sustainability Disclosure Standards shall consider "the most recent

pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting”. We therefore recommend that further guidance is provided in regards to which standards should prevail in case of divergence to ensure a fair presentation

Question 8 (Materiality)

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

2. (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?

3. (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?

4. (d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

According to paragraph 62 of the General Requirements for Disclosure, relief an entity from disclosure “if local laws or regulations” prohibit disclosure. We consider it necessary to include a clarification that the term “regulation” is not restricted to local regulations but also include for example European regulations. These are legal acts that apply automatically and uniformly to all EU countries as soon as they enter into force, without needing to be transposed into national law and should be considered equal to local law.

Question 10 (Location of information)

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

(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

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

(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not

BETTER FINANCE welcomes that the Standards are based on the principle to avoid unnecessary information. The proposal to do so by cross-referencing, if available on the same terms and at the same time by adhering to the same understandability (under paragraph 75 of the General Requirements for Disclosure) is acceptable but recommend analysing if this principle has been applied throughout the Standards. For example, the requirement in paragraph 13 (f) foresees that “an entity shall disclose … how the body… oversee the setting of targets … including whether and how related performance metrics are included in the remuneration policy”. This information is already included in the remuneration report where it belongs and should not need to be duplicated elsewhere.

We see a need to ensure that certain key information, for example what standards the entity complies with, its strategy or its governance and risk management processes, is required to be maintained in the core report (annual or interim report) and suggest ISSB to clarify the Standards in that respect.

The section "Location of information" (under paragraph 72 of the General Requirements for Disclosure) requires disclosure as part of general purpose financial reporting. As such, we understand that a full audit of sustainability-related – including climate-related - information would be required where information needs to be included in the general purpose financial reporting. For example, the Statement of Compliance (under paragraph 92 of the General Requirements for Disclosure). This is important for investors and ensures that sustainability- and climate-related reporting gains the same importance as financial reporting - also with view of auditing. However, given that also cross-referencing is possible we consider that more clarification in this regard is needed.

Question 11 (Comparative information, sources of estimation and outcome uncertainty, and errors)
(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?
(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?
(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied

According to paragraph 79 of the General Requirements for Disclosure, "An entity shall identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties." A comparable notion can be found in paragraph 83 of the General Requirements for Disclosure. From an investor's point of view, not only metrics that have a significant estimation uncertainty may have an impact on their own assessment of the enterprise value but also those with a reasonable level of uncertainty. We would therefore prefer that this information is already provided in case of a "reasonable level of uncertainty" and recommend changing the Standard in that respect.

According to paragraph 85 of the General Requirements for Disclosure, entities shall correct material prior period errors. Getting to know about material errors having occurred in prior periods is an important information for investors and BETTER FINANCE welcomes that the ISSB is recommending a respective disclosure. However, we are concerned that a disclosure seems to be restricted to cases where the information had been available during the previous reporting period/s and could have been obtained by the entity. This seems to preclude information that became known to the entity only subsequently, i.e. after the respective reporting period. From an investor's point of view, a material error in a previous period may however still be an important piece of information especially as sustainability-related disclosure is often considered over a long-term for the investor's assessment of the enterprise value. As disclosure is restricted to material errors anyway, we therefore recommend to clarify that all material prior period errors need to be disclosed when they become known to the entity.

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

Appendix C - in Appendix C22 of the General Requirements for Disclosure, the term "verifiability" is further defined: "Verifiability means that various knowledgeable and independent observers could

reach consensus, … that a particular depiction is a faithful representation". We consider that further clarification is needed to enable entities and investors to understand what exactly the ISSB had in mind when pointing to "various knowledgeable and independent observers". May the entity ask for such a consensus, is a national consensus sufficient or a global consensus needed, who determines if a consensus has been reached etc.

Enforcement - the advantage of the EFRAG standards is the enforcement by law via the European directive CSRD. Unfortunately, this is not the case with the ISSB since they are solely based on recognition as the decision-makers and regulators in the countries can decide whether it would be applicable in totality or with certain exemptions or additionalities depending on national circumstances. Therefore, BETTER FINANCE is concerned with the enforceability of ISSB standards. This will become even more challenging in the future once the US Securities and Exchange Commission (SEC) adopts their own disclosure rules for climate aspects and implement their own sustainability standards.

Consistency with the accounting standards - we need a strong consistency and connections between financial statements and sustainability reporting. And these should also be reflected in the underlying IFRS accounting standards.

Governance of the ISSB - while we appreciate that the ISSB membership is determined according to the IFRS Foundation Constitution and not explicitly referred to in the draft ISSB standards, we would like to point out that the current seat allocation can be made more diverse and inclusive. It will also be helpful to understand the methodology used in determining the geographical composition of ISSB governance members.

ANNEX B: BETTER FINANCE comments to specific questions for IFRS S2 Climate-related Disclosures

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?
(b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?
(c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

According to paragraph 4 of the Climate related Disclosures will "enable users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage sustainability-related risks and opportunities". We consider that already this objective is too narrowly framed. Based on the information provided, investors will not be able to monitor the actions of the governance bodies, nor will they be able to assess them against that of their peers. Furthermore, an understanding of an entity's governance requires that investors are enabled to understand who is responsible for what, not only in abstract terms but also concretely.

Paragraph 5 however contains mainly requirements to publish general/generic information about the relevant governance body/committee or its remuneration. For example, there is no requirement to disclose who within the body has which skills, knowledge, and experience, or why a certain member of a governance body had been chosen for appointment nor do the Standards include a requirement to disclose how remuneration during the year under review has matched sustainability- or climaterelated metrics. In addition, disclosure of processes or policies of identifying significant risks and opportunities and materiality assessment is not required which is key for investors' understanding.

We also encourage the ISSB to clarify the way an entity prevents conflicts of interest under paragraph 5 in order to ensure an effective and consistent approach throughout.

According to the Standards, disclosures should enable an investor "to understand the effects of significant sustainability-related risks and opportunities that could reasonably be expected to effect the entity's business model, strategy and cash flows, its access to finance and its cost of capital over the short, medium or long term". While the Standards require certain information relating to the strategy, there is no requirement to disclose the strategy itself. What the Standards refer to seems to be rather a management approach to risk and opportunity than a strategy and we would recommend a clarification of what exactly is required by the Standards.

Question 5 (Transition plans and carbon offsets)

(a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
(b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.
(c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?
(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the

soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

The actual proposed requirements under paragraph 13 do not include mentions under paragraph BC73 (target dates, scope, coverage etc.) and we recommend ISSB reflects on this. In addition, entities could benefit from further guidance on instances whereby transition plans are not available. BETTER FINANCE recommends including a requirement to explain the absence of transition plans.

Furthermore, the definition of 'transition plan' (under Appendix A of the Climate related Disclosures), could benefit from further clarification on the absolute terms of GHG emission reduction. For example, an issuer with a plan to reduce its GHG emission intensity only, with no intended GHG emission reduction in absolute terms, should not be able to label its plans as a 'transition' plan.

Additionally, entities reporting on financed emissions should be advised to use the GHG Protocol methodology like the Partnership for Carbon Accounting Financials (PCAF) at least in the first year of reporting. It is worth to note that the GHG Protocol is currently under revision and thus may become harder for entities and investors to anticipate the methodology. Subsequently, financial institutions should follow the latest version as well as when periodic updates become available.

Regarding "carbon" offsets, we encourage the ISSB to:

- clarify that offsets should include all GHGs (in particular methane), not only carbon,

- and seek alignment with EFRAG in respect of the treatment of different targets, distinguishing between emissions reduction targets and GHG neutrality targets.

Question 7 (Climate resilience)

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

(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, singlepoint forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

(i) Do you agree with this proposal? Why or why not?

(ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

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

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

BETTER FINANCE welcomes that the Standards require entities to use climate-related scenario analysis to assess its climate resilience unless it they are unable to do so (under paragraph 15 of the

Climaterelated Disclosures). This is an important piece of information for investors to make an informed investment decision as the outcomes of such scenario analysis indicate about the resilience of the entity's strategy, business model and future cash flows. As such scenario analysis is based on assumptions, we would consider it useful if the Standards would include a requirement for entities to disclose when assumptions in sustainability-related reporting differ from those required in financial reporting and why this is the case.

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 crossindustry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?
(b) Are there any additional cross-industry metric categories related to climate related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.
(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?
(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?
(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:
(i) the consolidated entity; and
(ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?
(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

We suggest accompanying the required disclosures of metrics in paragraph 21 with implementation guidance to help consistent application of these requirements.

Question 17 (Other comments)

Consideration of 1.5 degrees - regarding climate disclosures, there is a significant gap in terms of reporting requirements for climate mitigation targets and transition plans in line with the 1.5°C goal of the Paris Agreement. Forwardlooking information, including disclosure of relevant intermediary milestones for climate and other environmental issues, is needed by investors and other stakeholders to evaluate companies' risks and development. In this regard, the ISSB should consider more granular requirements to provide useful information and better inform decision making of "retail" investors. It is noticeable that the current exposure drafts have been weakened since previous drafts. All specific references to 1.5 degree scenarios were removed. A "comply or explain" provision for scenario analysis has been added, which has a high potential to be abused. Wherever the prototype employed terms such as "sustainability matters" or "sustainability performance", these were changed to "sustainability-related risks and opportunities."