

July 29, 2022

International Sustainability Standards Board  
The IFRS Foundation  
Columbus Building, 7 Westferry Circus  
Canary Wharf, London E14 4HD  
United Kingdom

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

Dear Chair Faber and Vice-Chair Lloyd,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in 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*.

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than \$11 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

**Executive Summary**

Under our remit as financial statement preparers, we are dedicated to meeting the information needs of our investors. As such, we support the ISSB's commitment to provide investors with consistent, comparable, and reliable information on material sustainability-related risks, including climate-related risks. We commend the ISSB's objective to provide primary users of general purpose financial reporting (i.e., existing and potential investors, lenders, and other creditors<sup>1</sup>) with decision-useful information. We also appreciate the ISSB leveraging existing standards and frameworks, and in particular, the alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) and the greenhouse gas (GHG) accounting standards under the Greenhouse Gas Protocol (GHG Protocol), as we believe that such

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<sup>1</sup> See the definition of primary users of general purpose financial reporting on page A95 of [IFRS Conceptual Framework](#).

alignment will help to facilitate comparability by drawing on concepts and vocabulary already in use by many entities.

In our letter, we offer feedback on various components of IFRS S1, including the reporting entity level at which we believe sustainability-related information should be provided and disclosure of sustainability-related opportunities. We also recommend that the ISSB adopt a jurisdictional approach to materiality and permit disclosures to be reported outside general purpose financial statements on a 180-day lagged basis. Regarding IFRS S2, we share feedback and several recommendations related to organizational boundaries of GHG emissions reporting, disaggregation of greenhouse gases, climate-related scenario analysis, guidance for industry-based metrics, and international alignment. From an implementation perspective, we provide a recommendation for transition time and express support for prospective adoption of the proposed standards.

### **IFRS S1: Disclosure of Sustainability-Related Financial Information**

#### Sustainability-Related Financial Information Reporting Entity

IFRS S1 would require that sustainability-related financial information (which includes climate-related financial information, as outlined in IFRS S2) be provided for the same reporting entity as the related general purpose financial statements. We acknowledge that the proposal includes an example indicating that if the reporting entity is a group, the consolidated financial statements will be for a parent and its subsidiaries, and that the entity's sustainability-related financial disclosures should enable users of general purpose financial reporting to assess the enterprise value of the parent and its subsidiaries.<sup>2</sup> In addition to this example, we recommend that the ISSB clarify more explicitly that providing sustainability-related financial information at the consolidated parent entity level would satisfy the proposed disclosure requirements for subsidiary entities (i.e., would provide the option to report sustainability metrics at the consolidated level for the ultimate parent company, at a lower consolidated level, or at the legal entity level). For example, if a U.S. company were to report consolidated parent entity-level sustainability information that met the ISSB reporting standards, a subsidiary subject to ISSB reporting requirements could meet such requirements through referencing the consolidated parent entity-level sustainability report. Providing sustainability-related financial information at a consolidated level would be consistent with how entities manage their businesses and make decisions, as governance, risk management, strategies, goals, etc. are generally managed and evaluated on a consolidated basis rather than at the individual legal entity level. Sustainability-related financial information at a consolidated parent entity level would align with how the consolidated financial statements of the reporting entity are designed and intended to provide information to users, and a consolidated reporting level would be consistent with either COSO or ISO 31000 ERM approaches, which cover how an organization looks at the net risks across an enterprise. We believe disclosure at a consolidated level would also increase clarity, comparability, and decision usefulness for users, as

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<sup>2</sup> See page 30 of [IFRS S1](#).

sustainability-related financial disclosures would be at the same level of reporting as an entity's consolidated financial statements.

We generally support the disclosure of sustainability-related financial information at a consolidated parent entity level for the reasons outlined above. In addition, for GHG emissions disclosures we agree with the ISSB's decision to allow organizational boundaries to be set in accordance with any of the approaches outlined in the GHG Protocol,<sup>3</sup> which many entities currently use for measuring GHG emissions, with clear disclosure of which method is used (see the section below titled "Organizational Boundaries for GHG Emissions Reporting").

#### Disclosure of Sustainability-Related Opportunities

IFRS S1 would require disclosure of information that enables users of general purpose financial reporting to understand the significant sustainability-related risks and opportunities (which would include those related to climate, as outlined in IFRS S2) that could reasonably be expected to have a material impact on an entity's business model, strategy, and cash flows. We are supportive of requirements to disclose material sustainability- and climate-related risks, but we suggest that reporting on significant opportunities to which an entity is exposed, including disclosing what trade-offs between sustainability-related risks and opportunities were considered by the entity<sup>4</sup>, be voluntary rather than required. Requiring disclosure of sustainability-related opportunities could result in unintended consequences, as highlighted in the U.S. SEC Climate Proposal which indicates that "We are proposing to treat this disclosure (opportunities) as optional to allay any anti-competitive concerns that might arise from a requirement to disclose a particular business opportunity."<sup>5</sup> While we recognize that part of the process for identifying and assessing climate risks may result in identification of opportunities, we believe disclosure of these opportunities should remain voluntary given the lack of a well-established framework to provide information on opportunities. Additional guidance and examples that would narrow and clarify the scope are needed to help entities determine what may be considered a significant opportunity, especially for non-climate related opportunities where no framework currently exists (such as GHG Protocol, TCFD, etc.), to facilitate more comparable disclosure.

#### *Disclosure of Quantitative Metrics Related to Sustainability-Related Risks and Opportunities*

While we support disclosure of metrics related to an entity's progress towards the targets it has set related to mitigating or adapting to sustainability- and climate-related risks and voluntary disclosure of opportunities, we do not believe that quantitatively prescriptive metric disclosures should be required as proposed. Specifically, IFRS S2 would require disclosure of: (1) the amount and percentage of assets or business activities vulnerable to transition or physical risks; (2) the amount and percentage of assets or business activities aligned with climate-related opportunities; (3) the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities; and (4) how

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<sup>3</sup> See Chapter 3: *Setting Organizational Boundaries* in the GHG Protocol's "[A Corporate Accounting and Reporting Standard](#)."

<sup>4</sup> See page 26 of [IFRS S1](#).

<sup>5</sup> See page 63 of the [U.S. SEC Proposal on The Enhancement and Standardization of Climate-Related Disclosures for Investors](#).

significant climate-related risks and opportunities have affected the most recently reported financial position, financial performance, and cash flows.<sup>6</sup> Quantitatively disaggregating the climate-related financial impacts of climate-related risks and opportunities on financial position, financial performance, and cash flows from other drivers would be especially difficult. These quantitative disclosures would require development of internal policies, as these concepts are not considered in current accounting standards such as IFRS and U.S. generally accepted accounting principles (GAAP). As a result, disclosures across companies would be incomparable and therefore less meaningful to users of general purpose financial reporting, and their development would require refined processes to identify, monitor, and quantify amounts for potential disclosure. Additionally, implementing new climate-related financial impact disclosure requirements would likely result in companies needing to reconfigure existing Enterprise Resource Planning systems and develop and implement new system solutions, in collaboration with service providers, at significant cost and effort. In consideration of these challenges related to quantitative disclosures, we believe that qualitative disclosures for sustainability- and climate-related risks and voluntary disclosure of opportunities will provide users of general purpose financial reporting with the information needed to assess how climate-related matters impact the entity.

#### Materiality

IFRS S1 proposes defining materiality in the same way as the IASB's Conceptual Framework. This definition is similar, but not identical, to the materiality concept defined by the U.S. Supreme Court that is followed when reporting under U.S. securities law.<sup>7</sup> We recommend that, instead of defining materiality consistent with the IASB's Conceptual Framework, the ISSB use the same jurisdictional materiality approach adopted by the TCFD in which entities "determine materiality... consistent with how they determine the materiality of other information included in their financial filings."<sup>8</sup> The jurisdiction would be based on the consolidated parent company entity's jurisdiction, in line with the recommendation on reporting level requirements outlined above. Given that the ISSB's objective is to provide a global set of standards that could be followed by all entities, we believe that the materiality definition used for sustainability disclosures should align with the definition applied by entities in financial reporting in filings to enhance comparability, consistency, and decision usefulness. Such an approach would also align with the ISSB's global perspective and enhance compatibility with other jurisdictional disclosure requirements.

#### Location and Timing of Disclosures

IFRS S1 would require entities to report sustainability-related financial disclosures (including climate-related disclosures, as outlined in IFRS S2) as part of general purpose financial reporting at the same time and for the same reporting period as the financial statements. We appreciate the ISSB's flexibility in not requiring disclosures to be provided in a particular location within general purpose financial reporting to avoid limiting an entity's ability to communicate information in an effective and coherent manner and to prevent conflicts with other regulatory requirements. However, inclusion of these

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<sup>6</sup> See page 42 of [IFRS S2](#).

<sup>7</sup> See [Criminal Resource Manual 911](#) for U.S. Supreme Court materiality definition.

<sup>8</sup> See page 33 of TCFD's "[Recommendations of the Task Force on Climate-related Financial Disclosures](#)."

disclosures within an entity’s general purpose financial report could prove difficult, at least initially, due to the very constrained timelines in which such reports are prepared and required to be filed in certain jurisdictions. For example, if a U.S. company that is a large accelerated filer elects to voluntarily follow ISSB standards, they would have sixty days after fiscal year end to submit their general purpose financial statements (i.e., Form 10-K). Incorporating the proposed sustainability- and climate-related disclosure requirements into a Form 10-K would require preparing and implementing the necessary policies, processes, controls, training, and system solutions within the condensed Form 10-K filing timeline for U.S. entities. Given the constrained reporting timeline and data availability considerations further outlined below, we recommend that the ISSB suggest that jurisdictions allow sustainability-related financial disclosures to be provided outside of general purpose financial reporting (e.g., in a separate sustainability report) on a 180-day lagged basis after an issuer’s fiscal year end.

In addition to the time constraints that would pose challenges to including sustainability-related disclosures on a financial reporting timeline, some sustainability-related disclosures, such as those related to GHG emissions outlined in IFRS S2, rely on third-party data that would require significant estimation for inclusion in the general purpose financial reporting timeline. Reporting emissions data within an entity’s annual reporting timeline would require estimating data that is already based on numerous estimated inputs, as data used in reporting estimated Scope 1 and Scope 2 emissions is most often available only on a lagged basis, and third-party activity data necessary to estimate Scope 3 emissions is often not tracked or made available by suppliers or customers. Consequently, we believe the proposed timeline would present many operability challenges for entities and would result in investors relying on estimated data subject to numerous assumptions. Therefore, we believe that sustainability-related disclosures could be substantially enhanced by introducing a different reporting timeframe for sustainability- and climate-related information. Furthermore, allowing sustainability-related financial disclosures to be reported outside the annual financial reporting timeline in a separate report, (similar to other forms filed outside of Form 10-K for U.S. entities, such as Form 11-K, Form DEF14A, and Form SD), would still provide high-quality and decision useful information, as such information is subject to a similar level of management oversight and rigor as the general purpose financial statements.

In regard to the reporting of GHG emissions specifically, having jurisdictions permit entities to report 180 days after an entity’s fiscal year end would also:

1. provide entities with additional time after preparing the general purpose financial statements to focus on improving the policies, procedures, and estimation methodologies underlying the reporting of GHG emissions;
2. better align the timeline for GHG reporting with the current timelines used by many entities and attestation firms to support mid-year reporting to CDP<sup>9</sup> (formerly the Carbon Disclosure Project);
3. increase the quality of GHG reporting by reducing reliance on estimates and providing additional time for systems solutions to evolve, progress, and mature; and

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<sup>9</sup> See “What is the timeline for responding?” under CDP’s [frequently asked questions](#).

4. alleviate some concerns around the availability of data by providing a reasonable period to incorporate data typically available only on a lagged basis (currently a year or more in many cases).

We recognize the importance of sustainability-related disclosures to certain investors and, as such, believe the 180-day reporting lag would allow adequate time to gather the necessary data for more accurate disclosures. For these reasons and as mentioned earlier, we recommend that the ISSB suggest jurisdictions allow sustainability-related financial disclosures to be reported in a separate document within 180 days after an entity's fiscal year end.

Additionally, we request that the ISSB grant an exception permitting entities that have completed a merger or acquisition to exclude the acquiree's GHG emissions in the fiscal year of acquisition when an entity determines that reporting such data would not be practicable. We anticipate that reporting an acquiree's GHG emissions in the fiscal year of acquisition may not always be feasible, particularly when the consummation date is near the end of an entity's fiscal year and/or the acquiree has not previously been subject to the proposed requirements. Even when an acquiree has previously reported GHG emissions data, we expect that, in many instances, significant time and effort will be needed to conform the acquiree's policies, boundaries, processes, controls, and systems to those of the acquirer.

## **IFRS S2: Climate-Related Disclosures**

### Organizational Boundaries for GHG Emissions Reporting

IFRS S2 would require entities to apply the GHG Protocol to define and measure GHG emissions. Many entities currently estimate GHG emissions based on organizational boundaries set in accordance with the GHG Protocol, which permits entities to use an equity share approach or a control approach, with control being defined in either financial or operational terms. We support the ISSB's decision allowing entities to continue using an approach permitted by the GHG Protocol to determine organizational boundaries.

### Disaggregation of Greenhouse Gases

We support the ISSB's decision that disclosure should be based on an aggregated view of the seven greenhouse gases for Scopes 1, 2, and 3 emissions (where material) expressed in CO<sub>2</sub> equivalent, and not require companies to disaggregate Scopes 1, 2, and 3 emissions by the seven constituent greenhouse gases. However, we object to the disaggregation of greenhouse gas emissions by the (1) consolidated accounting group, and (2) associates, joint ventures, unconsolidated subsidiaries, or affiliates not included in the consolidated accounting group.<sup>10</sup> We do not expect that entities would be able to effectively disaggregate Scope 3 emissions in those categories in a way that would be meaningful to investors. Corporations rely heavily on emissions factors to estimate Scope 3 emissions because the direct data inputs needed from third parties are often not available, as such disaggregation by consolidated accounting group and by associates, joint ventures, etc. not included in consolidated accounting groups would require estimates and assumptions that would not lead to comparable disclosures across entities.

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<sup>10</sup> See page 41 of [IFRS S2](#).

### Climate-Related Scenario Analysis

The proposed standards would require an entity to use a climate-related scenario analysis to assess its climate resilience unless it is unable to do so, and alternatively would require an entity to use a different method or technique to assess its climate resilience. While we appreciate the flexibility to use alternative approaches if unable to perform a scenario analysis, analyses to assess climate resilience are still in very early development stages and disclosing any quantitative details on inputs or methodology used ahead of widespread application of more developed tools could lead to disclosure of information that is not comparable or decision useful. A scenario analysis often involves a significant number of assumptions about future events and information that may also reveal competitively sensitive information about an organization. The proposed disclosure requirements indicate some quantitative information around inputs may be required, but we believe disclosing quantitative information could imply a level of precision in an area that is largely speculative. Further, the speculative nature of scenario analyses also may not result in decision-useful information for investors. We believe disclosure of scenario analysis should be voluntary, and that qualitative descriptions of an entity's climate-related risk strategy are sufficient for certain investors to evaluate any such strategy.

### Industry-Based Metrics Guidance

IFRS S2 would require an entity to disclose industry-based metrics to enable users of general-purpose financial reporting to assess climate risks and opportunities unique to each industry. We appreciate the ISSB's consideration to develop the industry-based metrics based on existing SASB standards for a simpler transition to the ISSB's sustainability disclosures. However, it is not clear whether the SASB's current application guidance applies to the industry specific standards. For example, the current SASB Standards Application Guidance requires an entity to disclose the omitted topic and associated metrics based on the lack of applicability.<sup>11</sup> We recommend that the ISSB should specifically incorporate existing SASB application guidance for the industry-specific metrics.

### International Alignment

CCR companies, which are largely multinational organizations, may ultimately be required to report in accordance with more than one set of climate-related disclosure mandates. As such, one of our concerns is the lack of alignment in concepts, terminologies, and required metrics between the various frameworks. Therefore, we recommend that the ISSB continue engaging closely with other organizations that are currently developing climate-related disclosure requirements, including the U.S. SEC and the European Financial Reporting Advisory Group (EFRAG), to strive for a minimum level of global consistency, which could help mitigate confusion for financial statement users and reduce cost and complexity for entities ultimately required to report under more than one framework. Additionally, we suggest that the ISSB define "sustainability-related financial information" aside from climate, and that the definition be developed in line with other global sustainability frameworks. We also recommend that the ISSB should promote reciprocity of recognition for the comparable disclosure requirements across jurisdictions and for the availability of alternative compliance in regard to the comparable requirements. Furthermore, we

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<sup>11</sup> See page 2 of [SASB Standards Application Guidance](#).

believe that consideration to finding alignment on implementation dates across the climate-related disclosure requirements currently in development by the ISSB, U.S. SEC, and EFRAG would increase comparability for the user community and prevent the need for multiple, competing implementation efforts by entities.

## **Implementation Considerations for IFRS S1 and IFRS S2**

### Transition Time

For both IFRS S1 and IFRS S2, we believe a transition period of at least three years (between the date upon which the standards are finalized and their effective date) is necessary before the proposed disclosure requirements are effective to provide entities with adequate time to develop processes, policies, and system solutions, and to refine controls and governance roles over such disclosures, with continued monitoring to inform whether a further delay is needed. We also believe it is important for the ISSB to better understand the effort and time required to operationalize new disclosure requirements to inform the standard-setting process and implementation period. In this regard, we stand ready to participate in field work and any other outreach planned by the ISSB.

### Prospective Adoption

Appendix B of IFRS S1 specifies that entities are not required to provide the disclosures specified in the proposal for any period before the date of initial application. We strongly support the ISSB's decision to permit adoption of the proposed disclosure requirements in IFRS S1 and IFRS S2 on a prospective basis, allowing entities to omit comparative periods ending prior to the effective date of the final standards. Prospective adoption is often permitted for new requirements when the expected benefits of providing information retrospectively do not outweigh the expected costs, and we expect that such would be the case in this situation because entities could be required to disclose information that was not previously tracked.

## **Conclusion**

We appreciate this opportunity to provide feedback on the ISSB's exposure drafts on the general requirements for disclosure of sustainability-related financial information and climate-related disclosures. We also thank the ISSB and ISSB staff for their efforts to develop a global baseline for the disclosure of sustainability-related financial information. As the ISSB considers next steps, we stand ready to assist and would be pleased to expand on any of our comments at your convenience.

Sincerely,

*Rudolf Bless*

Rudolf Bless  
Chair, Committee on Corporate Reporting  
Financial Executives International