Organismo Italiano Business Reporting

Mr. Emmanuel FABER
Chair
International Sustainability Standards Board (ISSB)
Frankfurt

RE: *Italian Foundation for Business Reporting* (*O.I.B.R.)* – *Comment letter to the ED ISSB 1 & 2*

Dear Mr. FABER,

We thank you for the opportunity given to comment on the first two EDs (IFRS S1 and S2) published by the ISSB.

In this perspective, the detailed comments on the specific questions have been submitted via the survey, while some more general comments are enclosed in this letter.

The O.I.B.R. Foundation was formally established in June 2019, replacing the previous Italian body called N.I.B.R. (Italian Network for Business Reporting) which was founded in February 2012.

The O.I.B.R. is an organisation dealing with the elaboration and dissemination of guidelines, studies and researches, principles, and standards with a technical and practical orientation in the field of business reporting, non-financial disclosure, sustainability and integrated reporting, and the TCFD recommendations. It gathers more than 70 Italian stakeholders going from large listed companies to SMEs and 8 Universities, professionals and managers, financial analysts and consultants. The O.I.B.R. is also an authoritative Italian voice in the international dialogue on corporate reporting (https://www.fondazioneoibr.it/en/ – info@fondazioneoibr.it).

The O.I.B.R. is a **legally recognised Italian Foundation** and is open to all the Italian stakeholders, inspired by an inclusive approach and with an articulated governance able to guarantee all the interests at stake. It is a **non-profit and multi-stakeholder body, with no commercial engagement, and that operates exclusivelyin the public interest.**

The O.I.B.R. activity leverages on international support by key-players such as the Value Reporting Foundation, EFRAG, GRI, WICI, and the World Business Council for Sustainable Development (WBCSD). In 2021, the O.I.B.R. Foundation has been appointed as Full "International <IR> Council member" within the Value Reporting Foundation, being the only Italian entity represented there.

The main activities of O.I.B.R. Foundation are:
- Provide Italy with a common meeting point and working platform;

- Represent a significant Italian voice in the global debate;
- Promote a new culture of reporting, transparency and governance in Italy and internationally;
- Develop and release local guidelines and standards;
- Conduct studies on topics that are felt as relevant by the Italian stakeholders;
- Organize multi-stakeholder working groups;
- Respond to, and engage with, national and international bodies such as EFRAG, ISSB, GRI, etc.

In the **Appendix 1**, the O.I.B.R. Foundation would like to provide you with more general considerations regarding some choices and approaches utilized in the EDs, and in particular in the ED IFRS S1.

In the **Appendix 2**, we have enclosed our responses to the specific questions posed with reference to the ED IFRS S1 on "General Requirements for Disclosure of Sustainability-related Financial Information".

In the **Appendix 3**, you will find our responses to the specific questions posed vis-à-vis the ED IFRS S2 on "Climate-related Disclosures".

Please note that our detailed responses on EDs IFRS S1 and S2 have been inserted and provided to you also in the form of survey.

While we remain at your disposal, we thank you for the opportunity to collaborate with you and the ISSB.

Sincerely yours,

Alessandro Lai

Prof. Alessandro Lai President, O.I.B.R. Foundation
Full Professor of Accounting, University of Verona

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Appendix 1

General consideration on the ED IFRS S1 on "General Requirements for Disclosure of Sustainability-Related Financial Information"

1. Sustainability Reporting Objective and Enterprise Value

The objective mentioned in para 1 is agreeable. The core part of objective is enterprise value which Appendix A defines as the sum of market capitalization and net debt. This definition is clear but needs to be better explained to avoid the following misunderstandings it may bring.

- Enterprise value is static;
- Enterprise reflects the achievement in the past and present situation;
- Enterprise value only reflect the financial aspects of the company;
- Value assessed based on the result of business activities matters rather than how the value will be created through business models;
- Enterprise value can be assessed by primary users based on standardized elements disclosed.

These misunderstandings are caused by the absence of explanation or logic in this draft, related to how enterprise value is calculated, measured or assessed by primary users.

A large part of enterprise value is reflected in the market capitalization of the firm which relies on an assessment by primary users on how much value, demonstrably net cash flows, will be created in the future. As you well know, <IR> Framework focuses on the business model and the process of value creation. Moreover, what makes the value creation mechanism relevant are not only financial or tangible manufactured capital, but also company-specific intangibles owned or utilized by a company. In the <IR> Framework, these are categorized into six capitals and it cannot be assumed that the market has appropriately priced in externalities given they are typically relegated to a 'risk' that remains outside of the financial statements.

It is widely recognized intangibles make up the most significant component of the market capitalization of a business and this continues to increase. For example, Ocean Tomo's research shows that it is more than 90% in S&P 500 companies. These intangibles, outside of a business combination, remain largely unrecognized under IFRS. Companies can create value in the short, medium and long term by utilizing intangibles as well as financial or tangible capital in an integrated manner, in the process of pursuing its business model. Value created may include social or environmental matters as well as financial or economic matters. Enterprise value and market capitalization is the result of assessment by primary users on the comprehensive values which will be created by the enterprise which includes the viability and prospects for the entity’s business model.

In our view, it will be important for the ISSB to clearly explain the relationship between value creation and enterprise value. Otherwise, there is a risk that the ISSB will reinforce the misunderstanding different components of value. It will also enable it to create a standard that is more compatible with <IR> Framework. More than 2500 companies globally have already published integrated reports based on the <IR> Framework, which has helped primary users to understand, in a comprehensive manner. the enity’s business model, value creation mechanism and capability, and to assess enterprise value. At the same time, this kind of explanation may bring focus to the importance of integrated thinking in sustainability related financial disclosures and highlight the importance of the ‘through-line’ to the financial statements.

From this point of view, WICI strongly advise ISSB to include the following points in the standard:

- Enterprise value or market capitalization is assessed based on the value an entity will create in the short, middle and long-term future;
- Core part of value creation by a company lies in its own business model;
- The key elements of creating value are entity-specific intangibles as well as recognized forms of financial capital;
- In order to effectively create, sustain and protect value, an entity needs to identify available tangibles and intangibles (recognized and unrecognized), and to utilize them in an integrated manner in its business model. In addition, in the process of reporting, a company needs to explain its integrated thinking over its value creation mechanism covering both tangibles and intangibles which creates coherence for users;
- Sustainability related risks and opportunities vary according to the composition of a company’s intangibles and the business model deployed;
- This standard asks for entities to disclose sustainability-related financial information in that disclosed information will be the basis for a primary user to assess, in his/her own way, the enterprise value in financial terms, taking into account the economic, social or environmental value which will be created by the company in the future.

Once the ISSB successfully elaborates the above concepts, we believe it will augment the persuasiveness of this standard. Going forward, it will be necessary to focus more on intangibles, value creation and integrated thinking especially if the aim is to assist users to assess enterprise value.

The limitation of the TCFD recommendations is that they look at one specific risk without a more comprehensive view on how and entity creates value. WICI Global and its regional networks have expertise in intangibles and value creation and has published the WICI Intangibles Reporting Framework. As such, WICI stands ready to support the ISSB’s future work in making this much needed connection between sustainability and intangibles.

2. Balance between comparability and uniqueness

To raise the comparability between companies from the viewpoint of sustainability related information disclosure is important for making the capital market more effective. In order to make the disclosed information more useful for primary user’s economic decision making, it is necessary that disclosed information is relevant for company specific value creation mechanism which is the basis for assessing enterprise value.

Since the business models and origins of competitiveness have a wide variety, common metrics and targets are not necessarily meaningful for primary users to assess enterprise value. For them to assess the enterprise value, it is essential to be provided with company specific set of information on how the CEO intends to create what kind of value, including social and environmental value by utilizing what kind of material elements.

In such a sense, detailed list of information to be disclosed may induce a passive attitude by entities and promote 'boilerplate' disclosures which may make material information of each entity to become invisible or hidden among a bunch of information, or make the disclosed information become less relevant for value creation and enterprise value.

Therefore, the standard needs to appropriately balance between comparability and uniqueness related to value creation and enterprise value. More concretely, WICI suggests that the ISSB develops the standard with the following key features:

- principles-based to allow for meaningful reporting for different business models;
- demonstrate the 'value relevance' of the new information to be disclosed;
- require entities to explain the 'value relevance' of the topics disclosed;
- deepen the importance users place on company specific factors in arriving at 'enterprise value'.

In the context of both standards, it is not clear how they are intended to complement IFRS Accounting Standards. As information under the proposed standards has been defined as 'financial' it will be vital for the ISSB to consider the total package of information and how different components contribute to developing a comprehensive picture of an entity's performance and position.

3. Materiality and the materiality determination process

Needless to say, materiality represents one of the most delicate issues. Its definition is clear and consistent with the definition provided in the financial reporting context (IAS 1). Since the proposed definition largely differs from the one required by the European Sustainability Reporting Standards (ESRSs) which will be compulsorily adopted by European entities under their scope. Considering this, it may be helpful to provide meeting points between the two reporting frameworks as regards the materiality definition.

However, the application of materiality needs some clarifications. In particular, it is not easy to understand how the primary users' information needs (§ IG2-IG5), the requirements for the identification of sustainability-related risks and opportunities (§ 50-55), and the concept of materiality (§§56-62) are related, and how and the extent to which they should be considered to identify the material information to disclose in the report.

In fact, we think that in the ED Standard principles a clear description of the materiality determination process is currently deficient. The Exposure Draft and related Illustrative Guidance provide little information on how to identify material sustainability-related financial information. Paragraphs 50-51 come up with a list of "sources" to consider when identifying such information, but the logical determination process that should be used to determine the material information to disclose is not described. Moreover, the Illustrative Guidance introduces the assessment of the user's information needs, without explaining how the collected information should be used for the identification of the material sustainability-related financial information.

In order to clarify the application of the materiality concept, it may be helpful to provide a step-by-step guide, describing the logical process to follow. A step-by-step guide on how to implement the concept of materiality could help entities in the sustainability-related financial information identification and to enhance the quality, completeness, and relevance of the provided information.

In this perspective, we believe **it may be useful to consider some suggestions provided in our very recent publication on "Operationalising Materiality", which we attach to the present comment letter, and where you can find a Guidance to the materiality determination process discussed and agreed with large companies, as well as diversified investors and stakeholders in Italy (link to the webpage where the publication can be freely downloaded: https://www.fondazioneoibr.it/en/guidelines-and-documents/)**.

In terms of conceptual width, the proposed definition and application of materiality allow capturing the breadth of those sustainability-related risks and opportunities with a tangible, measurable impact on the enterprise value. However, there may be some relevant sustainability-related risks and opportunities for which is not "feasible" to identify the related impact on the enterprise value, even though they could have an impact on it, especially over time. There is the risk that the difficulty to measure the impact on the enterprise value serves as an excuse for preparers not to consider such sustainability information, and thus, leads to an incomplete picture of sustainability-related risks and opportunities relevant to the enterprise value. The Exposure Draft and related Illustrative Guidance should provide appropriate examples to explain how to consider such sustainability information. Moreover, the Exposure Draft clearly requires considering the sustainability information which "could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting". Therefore, the sustainability information shall meet the information needs of the primary users. However, it should be highlighted that the expectations of other stakeholders could also influence enterprise value. For example, customers' purchasing choices have a direct impact on the value of revenues, as well as suppliers' choices on purchase costs. Therefore, not considering and assessing their expectations and information needs could mean not fully capturing the breadth of sustainability-related risks and opportunities relevant to the enterprise value, as well as, disregarding the information needs and expectations of the audience with a negative impact on the entity's legitimation.

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Appendix 2

Detailed responses to the ED IFRS S1 on
"General Requirements for Disclosure of Sustainability-related Financial Information"

Q1 Overall approach

(a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

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

(c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

(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?

When the above-mentioned points are clearly stated in this standard, it would meet the objective.

Q2 Objective (paragraphs 1-7)

(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?

Objective is clear, but more detailed explanation, including explanation related to the definition of enterprise value is needed, as mentioned above.

Q3 Scope (paragraphs 8–10)

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?

Partially agree. The Exposure Drafts of IFRS Sustainability Disclosure Standards are developed without a close link with IFRS Accounting Standards; therefore, they can also be used by different jurisdictions. However, a different approach is proposed, more consistent with the use of a financial materiality principle as a baseline guide for the development of sustainability standards. In particular, as explained in the answer to Question 6 we expect a huge connectivity between the sustainability disclosures and metrics and the quantitative information available in the annual report. Thus, according to this point of view, IFRS Sustainability Disclosure Standards should only be applied by companies adopting IFRS Accounting Standards in their general-purpose financial statements.

Q4 Core content (paragraphs 11-35)

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?*

Governance: In the governance mechanism, management needs to govern which sustainability-related risk and opportunity is material for the company's value creation and enterprise value.

Strategy: What is needed to be clearly mentioned in strategy part is the importance of showing the business model and strategy to create value as a consistent story, including what kind of available intangible resources are utilized and which risk and opportunities are critical for the company's value creation. Since the substance of business model illustrating the value creation story together with goals and resources used is critical for primary users, 'strategy' is better replaced by 'strategy and business model,' under which companies can disclose their attempts for raising the enterprise value as well as sustainability. Needless to say, value may include positive and negative value, and social or environmental value as well as economic or financial value, as long as they may have some impact on the primary user's judgement.

Risk management: It is not persuasive to suddenly link sustainability-related risk and opportunities in para 19 with para 51. In addition, in this part, it should be clearly mentioned that sustainability-related risks and opportunities are identified from the viewpoint of value creation by the company in the future.

Metrics and targets: To avoid misunderstanding that all metrics and targets presented in the standards should be disclosed, it should be clarified that company specific metrics and targets which are material to the company's value creation or enterprise value should be disclosed.

In addition, this core content is repeatedly mentioned in climate standard. To avoid duplication, it is advised that core content needs to be mentioned only in the general requirement, while climate standard just refer to it.

Q5 Reporting entity (paragraphs 37–41)

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

Agree. The sustainability information should be provided for the same reporting entity as the related financial statements. This alignment would ensure more comparable information and it helps users assess the effects of sustainability risks and opportunities on the group. In addition, this would facilitate the accomplishment of the requirement on connected information (Question 6).

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

Strongly disagree. The requirement to include sustainability information related to the value chain is not capable of consistent application. The costs to collect and disclose such information are high and benefits should be limited because the company has not a direct control over such data and information. The lack of direct control and the difficulty in obtaining such information also could negatively influence the assurance of sustainability disclosures. In addition, the definition of the value chain is too vague and requires further specifications in the Exposure Drafts. We suggest thinking at least about a limitation of this requirement at the first level upstream and downstream of the value chain.

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

Partially disagree. If specific rules are provided on the location of sustainability information, this requirement is redundant.

Q6 Connected information (paragraphs 42–44)

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

Strongly agree. The requirement is clear.

(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?

In our opinion, this requirement is a very important issue of the IFRS Sustainability Disclosure Standards. In the light of the use of the financial materiality principle as a basis for this set of disclosure standards, closer connectivity between sustainability issues and items included in the financial statements of the company is expected. In particular, companies should provide explanations on the influence of their sustainability risks and opportunities on the accounting valuations and on specific transactions (such as investments). In such a perspective, sustainability disclosure should be integrated into the financial statement notes, with a direct link with specific accounting items. For example, companies should provide explanations on the recognition of specific provisions due to sustainability risks and if the amount of provisions is influenced by sustainability issues.

Q7 Fair Presentation (paragraphs 45-55)

(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.*

Ideas of some organizations which participated in the TRWG, including SASB, TCFD, and CDSB, seem too much focused. At a minimum, more reference to the <IR> Framework and WICI Intangibles Reporting Framework should be made.

Q8 Materiality

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

Yes, the definition is clear and consistent with the definition provided in the financial reporting context (IAS 1). Since the proposed definition largely differs from the one required by the European Sustainability Reporting Standards (ESRSs) which will be compulsorily adopted by European entities under their scope. Considering this, it may be helpful to provide meeting points between the two reporting frameworks as regards the materiality definition.
The application of materiality needs some clarifications. In particular, it is not easy to understand how the primary users' information needs (§ IG2-IG5), the requirements for the identification of sustainability-related risks and opportunities (§ 50-55), and the concept of materiality (§56-62) are related and how and the extent in which they should be considered to identify the material information to disclose in the report. In fact, to clarify the application determination of the materiality concept, it may be helpful to provide a step-by-step guide, describing the logical determination process to follow.

(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?

Partially agree. The proposed definition and application of materiality allow capturing the breadth of those sustainability-related risks and opportunities with a tangible, measurable impact on the enterprise value. However, there may be some relevant sustainability-related risks and opportunities for which is not "feasible" to identify the related impact on the enterprise value, even though they could have an impact on it, especially over time. There is the risk that the difficulty to measure the impact on the enterprise value serves as an excuse for preparers not to consider such sustainability information, and thus, leads to an incomplete picture of sustainability-related risks and opportunities relevant to the enterprise value. The Exposure Draft and related Illustrative Guidance should provide appropriate examples to explain how to consider such sustainability information. Moreover, the Exposure Draft clearly requires considering the sustainability information which "could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting". Therefore, the sustainability information shall meet the information needs of the primary users. However, it should be highlighted that the expectations of other stakeholders could also influence enterprise value. For example, customers' purchasing choices have a direct impact on the value of revenues, as well as suppliers' choices on purchase costs. Therefore, not considering and assessing their expectations and information needs could mean not fully capturing

the breadth of sustainability-related risks and opportunities relevant to the enterprise value, as well as, disregarding the information needs and expectations of the audience with a negative impact on the entity's legitimation.
Finally, par. 59 explicitly requires reassessing the materiality judgments at every reporting date. Therefore, this requirement certainly helps to capture the breadth of sustainability-related risks and opportunities over time.

(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?

Partially agree. The Exposure Draft and related Illustrative Guidance provide little information on how to identify material sustainability-related financial information. Paragraphs 50-51 come up with a list of "sources" to consider when identifying such information, but the logical process that should be used to determine the material information to disclose is not described. Moreover, the Illustrative Guidance introduces the assessment of the user's information needs, without explaining how the collected information should be used for the identification of the material sustainability-related financial information. As said in answer 8(a), a step-by-step guide on how to implement the concept of materiality could help entities in the sustainability-related financial information identification and to enhance the quality, completeness, and relevance of the provided information.

(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?

Strongly agree.

Q9 Frequency of reporting (paragraphs 66–71)

Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

Agree. The sustainability report should be provided annually, and the frequency should be the same of financial statements. However, based on the practice in <IR>, several months delay from the issuance of financial reporting has not created issues, so it is desirable that this standard clearly mention such a time-lag is permitted.

Q10 Location of information (paragraphs 72–78)

(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?

The location of information on sustainability risks and opportunities is a relevant issue because it should enable users to identify such information clearly. Thus, multiple options should not be available, but the proposal should provide a single solution. In particular, according to a financial materiality perspective and the highlighting of connected information, such information should be disclosed in the notes to financial statements. Alternatively, they can be provided in the management report and particularly we suggest requiring the disclosure in a separately identifiable section of the management report or in an integrated report.

Q11 Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

(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?

a) These features have been adapted appropriately.
b) Yes.
c) Absolutely yes.

Q12 Statement of compliance (paragraphs 91-92)

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

Yes, we agree

Q13 Effective date (Appendix B)

(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.
(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

a) We suggest 12-18 months to allow a full fiscal year to implement the standard.
b) Yes.

Q14 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?

As long as each company's judgement on materiality is respected, these standards can be a global baseline.

Q15 Digital Reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

Developing and utilizing XBRL would be beneficial. XBRL developed by WICI Intangibles Reporting Framework, may be referenced.

Q16 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?

By effective utilization, the practice accumulates in issuing reports based on integrated thinking, cost will be expected to be minimized and benefits be maximized.

Q17 Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

No specifically. One conceptual approach that can be considered is that proposed by WICI, i.e., the "ESG-I approach" (where "I" stands for intangibles) which we believe would better explain also the "enterprise value" approach taken by linking up more clearly sustainability and value creation in the eyes of investors.

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Appendix 3

Detailed responses to the ED IFRS S2 on "Climate-Related Disclosures"

Q1 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?*

a) Yes. Because the focus is on enterprise value.
b) Yes.
c) Yes. The list is complete.

Q2 Governance

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

Yes. More precision in the description of climate risk governance is welcome.

Q3 Identification of Climate-related Risks and Opportunities

(a) *Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?*
(b) *Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of*

disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

a) Yes. The definitions of physical and transition risk are quite elastic.
b) Yes. Because they use the previous work done by SASB. Yes. They allow to use previous disclosure based on SASB. Yes. The mention of company operating performance as one of the variables affected would improve the relevance of required disclosure. Because the efficiency and efficacy of the manufacturing and selling of goods and services is the foundation of every other company variable cited, but it is not a direct object of analysis of the standard.

Q4 Concentrations of climate-related risks and opportunities in an entity's value chain

(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?
(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

a) Yes. Business model is a useful addition to value chain, as climate risks and opportunities affect the value chain of some but not all industries.
b) Yes. Industry standards request quantitative disclosure when it could be material.

Q5 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?

a) Yes. They are sufficiently detailed.
b) No.
c) No. It would be better to also specify the time length or duration of the carbon offsets, as they do not synchronize with carbon emissions.

d) Yes. The use of carbon offsets is controversial and must be documented in a company report.

Q6 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?

a) Yes. The choice between qualitative and quantitative disclosure depends on the company's ability to report that cannot be the same for everyone.
b) No. It is advisable to add the disclosure of the effect on the operating performance.
c) No. It is advisable to add the disclosure of the effect on the operating performance.

Q7 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, single-point 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?

a) Yes. The ability to redeploy capital is the main point of resilience.
b) (i) No. A company should be able to choose what it deems to be the best methodology for itself. Scenario analysis is not necessarily the best method. (ii) Yes. A company should motivate its choice of methodology. (iii) No. No.
c) No. A company should also disclose the climate model behind the scenario analysis.
d) Yes. Every company has its own sustainability profile and therefore its own best method to tackle climate risks and opportunities.
e) Yes. There is enough flexibility to align costs with benefits.

Q8 Risk management

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

No. Risk management cannot assess opportunities because it focuses on avoiding extreme events. Opportunities are uncertain but they are not extreme events, they should be addressed by the board or by some company body.

Q9 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?

(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?

a) Yes. They cover all the material aspects.
b) No.
c) No. The calculation of Scope 3 emissions is too uncertain, it would be better to disclose potential (maximum value per unit measurement) Scope 3 emissions instead of gross absolute Scope 3 emissions.
d) Agree with the aggregation of GHG data.
e) Agree with the separate disclosure, to align the perimeter of financial with sustainability accounting.
f) No. Because it is too uncertain to measure. It would be better to disclose potential Scope 3 emissions.

Q10 Targets

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

(b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

a) Yes. The targets proposed are exhaustive.
b) No. It would be better to refer to the United Nations.

Q11 Industry-based requirements

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

(k) Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

a) Yes.
a) No. It would be better to add and indication of best-practice for disclosure when international standards are not available and the local jurisdiction has no disclosure requirements.
b) Yes.
c) Agree with industry-based disclosure. Scope 3 calculation is too uncertain.
d) Yes. The list is focused on Scope 1 emitters. No.
e) Yes. Normalization of the data is necessary.
f) Yes. Transparency of methodology is advisable.
g) No. It would be better to use the PCAF methodology.
h) No. It should be split by industry.
i) Yes. It is a robust and tested classification.
j) No.
k) No. It is a robust and tested classification.

Q12 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?

a) It would be advisable to consider the impact on smaller companies of the costs associated with general climate related disclosure.
b) Costs could be too high for small companies.
c) Absolute gross Scope 3 emissions are too uncertain to measure, therefore they grant limited benefits relative to the costs of measurement.

Q13 Verifiability and enforceability

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

Scope 3 emissions: Their measure relies too much on estimates. Absolute gross Scope 3 emissions measurement moves the enforcement target of climate risk regulation from the producer to the end user.

Q14 Effective date

(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why?
(b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.
(c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others

a) Same date. Coherence of application.
b) 12-18 months. To allow a full fiscal year to implement the standard.
c) No.

Q15 Digital reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

No.

Q16 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?

No.

Q17 Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

There is no definition of Strategy in the standards. Physical and economic outputs are not explicitly identified with activity metrics.