Council of Institutional Investors®
The voice of corporate governance

Via Email

July 28, 2022

Mr. Emmanuel Faber
Chair
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:

I write on behalf of the Council of Institutional Investors (CII), a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately $4 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds and defined contribution plans with more than 15 million participants - true "Main Street" investors through their funds. Our associate members include non-U.S. asset owners with about $4 trillion in assets, and a range of asset managers with more than $40 trillion in assets under management.[1]

CII appreciates the opportunity to share our views on International Sustainability Standards Board's (ISSB), exposure drafts IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* (S1 Exposure Draft)[2] and IFRS S2, *Climate-related Disclosures* (S2 Exposure Draft)[3] (collectively, the Proposed Standards). Our comments in response to the Proposed Standards build on the views expressed in a number of CII letters,

[1] For more information about the Council of Institutional Investors ("CII"), including its board and members, please visit CII's website at http://www.cii.org.
[2] *See* [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS Sustainability Mar. 2022), https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf.
[3] *See* [Draft] IFRS S2 Climate-related Disclosures (IFRS Sustainability Mar. 2022), https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf.

including our December 17, 2020, letter to Erkki Liikanen, Chairman, IFRS Foundation in response to the IFRS Foundation's *Consultation Paper on Sustainability Reporting*[4] (CII Dec. Letter),[5] our June 11, 2021, letter to The Honorable Gary Gensler, Chair, U.S. Securities and Exchange Commission (SEC or Commission) in response to the SEC's March 15, 2021, *Public Input Welcomed on Climate Change Disclosures*[6] (CII June Letter).[7] Our response also builds on the views expressed in our May 19, 2022, letter to Vanessa A. Countryman, Secretary, SEC in response to the Commission's March 21, 2022, Proposed Rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (SEC Climate Disclosure Proposal)[8] (CII May Letter)[9]. And all of the aforementioned letters have as their foundation CII membership approved policies.

CII Policies

Those CII policies that we believe are particularly relevant to the Proposed Standards include the following:

> **Board's Role in Strategy and Risk Oversight**: The board has a fiduciary responsibility to oversee company performance and the management of strategy and risks. The CEO is responsible for the development of strategy, in cooperation and consultation with the board, including recognizing and planning for opportunities and risks that impact the company. A core function of the board is to oversee the performance of the CEO to ensure that an optimal strategy is pursued and appropriate risk mitigation policies are adopted and executed. The board should (1) monitor a company's risk management philosophy and risk appetite; (2) understand and ensure risk management practices for the company; (3) regularly review risks in relation to the risk appetite; and (4) evaluate how management responds to the most significant risks.

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[4] *See* IFRS Foundation, Consultation Paper on Sustainability Reporting (Sept. 2020), https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf.

[5] *See* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to Erkki Liikanen, Chairman, IFRS Foundation (Dec. 17, 2020), https://www.cii.org/files/issues_and_advocacy/correspondence/2020/December%2017%202020%20comment%20letter%20(final)-AB%20LNF.pdf.

[6] *See* Acting Chair Allison Herren Lee, Public Statement, Public Input Welcome on Climate Change Disclosures (Mar. 15, 2021), https://www.sec.gov/news/public-statement/lee-climate-change-disclosures.

[7] *See* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to The Honorable Gary Gensler, Chair, U.S. Securities and Exchange Commission (June 11, 2021), https://www.cii.org/files/issues_and_advocacy/correspondence/2021/June%2011%202021%20CII%20Comment%20Letter%20on%20Climate%20Disclosure%20for%20SEC%20(final)%20LN.pdf.

[8] *See* The Enhancement and Standardization of Climate-Related Disclosures for Investors, Securities Act Release No. 11,042, Exchange Act Release No. 94,478, 87 Fed. Reg. 21,334 (proposed rule Mar. 21, 2022), https://www.federalregister.gov/documents/2022/04/11/2022-06342/the-enhancement-and-standardization-of-climate-related-disclosures-for-investors.

[9] *See* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission (May 19, 2022), https://www.cii.org//Files/Correspondence/May%2019%202022%20CII%20Comment%20Letter%20on%20Climate%20Disclosure%20for%20SEC%20(final).pdf.

In assessing the company's risk profile, the board should consider company-specific dynamics as well as risks across the industry and any systemic risks. Material risks can stem from many aspects of the business, including, but not limited to, the management of: capital structure, human capital, supply chain relationships, executive compensation, cybersecurity and climate change. While boards organize and divide the risk oversight function in a variety of ways, all directors share ultimate responsibility for effective risk oversight. The board must evaluate the company's strategy, taking account of material risks, and be willing to take corrective action if the CEO's performance in this role is inadequate.

Effective board oversight of strategy and risk requires regular, meaningful communication between the board and management, among board members and committees, and between the board and any outside advisers it consults, about the company's material risks and risk management processes. The board should disclose to shareowners, at least annually, sufficient information to enable them to assess whether the board is carrying out its oversight responsibilities effectively.[10]

Statement on Corporate Disclosure of Sustainability Performance

Investors increasingly seek decision-useful, comparable and reliable information about sustainability performance in corporate disclosures in order to better understand how nonfinancial metrics can impact business and profitability. CII believes that independent, private sector standard setters should have the central role in helping companies fill that need. Market participants, non-governmental organizations and governments can aid the success of these standard setters by supporting their independence and long-term viability, attributes of which include: stable and secure funding; deep technical expertise at both the staff and board levels; accountability to investors; open and rigorous due process for the development of new standards; and adequate protection from external interference.

CII encourages companies to disclose standardized metrics established by independent, private sector standard setters along with reporting mandated by applicable securities regulations to better ensure investors have the information they need to make informed investment and proxy voting decisions. CII believes those standards that focus on materiality, and take into account appropriate sector and industry considerations, are more likely to meet investors' needs for useful and comparable information about sustainability performance. CII also believes that over time, companies should obtain external assurance of the sustainability performance information they provide.[11]

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[10] Council of Institutional Investors, Corporate Governance Policies §2.7 (updated Mar. 7, 2022), https://www.cii.org/files/03_07_22_corp_gov_policies.pdf.
[11] Statement on Disclosure of Sustainability Performance (adopted Sept. 22, 2020), https://www.cii.org/policies_other_issues#sustainability_disclosure.

Statement on Company Disclosure

In evaluating proposals to expand company disclosure, CII considers the following factors:

- Materiality to investment and voting decisions
- Depth, consistency and reliability of empirical evidence supporting the connection between the disclosure and long-term shareowner value
- Anticipated benefit to investors, net of the cost of collection and reporting
- Prospect of substantially improving transparency, comparability, reliability and accuracy.[12]

Independence of Accounting and Auditing Standard Setters

Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures. The quality, comparability and reliability of that information, in turn, depends directly on the quality of the financial reporting standards that: (1) enterprises use to recognize, measure and report their economic activities and events; and (2) auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions. The result should be timely, transparent and understandable financial reports.

The Council of Institutional Investors has consistently supported the view that the responsibility to promulgate accounting and auditing standards should reside with independent organizations.

CII supports U.S. accounting and auditing standard setters cooperatively working with their international counterparts toward a common goal of high quality standards. This means maintaining a high degree of on-going communication among domestic and international standard setters to produce standards that first and foremost result in high quality financial reports, and secondarily result in consistent financial reporting outcomes. CII continues to be open to a transition to a single global set of high quality standards designed to produce comparable, reliable, timely, transparent and understandable financial information that will meet the needs of institutional investors and other consumers of audited financial reports. However, at this time CII does not support replacing U.S. accounting or auditing standards or standard setters with international standards or standard setters. Notwithstanding CII's current opposition to replacing U.S. standards or standard setters, in light of the globalization of the financial markets and the fact that U.S

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[12] Statement on Company Disclosure (adopted Mar. 10, 2020), https://www.cii.org/policies_other_issues#Company_disclosure.

investors invest trillions of dollars in securities of enterprises that report their financial results in some form of international standards, we generally support high quality international accounting and auditing standards. In order to be high quality, accounting and auditing standards must be seen as meeting the needs of the investing public, and the standard setting process must be independent and free from undue influence. Attributes that underpin an effective accounting or auditing standard setter include:

- **Recognition of the Role of Reporting** – A recognition that financial accounting and reporting and the quality of auditing thereof is a public good, necessary to investor confidence in individual enterprises and the global capital markets as a whole;
- **Sufficient Funding** – Resources sufficient to support the standard setting process, including a secure, stable, source of funding that is not dependent on voluntary contributions of those subject to the standards (for international standard setters, such funding may depend on governmental and stakeholder cooperation from multiple jurisdictions, including the United States);
- **Independence and Technical Expertise** – A full-time standard-setting board and staff that are independent from prior employers or similar conflicts and possess the technical expertise necessary to fulfill their important roles;
- **Accountability to Investors** – A clear recognition that investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs (this includes having significant, prominent and adequately balanced representation from qualified investors on the standard setter's staff, standard-setting board, oversight board and outside monitoring or advisory groups);
- **Due Process** – A thorough public due process that includes solicitation of investor input on proposals and careful consideration of investor views before issuing proposals or final standards;
- **Adequate Protections** – A structure and process that adequately protects the standard setter's technical decisions and judgments (including the timing of the implementation of standards) from being overridden by government officials or bodies; and
- **Enforcement** – A clear, rigorous and consistent mechanism for enforcement by regulators of the accounting and auditing standards.[13]

Summary of Responses

CII policies and prior public positions provide the basis for our general support of the Proposed Standards. Our **Statement on Corporate Disclosure of Sustainability Performance** makes clear that as long-term investors, CII members "increasingly seek decision-useful, comparable and reliable information about sustainability performance in corporate disclosures in order to better understand how nonfinancial metrics can impact business and profitability." And our

[13] Independence of Accounting and Auditing Standard Setters (updated Mar. 1, 2017), https://www.cii.org/policies_other_issues#indep_acct_audit_standards.

members "believe independent, private sector standard setters should have the central role in helping companies fill that need." Our members also believe that sustainability standards are more likely to meet their needs for useful and comparable information when the standards "focus on materiality, and take into account appropriate sector and industry considerations." For all of these reasons, we have generally supported, subject to certain governance improvements, the establishment of the ISSB and its mission to develop a comprehensive baseline for corporate sustainability disclosures. That said, we acknowledge there are a number of political, legal, and practical reasons why ISSB standards may never become a comprehensive baseline for the U.S. capital markets.

The following summarizes our responses to select Questions included in the Proposed Standards. Those responses are organized into categories for each of the Exposure Drafts.

<u>S1 Exposure Draft</u>

Objective

CII generally supports the proposed objective for the S1 Exposure Draft. We also generally support the related proposed requirement that "[a] reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed." We, however, share the concerns of some commentors that the combined use of the terms "significant" and "material" could cause confusion and hinder consistent application of the proposed requirement. This is of particular concern to us because of the importance of the term "material" to our **Statement on Corporate Disclosure of Sustainability Performance**. We, therefore, would not object to the proposal being revised to address this issue. We believe potential acceptable options for revisions include (1) eliminating the term "significant," or (2) providing a definition or guidance for the term that would assist investors, and other market participants in understanding the relationship between "significant" and "material."

Scope

CII currently does not possess the necessary expertise and experience to fully evaluate whether the proposals could be used by entities that prepare their general-purpose financial statements in accordance with *any* jurisdiction's Generally Accepted Accounting Principles (GAAP). However, as indicated, CII generally supports the ISSB and its mission to develop a comprehensive global baseline for corporate sustainability disclosures.

Core Content

CII generally believes that the disclosure objectives and requirements for governance, strategy, risk management and metrics and targets are clear and appropriately defined and are appropriate to their stated disclosure objectives, respectively. We, however, would not object to revising the "strategy" objective to include language along lines of: "enabling users of general-purpose financial reporting to understand the effect of material sustainability-related risks and opportunities on an entity's business model, strategy and financial position, and its strategy for addressing these risks and opportunities." We believe the addition of such language might better capture the full extent of the proposed disclosure requirements included under “strategy” related to the business model, corporate strategy and financial position.

General Features

CII generally agrees, as proposed, that an entity be required to disclose sustainability-related financial information for the same reporting entity for which it prepares its general purpose financial statements. We agree with the ISSB that requiring a reporting entity to be defined in the same manner for both general purpose financial statements and sustainability-related financial disclosures could better enable entities to link their financial statements with sustainability-related financial information.

CII also generally agrees 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. We share ISSB’s view that the proposed requirements to connect information and produce more interconnected narrative could give users, including investors, a better understanding of the relationships between various types of information contained in general purpose financial reporting.

CII also generally believes the proposed definition and application of materiality is clear in the context of sustainability-related financial information. We, however, would not object to several revisions, including the following:

- Eliminating, or providing a definition or guidance, for the term “significant” (see *Objective*)
- Inserting into the definition a reference to “investment and voting decisions”
- Providing additional implementation guidance, including potentially clarifying that the materiality determination is largely fact specific and one that requires both quantitative *and* qualitative considerations
- An additional requirement for entities to provide information about the judgments and assumptions used when assessing materiality.

CII also generally agrees with the proposed requirement that sustainability-related financial disclosures be disclosed as part of a reporting entity’s general purpose financial reporting. We believe that ideally companies would integrate their financial accounting and reporting disclosures with sustainability related disclosures in investor-focused communications, making explicit how performance on one influences the other.

<u>S2 Exposure Draft</u>

Objective

CII generally supports the proposed objective for the S2 Exposure Draft. We share the ISSB’s view that the approach taken to achieve the stated objective appropriately reflects the view that developing a complete understanding of an entity’s climate related risks and opportunities requires a mix of information related to governance, strategy, risk management and metrics and targets.

Governance

CII generally agrees with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. We believe the proposed disclosure requirements on governance processes include disclosures that are broadly aligned with our policy on **Board's Role in Strategy and Risk Oversight**. We agree with the ISSB that the proposed disclosure requirements could provide investors the information they need to support evaluations of whether material climate-related risks receive appropriate board and management attention.

Risk Management

CII generally agrees with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities. We, however, we would not object if the proposed requirements were revised so as not to extend the remit of the proposed disclosures about risk management beyond the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, which we understand currently only focus on climate related risks and do not include climate related opportunities.

Metrics and Targets

CII generally agrees that entities should be required to separately disclose Scope 1 and Scope 2 emissions for the consolidated entity; and for any associates, joint ventures, unconsolidated subsidiaries and affiliates. We also agree with the ISSB that in order to facilitate comparability the proposal appropriately requires disclose of the approach the entity uses to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group.

CII also generally agrees with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality. We, however, remain concerned about the challenges that some companies will face in calculating and reporting Scope 3 emissions. We, therefore, would not object to the ISSB providing additional guidance and potentially some accommodations, including adopting a phased in approach to further reduce the costs and assist with the implementation of this proposed requirement. And such additional guidance might include a description of why an entity may not view the disclosure as material, so that users of financial statements can distinguish between incomplete information and that which is not relevant

Industry-based Disclosure Requirements

CII generally agrees with the proposed industry-based requirements and the revisions to the Sustainability Accounting Standards Board (SASB) Standards to improve their international applicability. Investor demand for industry-based disclosure requirements is an important component of our **Statement on Corporate Disclosure of Sustainability Performance**. We agree with the ISSB that—given the dynamic nature of climate change, related business risks and opportunities, and market understanding and practices—ongoing maintenance will be required to ensure that climate-related information, including the proposed industry-based disclosure requirements, meets the needs of users of general purpose financial reporting.

Responses to Select Questions

More details about CII views on the Proposed Standards in the form of responses to select questions for comment are set forth below. The ISSB questions to which we are responding appear in italics.

S1 Exposure Draft Question 1.

(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?[14]

CII Response. CII generally agrees that the S1 Exposure Draft states 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.[15] We note that the focus on disclosure of material sustainability information is aligned with our **Statement on Corporate Disclosure of Sustainability Performance** which provides that “CII believes that [sustainability] . . . standards that focus on materiality . . . are more likely to meet investors' needs for useful and comparable information about sustainability performance.” In addition, our **Statement on Company Disclosure** describes “materiality to investment and voting decisions” as a relevant factor in evaluating proposals to expand company disclosure.

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[14] [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information at 9 (emphasis added).
[15] *See* [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶ 2 (“A reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed.”).

CII also generally agrees that the proposed requirements set out in the S1 Exposure Draft meets its proposed objective.[16] However, we also agree with those commentators that have indicated that use of the term "significant" and "material" in the same sentence describing the proposed requirements can cause confusion and hinder consistent application of the proposed requirements and auditors and regulators ability to determine compliance with the proposals.[17] We, therefore, would not object to either (1) eliminating the term "significant," or (2) providing a definition or guidance for the term that would assist investors and other market participants in understanding the relationship between "significant" and "material."[18]

CII also generally believes that it is clear how the proposed requirements in the S1 Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the S2 Exposure Draft. We note that the Basis for Conclusions for the S1 Exposure Draft includes two paragraphs entitled "**Relationship with Other IFRS Sustainability Disclosure Standards**."[19] Those paragraphs include the following language describing how the proposed

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[16] *See id.* ¶ 1 ("The objective of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is to require an entity to disclose information about its significant sustainability-related risks and opportunities that 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.").

[17] *See* Letter from Mark Babington,, Executive Director, Regulatory Standards, Financial Reporting Council to the International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S1 ¶ 1.2 (June 22, 2022), https://www.frc.org.uk/getattachment/ad4d7629-e9b9-4ef4-be8c-aee4561c131b/FRC_ED-consultation-response_IFRS-S1-General_June2022.pdf ("Whilst we broadly agree that the proposed requirements meet the objective outlined in paragraph 1, further clarity is needed on the definitions of 'significant' and 'sustainability-related' to support consistent application of the proposed requirements."); Verena Ross, Chair, European Securities and Markets Authority to Mr Emmanuel Faber, Chair, International Sustainability Standards Board ¶ 7 (July 13, 2022), https://www.esma.europa.eu/sites/default/files/library/esma32-334-541_esma_response_to_issb_on_ed_ifrs_s1_and_ifrs_s2.pdf ("ESMA would also like to flag one aspect that may impair the ability of enforcers and auditors to determine whether an entity has complied with the Standard, namely the use of the terms "significant" and "material" throughout IFRS S1 and S2."); Letter from Financial Conduct Authority, ISSB Exposure Drafts on IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures): FCA response 5-6, https://www.fca.org.uk/publication/corporate/fca-response-issb-exposure-drafts.pdf ("However, there appears to be some variability in how the 'significant' and 'material' qualifiers are applied throughout the Exposure Drafts . . . [and] [i]nconsistent application of these concepts could create difficulties for preparers when carrying out their materiality assessments, also presenting challenges for assurance providers."); s*ee generally* Council of Institutional Investors podcast, Calls for Harmonization of Sustainability Reporting with Professor Carol Adams, Voice of Corp. Governance (Apr. 29, 2021), https://podcasts.apple.com/gb/podcast/calls-for-harmonization-of-sustainability-reporting/id1433954314?i=1000519238672 (includes discussion of the diversity of views in the United States and internationally on materiality for sustainability reporting).

[18] *See* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to the International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S1 ¶ 1.3 ("As a determining factor that will influence how the proposed requirements will be applied, a definition is needed to support the disclosure of consistent and comparable information."); Verena Ross, Chair, European Securities and Markets Authority to Mr Emmanuel Faber, Chair, International Sustainability Standards Board ¶ 7 ("It would be important to understand the relationship between material information and significant risks and opportunities from a process perspective and how to distinguish what is material from what is significant, if any difference is meant to exist.").

[19] Basis for Conclusions on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶¶ BC17-BC18 (IFRS Sustainability Mar. 2020), https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/basis-for-conclusions-exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf.

requirements of the S1 Exposure Draft would be applied together with the other IFRS Sustainability Disclosure Standards:

> The Exposure Draft sets out proposed general requirements that must be applied for an entity to be able to state compliance with IFRS Sustainability Disclosure Standards. It identifies the core content of a complete set of sustainability-related financial disclosures and sets out the qualitative characteristics of useful sustainability-related financial information.
>
> The Exposure Draft establishes a basis for more robust and comparable reporting of sustainability-related financial information by proposing that some established practices from financial reporting be applied. . . . The Exposure Draft, therefore, serves a similar role for sustainability-related financial disclosures as the IASB's Conceptual Framework for Financial Reporting, IAS 1 and IAS 8 serve for general purpose financial statements prepared in accordance with IFRS Accounting Standards.[20]

We, however, observe that those two paragraphs do not explicitly address how the proposed requirements in the S1 Exposure Draft would be applied together with the proposed requirements in the S2 Exposure Draft. Because there appears to be some confusion surrounding that issue, we would not object to a revision to the Basis for Conclusions for the S1 Exposure Draft or other ISSB guidance to explicitly address the issue.[21] More broadly, we would also not object to "splitting," as a commentator has suggested, the requirements within the S1 Exposure Draft into two sections or documents - a general requirements standard and a conceptual framework to improve the clarity of the proposed requirements.[22]

S1 Exposure Draft Question 2.

(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?*[23]

CII Response. CII generally believes the proposed objective of disclosing sustainability-related financial information clear. As indicated in the ***CII Response*** to ***Question 1*** the proposed

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[20] *Id.*
[21] *See* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to the International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S1 ¶ 1.8 ("Without a clear outline of the proposed architecture of the standards, it is unclear how IFRS S1 will be applied together with IFRS S2 and future standards [and] [it] would be helpful for stakeholders to visualise the overall structure of the standards to understand the direction of travel and to contextualise how IFRS S1 is applied in relation to the topic specific standards").
[22] *Id.* ¶ 1.7.
[23] [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information at 10 (emphasis added).

objective importantly focuses on disclosure of information that is material to "*primary users, of general purpose financial reporting*,"[24] which includes investors. As indicated, that focus is generally consistent with our **Statement on Corporate Disclosure of Sustainability Performance** and **Statement on Company Disclosure**.

CII also generally believes the definition of sustainability-related financial information is clear. As indicated in the CII Dec. Letter, we believe that a "reasonable approach to . . . [sustainability-related financial information would encompass] the full range of sustainability factors that are material to the creation of enterprise value . . . ."[25]

We are generally supportive of the extensive discussion of "sustainability-related financial information" in the Basis for Conclusions for the S1 Exposure Draft.[26] In particular, we support the following language related to scope:

> The focus of the Exposure Draft is on information relevant to users' understanding of enterprise value. The emphasis on sustainability-related risks and opportunities that inform an assessment of enterprise value distinguishes sustainability-related financial information from broader, multistakeholder reporting efforts focused on an entity's contribution to sustainable development. This separate emphasis, in turn, can be helpful:
>
> (a) in allaying concerns that the Foundation has broadened its scope beyond investor-focused disclosure to cover the broadest possible range of sustainability issues . . . ."[27]

We, however, share the view of some commentators about the lack of clarity between the Appendix A defined terms "sustainability-related financial disclosures" and "sustainability-related financial information."[28] We, therefore, would not object to revisions to one or both of the definitions or additional guidance so that investors and other market participants can better "understand the relationship between the two terms and what is the intended outcome in setting the distinction."[29]

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[24] [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶ 1.
[25] *See* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to Erkki Liikanen, Chairman, IFRS Foundation 10 (attachment Dec. 17, 2020), https://www.cii.org/files/issues_and_advocacy/correspondence/2020/Attachment-ABedits.docx%20(Final)%20LN.pdf.
[26] Basis for Conclusions on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶¶ BC25-BC32.
[27] *Id.* ¶ BC31.
[28] [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information at 40-41 (Appendix A); *see* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to the International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S1 ¶ 2.5 ("The definitions of sustainability-related 'financial' and 'information' in Appendix A appear to be misaligned."); Letter from Verena Ross, Chair, European Securities and Markets Authority to Mr Emmanuel Faber, Chair, International Sustainability Standards Board ¶ 11 ("ESMA would also suggest clarifying the difference between 'sustainability-related financial disclosures' and 'sustainability-related financial information' and the relationship between those two terms and what is the intended outcome in setting out this distinction.").
[29] *Id.*

S1 Exposure Draft Question 3.

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?[30]

CII Response. CII currently does not possess the necessary expertise and experience to fully evaluate and comment on whether the proposals could be used by entities that prepare their general-purpose financial statements in accordance with *any* GAAP. However, as indicated in the CII June Letter:

> CII generally believes that a single set of global sustainability standards applicable to companies around the world, including registrants under the Commission's rules, would be the ideal solution to addressing investor needs for that information. We, however, do not disagree with the recently reported view of the Acting Director of the SEC's Division of Corporation Finance John C. Coates "that it would not be practical to establish uniform international disclosure requirements due to political and legal differences between countries . . . ."[31]

We acknowledge there are a number of political, legal, and practical reasons why ISSB standards may never become a comprehensive baseline for the U.S. capital markets.[32] We, however, continue to believe it is advisable for the proposals to be developed in such a manner that, to the extent possible, that they could provide a comprehensive baseline for entities preparing their general-purpose financial statements under any jurisdiction's GAAP, including U.S. GAAP.

S1 Exposure Draft Question 4.

(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?[33]

CII Response. CII generally believes that disclosure objectives and requirements for governance, strategy, risk management and metrics and targets are clear and appropriately defined and are appropriate to their stated disclosure objectives, respectively. As indicated in the CII June

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[30] [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information at 11 (emphasis added).
[31] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to The Honorable Gary Gensler, Chair, U.S. Securities and Exchange Commission at 13 (footnotes omitted).
[32] *See, e.g.,* Commissioner Hester M. Peirce, Statement on the IFRS Foundation's Proposed Constitutional Amendments Relating to Sustainability Standards (July 1, 2021), https://www.sec.gov/news/public-statement/peirce-ifrs-2021-07-01 ("The motivating objective of the [IFRS] Foundation's effort—a set of globally accepted and consistently applied sustainability standards—is well-intentioned but unrealistic and may undermine the important concerns at the heart of this effort.").
[33] [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information at 12 (emphasis added).

Letter,[34] we generally support the ISSB's approach of developing the proposed core content "based on the TFCD recommendations."[35] We agree with the ISSB that "[i]nformation focusing on this core content is necessary for users of general purpose financial reporting to assess enterprise value."[36] We, however, would not object to a further clarification to the proposed "Strategy" objective.[37]

More specifically, we generally share the view of a commentator that the strategy objective could be improved by expanding the objective to also include language enabling "*users of general-purpose financial reporting to understand the effect of significant sustainability-related risks and opportunities on an entity's business model, strategy and financial position, and its strategy for addressing these risks and opportunities*."[38] We generally believe the addition of such language could better capture the full extent of the disclosure requirements included under strategy related to the business model, corporate strategy and financial position.[39]

S1 Exposure Draft Question 5.

(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?
(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?
(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?[40]

CII Response. CII generally agrees that sustainability-related financial information should be required to be provided for the same defined reporting entity as the related financial statements. As indicated in the CII June Letter, we generally support the integration of sustainability-related

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[34] *See* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to The Honorable Gary Gensler, Chair, U.S. Securities and Exchange Commission at 13 ("We . . . believe that as a reference point the Commission should consider the TCFD recommended disclosures on governance.").
[35] Basis for Conclusions on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶ BC43.
[36] *Id.*
[37] *See* [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶ 14 ("The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.").
[38] Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S1 ¶ 4.2.
[39] *See* [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶ 15(b)-(d) ("To achieve this objective, an entity shall disclose information about: . . . (b) the effects of significant sustainability-related risks . . . on its business model . . . (d) the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how sustainability-related risks and opportunities are included in the entity's financial planning . . . .").
[40] *Id.* at 13 (emphasis added).

financial information with the related financial statements.[41] We agree with the ISSB that "[r]equiring the same reporting entity for both general purpose financial statements and sustainability-related financial disclosures is designed to enable entities to link financial statements with sustainability-related financial information."[42]

CII does not currently have a position as to whether the S1 Exposure Draft's 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, is clear and capable of consistent application. As we indicated in the CII May Letter, and consistent with our **Statement on Company Disclosure**, we believe that some accommodations may be appropriate for some required disclosures relating to the use of resources along an entity's value chain considering the "net of the cost of collection and reporting" the information.[43] For example, we would not object to the ISSB providing additional guidance, like that suggested by a commentator, that would provide "alternative mechanisms [for when an issuer is unable] . . . to gather the necessary information when relevant data is not available directly from suppliers or is incomplete."[44]

S1 Exposure Draft Question 6.

(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?
(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?[45]

CII Response. CII generally agrees with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general

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[41] *See* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to The Honorable Gary Gensler, Chair, U.S. Securities and Exchange Commission at 12 ("Ideally, companies would integrate their financial accounting and reporting disclosures with their climate-related disclosures 'in investor-focused communications, making explicit how performance on one influences the other.'").
[42] IFRS Sustainability, Basis for Conclusions on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶ BC49.
[43] *See* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 8 ("We, however, remain concerned about the challenges that companies will face in calculating and reporting Scope 3 emissions [and] [a]s a result, and consistent with our Statement on Company Disclosure, our support for the proposed disclosure is subject to the Commission adopting all of the following proposed accommodations: . . . • Limiting the proposed disclosure to value chain emissions that are overall material").
[44] Letter from Verena Ross, Chair, European Securities and Markets Authority to Mr Emmanuel Faber, Chair, International Sustainability Standards Board ¶ 18; *see* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to the International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S1 ¶ 5.9 ("The proposed standard recognises the need to include information related to parties outside its reporting boundary but does not explain how an entity should deal with instances where the third party providing the information is not itself required to comply with IFRS Sustainability Disclosure Standards.").
[45] [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information at 14 (emphasis added).

purpose financial reporting, including the financial statements. We generally agree with the ISSB that the proposed requirements "to connect information and produce more interconnected narrative [could] . . . give users of general purpose financial reporting a better understanding of the relationships between various types of information in general purpose financial reporting."[46]

S1 Exposure Draft Question 7.

(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.[47]

CII Response. CII does not currently have a view as to whether the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, is clear. We note that our **Statement on Corporate Disclosure of Sustainability Performance** indicates that entities should be required to provide "decision-useful, comparable and reliable information about sustainability performance in corporate disclosures in order to better understand how nonfinancial metrics can impact business and profitability." Similarly, our **Statement on Company Disclosure** indicates that entities should be required to provide disclosures that have the characteristics of "transparency, comparability, reliability and accuracy." While these statements include terms that are the same or similar to the terms the proposals describe as "fair presentation," our statements do not address the aggregation of information.[48]

CII generally does not agree with the proposed sources of guidance to identify sustainability-related risks and opportunities and related disclosures. We note that our **Statement on Corporate Disclosure of Sustainability Performance** "encourages companies to disclose standardized metrics established by independent, private sector standard setters along with reporting mandated by applicable securities regulations to better ensure investors have the information they need to make informed investment and proxy voting decisions [and that] CII believes those standards that focus on materiality, and take into account appropriate sector and industry considerations, are more likely to meet investors' needs for useful and comparable information about sustainability performance." We also note that our policy on **Independence of Accounting and Auditing Standard Setters** sets forth seven "attributes" that we believe underpin an effective standard setter.

[46] Basis for Conclusions on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶ BC56.
[47] [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information at 15 (emphasis added).
[48] *See id.* ¶¶ 45-49.

In light of our aforementioned statement and policy, CII agrees, as proposed, that entities *should be required* to refer to the IFRS Sustainability Disclosure Standards subject to the IFRS Foundation and ISSB meeting the governance conditions described in the CII Dec. Letter.[49] However, we generally share the views of a commentator[50] that entities *should not be required* to consider the additional sources described in paragraph 51.[51] Rather, for those additional sources, we believe entities *should be permitted*, as set forth in paragraph 53,[52] to use management judgment to identify sustainability risks and opportunities and related disclosures in the absence of an IFRS Sustainability Disclosure Standard.[53] And we also agree with the commentator that management *should be required* to disclose the assumptions used in making that judgment.[54]

S1 Exposure Draft Question 8.

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

(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?

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[49] *See* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to Erkki Liikanen, Chairman, IFRS Foundation at 5-6 ("We, therefore, generally support the IFRS Foundation's proposal subject to the IFRS Foundation improving its own governance structure and establishing a governance structure for the SSB in ways that are more aligned with our policies for an effective, independent standard setter.").

[50] *See* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to the International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S1 ¶ 7.4 ("we disagree that entities should also be required to consider the additional sources as outlined in paragraph 51 (a-d) [and] [t]hese sources are helpful reference but only in the absence of an IFRS Sustainability Disclosure Standard [and] . . . would then be better included within paragraph 53").

[51] *See id.* ¶ 51 ("In addition to IFRS Sustainability Disclosure Standards, an entity shall consider: (a) the disclosure topics in the industry-based SASB Standards; (b) the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures); (c) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting; and (d) the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.").

[52] *See id.* ¶ 53 ("In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity, management shall use its judgement in identifying disclosures that: (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral.").

[53] *See id.* ¶ 54 ("In making the judgement described in paragraph 53, management shall consider, to the extent that these do not conflict with an IFRS Sustainability Disclosure Standard, the metrics associated with the disclosure topics included in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and the metrics used by entities in the same industries or geographies.").

[54] *See* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to the International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S1 ¶ 7.5 ("In paragraph 53, entities are permitted to use management judgement to identify sustainability-related risks and opportunities in the absence of an IFRS Sustainability Disclosure Standard; [h]owever, there is no requirement for the disclosure of the assumptions used to make this judgement.").

(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?

(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?[55]

CII Response. CII generally believes the S1 Exposure Draft's definition and application of materiality is clear in the context of sustainability-related financial information. As indicated in the ***CII Response*** to ***Question 1***, our **Statement on Corporate Disclosure of Sustainability Performance** and our **Statement on Company Disclosure** indicates that materiality to investment and voting decisions is relevant to disclosure of sustainability-related financial information. In that regard, we would not object to revising the proposed definition of materiality to provide greater clarity by inserting after the word "decisions," the phrase "including investment and voting decisions."[56] In addition, we would not object if the ISSB, consistent with the approach to materiality in the SEC Climate Disclosure Proposal, considers providing additional guidance clarifying that "the materiality determination is largely fact specific and one that requires both quantitative *and* qualitative considerations."[57]

CII also generally agrees with the proposal to relieve an entity from disclosing information otherwise required by the S1 Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. We, however, also agree with the related proposed requirement that the entity "identify the type of information not disclosed and explain the source of the restriction."[58]

Overall, we generally agree with the ISSB that how "the concept of materiality is interpreted, applied and enforced is likely to vary in each jurisdiction, [but] including a definition in the proposal ensures that entities applying the proposed requirements are applying and interpreting the same words."[59]

S1 Exposure Draft Question 10.

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

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[55] [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information at 16 (emphasis added).
[56] *See id*. at ¶56.
[57] 87 Fed. Reg. at 21,351 (emphasis added); *cf.* Letter from Financial Conduct Authority, ISSB Exposure Drafts ISSB Exposure Drafts on IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures): FCA response at 6 ("the ISSB could consider providing further guidance to preparers on how to carry out their materiality assessments in practice . . . [a]nd recognising the dynamic nature of materiality, the ISSB could usefully elaborate on how preparers may assess the evolving information needs of their primary users over time").
[58] *See* [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶62.
[59] Basis for Conclusions on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶ BC75.

(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?[60]

CII Response. CII generally agrees with the proposed requirements about the location of sustainability-related financial disclosures. As indicated in the CII June Letter, we generally support the integration of sustainability-related financial information with the related financial statements.

More recently, in CII's May Letter, we generally supported the Commission's proposed inclusion of sustainability-related financial disclosures both within, and accompanying to, the entity's audited financial statements.[61] We, therefore, are supportive of the approach taken in the S1 Exposure Draft which is intended to permit "[m]anagement commentary (or an equivalent document) [as] . . . a possible location for the required disclosures as it complements an entity's financial statements."[62]

CII also generally agrees 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. CII has generally supported cross-referencing of information within public filings.[63]

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[60] [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information at 18 (emphasis added).

[61] *See* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 8-9.

[62] Basis for Conclusions on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ¶ BC81.

[63] *See, e.g.,* Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors, to Vanessa A. Countryman, Secretary, Securities and Exchange Commission 9 (Oct. 19, 2019) https://www.sec.gov/comments/s7-11-19/s71119-6312521-193620.pdf ("we support the use of hyperlinks or cross-references to avoid duplicative disclosure [but] . . . our support for the proposed use of hyperlinks is conditioned on provisions that place some limits on a registrant's use of multiple hyperlinks").

S2 Exposure Draft Question 1.

(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?[64]

CII Response. CII generally agrees with the objective that has been established for the S2 Exposure Draft. We also generally agree that the objective focuses 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. And finally, we also generally agree that disclosure requirements set out in the S2 Exposure Draft meet the objectives described in paragraph 1.[65]

We note that like the SEC's Climate Disclosure Proposal, the S2 Exposure Draft's objective is derived, in part, from the work of the TCFD. In the CII May Letter we stated:

> CII generally supports the Proposed Rule's modelling the Commission's climate related disclosure framework in part on the framework recommended by the Task Force on Climate-Related Financial Disclosures (TCFD). As we discussed in the CII June Letter:
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> > We believe that . . . the Commission should consider . . . the framework developed by Task Force on Climate-Related Financial Disclosures (TCFD). We note that the group of seven countries' finance ministers recently communicated the view that mandatory climate disclosures should be made according to the TCFD. And the TCFD framework is currently supported by more than 1,000 global organizations making it "the de facto reporting standard for climate related risks."
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> . . . .
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> We agree with the SEC that the Proposed Rule's alignment with the TCFD could have at least three potential benefits: (1) it may improve the consistency, comparability and reliability of the proposed disclosures; (2) it may help mitigate

[64] [Draft] IFRS S2 Climate-related Disclosures at 9 (emphasis added).
[65] *See id.* at ¶ 1 ("The objective of [draft] IFRS S2 Climate-related Disclosures is to require an entity to disclose information about its exposure to significant climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting: (a) to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value; (b) to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its significant climate-related risks and opportunities; and (c) to evaluate the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities.").

> the reporting burden for issuers; and (3) it may facilitate the understanding of climate-related information by investors.[66]

We share the ISSB's view that the approach taken in the S2 Exposure Draft to achieve the stated objective appropriately "reflects the view that developing a complete understanding of an entity's climate related risks and opportunities requires a mix of information related to governance, strategy, risk management and metrics and targets."[67]

S2 Exposure Draft Question 2.

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?[68]

CII Response. CII generally agrees with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. We believe the proposed disclosure is generally consistent with CII's policy on the **Board's Role in Strategy and Risk Oversight** and based, in part, on the recommendations of the TCFD.[69] We also agree with the ISSB that the proposed disclosure requirements could provide investors and other market participants the information they need to support "evaluations of whether significant climate-related risks and opportunity receive appropriate board and management attention."[70]

S2 Exposure Draft Question 3.

(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

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[66] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 12 (footnotes omitted).
[67] Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶ 22 (IFRS Sustainability Mar. 2022), https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-basis-for-conclusions-climate-related-disclosures.pdf; *see* 87 Fed. Reg. at 21,354 ("information about how climate-related risks have impacted or are likely to impact a registrant's strategy, business model, and outlook can be important for purposes of making an investment or voting decision about the registrant . . . .").
[68] [Draft] IFRS S2 Climate-related Disclosures at 9 (emphasis added).
[69] *See* Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶ BC59 ("The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, which are to describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.").
[70] *Id.* at ¶ BC57.

> *additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?*[71]

CII Response. CII generally believes that the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities are sufficiently clear. We, however, share the concerns expressed by a commentator about the proposal's use of the term "significant."[72] We agree with the commentator that "[i]t is unclear how entities should determine which climate-related risks and opportunities are considered significant, especially in relation to different time horizons which impact the level of significance."[73] Consistent with our view in the ***CII Response*** to the ***S1 Exposure Draft Question 1***, we would not object to either (1) eliminating the term "significant," or (2) providing a definition or guidance for the term.

CII generally agrees with the proposed requirement to consider the applicability of disclosure topics in the identification and description of climate-related risks and opportunities. As indicated, our **Statement on Corporate Disclosure of Sustainability Performance** states that "standards that . . . take into account appropriate sector and industry considerations, are more likely to meet investors' needs for useful and comparable information about sustainability performance." We believe the proposed requirement is generally consistent with that statement.[74]

S2 Exposure Draft Question 4.

(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?[75]

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[71] [Draft] IFRS S2 Climate-related Disclosures at 11 (emphasis added).
[72] *See* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to the International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S2 ¶ 3.1 (June 22, 2022), https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/exposure-draft-comment-letters/f/financial-reporting-council-d2c8f2f0-f482-43b1-92ee-9d220f33c5bb/frc-comment-letter---ifrs-s2---signed.pdf ("we recommend the ISSB provides a definition for 'significant' which could be highly subjective").
[73] *Id.*
[74] *See* Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶¶ BC64-BC65 ("It was proposed that the disclosure topics identified in the industry-based requirements (see paragraphs BC123–BC129) can serve as a useful starting point for an entity to consider the specific risks and opportunities it may need to address.").
[75] [Draft] IFRS S2 Climate-related Disclosures at 12 (emphasis added).

CII Response. CII generally agrees with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain. As indicated in the CII May Letter:

> [W]e agree with the SEC that the Proposed Rule's disclosure regarding climate related risks and their impact on a registrant's . . . business model . . . could be utilized by investors to:
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> . . .
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> • "[B]etter [enable them] . . . to identify and assess how climate-related risks may affect a registrant's businesses, strategy, and financial planning in several areas, including products and services, supply chain and/or value chain, adaptation and mitigation activities, investment in research and development, operations (including types of operations and location of facilities), acquisitions or divestments, and access to capital . . . .[76]

We also generally agree with the ISSB that the disclosure requirements "achieve an appropriate balance, facilitating decision-useful information to users of general purpose financial reporting without imposing excessive costs on preparers or requiring them to make undue efforts"[77] by proposing "qualitative disclosures about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain."[78]

S2 Exposure Draft Question 5.

(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?[79]

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[76] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 11.
[77] Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶ BC68.
[78] *Id.*
[79] [Draft] S2 Exposure Draft Climate-related Disclosures at 13 (emphasis added).

CII Response. CII generally agrees with the proposed disclosure requirements for transition plans. As we indicated in the CII May Letter: "CII generally believes . . . disclosure of the impact from climate related events and transition activities could yield decision-useful information for investors."[80] And we share ISSB's view that the proposed disclosures are "important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value."[81]

S2 Exposure Draft Question 6.

(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?[82]

CII Response. CII generally agrees 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. In the CII May Letter we indicated that "consistent with our **Statement on Company Disclosure**, we believe it is appropriate . . . to lessen the cost of the collection and reporting of . . . [certain quantitative disclosures of climate-related risks] in light of the unique challenges associated with this information."[83] We, however, share the view of a commentator that the proposal might be improved by explicitly requiring that an entity that does not disclose the required quantitative information be required to provide "an explanation as to why it was not able to disclose quantitative information."[84]

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[80] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 18.
[81] Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶ BC71.
[82] [Draft] IFRS S2 Climate-related Disclosures at 15 (emphasis added).
[83] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 25.
[84] Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S2 ¶ 6.1; Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to The Honorable Gary Gensler, Chair, U.S. Securities and Exchange Commission at 15-16 ("CII believes a comply or explain framework may be appropriate for the Commission to consider for select climate change or other sustainability-related disclosures that may not be appropriate for all companies.").

S2 Exposure Draft Question 7.

(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?[85]

CII Response. CII generally agrees with the S2 Exposure Draft proposal that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques instead of scenario analysis to assess the climate resilience of its strategy. CII also generally agrees with the proposed disclosures about an entity's climate-related scenario analysis. Finally, CII also generally agrees that 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.

The proposed disclosure requirements approach to an entity's climate-related scenario analysis is not entirely dissimilar to the approach taken in the SEC Climate Disclosure Proposal.[86] The CII May Letter generally supported the SEC's approach explaining:

> CII generally supports the Proposed Rule's requirement that a registrant providing scenario analysis disclosure include the scenarios considered, the parameters, assumptions and analytical choices, and the projected principal financial impacts

[85] [Draft] IFRS S2 Climate-related Disclosures at 17 (emphasis added).
[86] *See* 87 Fed. Reg. at 21,468 (proposed Item 1502(f)).

> on the registrant's business strategy under each scenario. We agree with the SEC "that not every registrant conducts scenario analysis and that, in certain instances, it may be costly or difficult for some registrants to conduct such scenario analysis." As a result, and consistent with our **Statement on Company Disclosure**, we agree with the SEC that the Proposed Rule's requirement "strikes an appropriate balance between the various positions expressed by commenters by requiring registrants to share any scenario analysis that they are otherwise conducting for their business operations while avoiding imposing a potentially difficult or burdensome requirement on those registrants that have not yet undertaken to conduct such analysis."[87]

Similarly, we agree with the ISSB "that at this time it was more appropriate to limit climate-related scenario analysis to those able to do it."[88]

S2 Exposure Draft Question 8.

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?[89]

CII Response. CII generally agrees with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities. Like one commentator, however, we would not object if the proposed requirement were revised so as not to extend the remit of the proposed disclosures about risk management beyond the TCFD recommendations, which currently only focus on climate related risks and do not include climate related opportunities.[90] In our view, that commentator has appropriately reasoned that: "There is no existing regime that would require companies to disclose detailed information about how opportunities are identified for broader financial issues, and therefore it is not appropriate to include it in relation to climate-related opportunities."[91] Eliminating this disclosure generally consistent with our **Statement on Company Disclosure** that provides for an evaluation of a disclosures' "anticipated benefit to investors, net of the cost of collection and reporting."

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[87] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 16 (footnotes omitted).
[88] Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶ BC95.
[89] [Draft] IFRS S2 Climate-related Disclosures at 20 (emphasis added).
[90] *See* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S2 ¶ 8.1 ("Whilst we agree that the disclosure of climate-related opportunities is as important as climate-related risks, we do not agree that entities should be required to provide information about the processes used to identify, assess and manage climate-related opportunities.").
[91] *Id.* ¶ 8.2.

S2 Exposure Draft Question 9.

(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?[92]

CII Response. CII generally does not agree that entities should be *required* to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions. Our **Statement on Corporate Disclosure of Sustainability Performance** indicates that sustainability standards should include the following attributes: "stable and secure funding; deep technical expertise at both the staff and board levels; accountability to investors; open and rigorous due process for the development of new standards; and adequate protection from external interference."

In contrast, it is our understanding that the GHG Protocol has not been subject to an open and rigorous due process nor is it expected to be maintained by the ISSB.[93] As a potential alternative,

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[92] [Draft] IFRS S2 Climate-related Disclosures at 21 (emphasis added).
[93] *See* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S2 ¶ 9.4 (indicating that the GHG

we would recommend, consistent with the views of a commentator, that the proposal require entities to describe the methodologies they have chosen to use to calculate GHG emissions and, "provide insight into, and to justify the approach taken."[94]

CII generally agrees that entities should be required to separately disclose Scope 1 and Scope 2 emissions for the consolidated entity; and for any associates, joint ventures, unconsolidated subsidiaries and affiliates. As we stated in the CII May Letter:

> CII generally supports the Proposed Rule requiring a registrant to disclose its total Scope 1 and total Scope 2 emissions separately for its most recently completed fiscal year. Our support for this proposed disclosure is consistent with the view expressed in the CII June Letter:
>
> > We generally believe that, at a minimum, information about Scope 1 and Scope 2 greenhouse gas emissions can be quantified and measured and should be reported by registrants. While greenhouse gas emissions may not be critical to the health of every registrant, this issue has become critical for many investors who are serious about assessing the climate-related risks and opportunities across their portfolios.[95]

While we acknowledge that the ISSB approach is different than the SEC approach which focuses on the consolidated entity,[96] we note that the ISSB approach importantly provides for flexibility and transparency with respect to the disclosure of emissions of unconsolidated entities stating: "[t]o facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose: . . . the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group . . . ."[97]

CII also generally agrees with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality. In the CII May Letter we stated:

> CII generally supports the Proposed Rule's requirement that a registrant disclose its Scope 3 emissions for the fiscal year if material. We believe that disclosure of Scope 3 emissions data could help investors understand transition risks – and potential disruptions in a company's supply chain, business model and cash flows. And we agree with the SEC's analysis that:

Protocol "should not be a prescribed requirement of this proposed standard especially because it is not maintained by the ISSB and has not been through the same due process").

[94] *Id.* ¶ 9.5.

[95] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 16 (footnotes omitted).

[96] *See* 87 Fed. Reg. at 21,385 ("The proposed rules would permit a registrant to exclude emissions from investments that are not consolidated, are not proportionately consolidated, or that do not qualify for the equity method of accounting in the registrant's consolidated financial statement.").

[97] Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶ BC114(b).

> [C]apital markets have begun to assign financial value to this type of metric, such that it can be material information for investors about financial risks facing a company. Scope 3 emissions disclosure is an integral part of both the TCFD framework and the GHG Protocol, which are widely accepted. It also has been widely recognized that, for some companies, disclosure of just Scopes 1 and 2 emissions could convey an incomplete, and potentially misleading, picture.[98]

Similarly, we agree with the ISSB that "[i]n combination with industry metrics related to these specific drivers of risk . . . . Scope 3 data can help users of general purpose financial reporting evaluate the degree to which an entity is adapting to the lower carbon transition."[99]

Despite our general support for requiring disclosure of material absolute gross Scope 3 emissions as a cross-industry metric category by all entities, as indicated in the CII May Letter, we "remain concerned about the challenges that companies will face in calculating and reporting Scope 3 emissions."[100] As a result, we would not object to the ISSB providing additional guidance and potentially some accommodations to assist with the implementation of this proposed requirement.[101] And, as a commentator has suggested, such additional guidance might include, if the disclosure is not material, a "description of why they do not view this as material, so that users of financial statements can distinguish between incomplete information and that which is not relevant."[102]

S2 Exposure Draft Question 11.

(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?

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[98] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 23 (footnotes omitted).
[99] Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶ BC117.
[100] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 8.
[101] *See* Verena Ross, Chair, European Securities and Markets Authority to Mr Emmanuel Faber, Chair, International Sustainability Standards Board ¶ 57 ("In general, ESMA suggests accompanying the required disclosures of metrics in paragraph 21 with implementation guidance to help consistent application of these requirements."); *cf.* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 24-25 ("On balance, we have concluded that the anticipated benefit to investors of having more complete emission disclosures by mandating Scope 3 disclosures exceeds the cost of collecting and reporting the information because of the numerous accommodations the SEC has proposed to lessen the cost of the disclosures [and] [t]hose accommodations, all of which we support, include: • A transition period; . . . • Limiting the proposed disclosure to value chain emissions that are overall material; . . . .").
[102] Letter from Jessica Ground, Global Head of ESG, Capital Group et al. to the International Sustainability Standards Board 7 (June 25, 2022), cg-issb-comment-letter-final.pdf.

(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?[103]

CII Response. CII generally agrees with the approach taken to revising the SASB Standards to improve their 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. We also generally agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements. We also generally agree with the proposed industry-based requirements.

[103] [Draft] IFRS S2 Climate-related Disclosures at 25 (emphasis added).

We note that in the CII May Letter we reiterated our support for climate risk disclosure requirements that take into account industry considerations stating:

> We observe that IFRS S2 as proposed appears to be superior to the Proposed Rule in at least one important respect: it proposes industry-based climate risk disclosure standards. As we explained in the CII June Letter:
>
> > CII generally believes, consistent with our Statement on Corporate Disclosure of Sustainability Performance, that climate change reporting standards that take into account appropriate sector and industry considerations, when combined with a set of principles-based and rules-based disclosures for all public companies, are more likely to meet investors' needs. Industry specific standards are an important component of an overall disclosure framework.
> >
> > As indicated . . . we generally believe that industry-focused standards should over time be developed by an independent, private sector standard setter or setters that the SEC determines has met the attributes of an effective standard setter as described in our policy on Independence of Accounting and Auditing Standard Setters and Statement on Corporate Disclosure of Sustainability Performance.[104]

We agree with the ISSB "that—given the dynamic nature of climate change, related business risks and opportunities, and market understanding and practices—ongoing maintenance will be required to ensure that climate-related information [including the proposed industry-based disclosure requirements] meets the needs of users of general purpose financial reporting."[105]

S2 Exposure Draft Question 12.

(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 analyzing 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?*[106]

CII Response. CII generally believes, consistent with our **Statement on Company Disclosure**, that the ISSB should carefully consider the "[a]nticipated benefit to investors, net of the cost of

[104] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 34 (footnote omitted).
[105] Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶ BC117.
[106] [Draft] IFRS S2 Climate-related Disclosure at 28 (emphasis added).

collection and reporting" in analyzing the likely effects of the proposal. We generally agree with the ISSB that "building upon the core elements of widely used sustainability frameworks and standards" is an important element of reducing the costs associated with preparing the proposed information for many entities.[107] As we noted in the CII June Letter:

> We observe that there is no shortage of existing climate change disclosure frameworks and metrics. Rather than increase the existing sustainability reporting burden on companies, we believe the Commission should review the existing frameworks and metrics to develop "a best in class" set of principles-based and rules-based disclosures that is generally consistent with one or more of the existing frameworks and metrics. We believe that a combined approach permits an appropriate balance between specific rules-based quantitative information that provides for some level of consistency and comparability combined with more principles-based qualitative information that provides the context for understanding how the data benefits long-term shareowner value.[108]

We, however, would not object to the ISSB considering a phased in approach to further reduce the costs of the proposals, particularly with respect to the proposed Scope 3 requirements. As we stated in the CII May Letter:

> We agree with the SEC that the proposed transition periods are necessary so that: [F]ilers would have significant time to develop processes to support their GHG emissions disclosure requirements and the relevant [disclosure controls and procedures] DCP. . . .[109]

S2 Exposure Draft Question Comment 13.

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.[110]

CII Response. We generally agree with those commentators that indicated the application of materiality to the disclosure requirements proposed in the S2 Exposure Draft would likely present particular challenges to verify or to enforce by auditors or regulators.[111] We would not

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[107] Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶ BC47.

[108] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to The Honorable Gary Gensler, Chair, U.S. Securities and Exchange Commission at 6-7 (footnote omitted).

[109] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 27 (footnotes omitted).

[110] [Draft] IFRS S2 Climate-related Disclosure at 28 (emphasis added).

[111] *See* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S2 ¶ 13.2 ("A challenge for assurance providers and regulators will likely be the application of materiality; especially as reporting entities may decide that some disclosure requirements are not material and therefore may choose to omit them from their disclosure."); Verena Ross, Chair, European Securities and Markets Authority to Mr Emmanuel Faber, Chair, International Sustainability Standards Board ¶ 7 ("ESMA would also like to flag one aspect that may impair the

object to one commentator's related recommendation for "an additional requirement for entities to provide information about the judgements and assumptions used when assessing materiality [because] [s]uch information should provide assurance providers and regulators with supporting information to determine whether the entity has provided all material information to form a complete and accurate depiction of the financial effects."[112]

S2 Exposure Draft Question 14.

(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?[113]

CII Response. CII generally believes the effective date of the S2 Exposure Draft should be the same as that of the S1 Exposure Draft. Generally consistent with our **Statement on Corporate Disclosure of Sustainability Performance**, we agree with the ISSB and a commentator that there are benefits to investors and the markets of requiring "entities to disclose material information about all sustainability-related risks and opportunities."[114]
CII also generally believes that the ISSB should set the effective date at least a year after a final standard is issued. The basis of our view is similar to the reason we described in the CII May Letter: "We . . . recommend that . . . the proposed initial compliance dates be deferred by at least

ability of enforcers and auditors to determine whether an entity has complied with the Standard, namely the use of the terms "significant" and "material" throughout IFRS S1 and S2."); Letter from Financial Conduct Authority, ISSB Exposure Drafts on IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures): FCA response at 6 ("Inconsistent application of these concepts could create difficulties for preparers when carrying out their materiality assessments, also presenting challenges for assurance providers.).

[112] Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S2 ¶ 13.2.

[113] [Draft] IFRS S2 Climate-related Disclosure at 29 (emphasis added).

[114] Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures ¶ BC193; *see* Verena Ross, Chair, European Securities and Markets Authority to Mr Emmanuel Faber, Chair, International Sustainability Standards Board ¶ 69 ("Since IFRS S1 sets out general requirements that are in part also necessary to prepare topic-specific disclosure requirements, ESMA recommends that the effective date of application for IFRS S2 is set at the same time as that of IFRS S1 and that this date is set in the near future as it would be important for companies to start providing this information in a comparable way as soon as possible."); Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council to International Sustainability Standards Board Re: ISSB's Exposure Draft for IFRS S2 ¶ 14.1 ("we believe it is important that they are effective at the same time.").

one year to better ensure that the resulting disclosures are based on information that is more "consistent and reliable."[115]

We would not object to the view of a commentator who recommended an effective date of "no sooner than 18 months after a final standard is issued."[116] That commentator explained:

> For many entities – particularly those for whom this will be new disclosure – sufficient time is needed to set up internal systems and processes, collect and understand the data, and prepare disclosures. Additionally, while some jurisdictions already require reporting on some ESG issues, we anticipate the introduction of new national legislation modeled on the ISSB Standards, and this legislation will require time to be put in place.[117]

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We appreciate the opportunity to provide our views on the Proposed Standards. We would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter.

Sincerely,

Jeff Mahoney

Jeff Mahoney
General Counsel

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[115] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission at 37.

[116] Letter from Jessica Ground, Global Head of ESG, Capital Group et al. to the International Sustainability Standards Board at 8.

[117] *Id.; see* Letter from Mark Babington, Executive Director, Regulatory Standards, Financial Reporting Council Re: ISSB's Exposure Draft for IFRS S2 ¶ 14.2 ("the effective date should be at least one year after the final standard is issued to provide reporting entities with time to prepare").