Basel Committee
on Banking Supervision

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Chairman

Via email: commentletters@ifrs.org

Mr Emmanuel Faber
Chair
International Sustainability Standards Board
Opernplatz 14
60313 Frankfurt am Main
Germany

29 July 2022

Subject: International Sustainability Standards Board (ISSB) consultation – IFRS S1 and IFRS S2

Dear Mr Faber

The Basel Committee on Banking Supervision (the Committee) welcomes the opportunity to comment on the ISSB's Exposure Drafts IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

While the Committee's work is currently focused on climate-related financial risks and does not include wider sustainability risks, the Committee supports the development of global standards to improve the consistency, comparability and reliability of sustainability-related financial reporting. Disclosure requirements are a fundamental component of a sound banking system, as providing market participants with meaningful information about common key risk metrics reduces information asymmetry and helps promote comparability of banks' risk profiles. Banks also require reliable information from their customers and counterparties to support the measurement and management of climate-related financial risks. Increased availability and quality of climate-related disclosures, and strong linkage of these disclosures to financial reporting, should help banks to better reflect climate-related risks on their balance sheets both now and in future. Accounting values contribute to the determination of capital and liquidity requirements for banks. Therefore, there is a clear link between better climate disclosures and better capture of climate-related risks within the Basel regulatory framework. This would further improve the resilience of internationally active banks and promote financial stability.

The Committee supports the ISSB's approach of developing globally consistent disclosures by working with relevant standard setters and building on existing initiatives and frameworks, including the Task Force on Climate-related Financial Disclosures (TCFD). In parallel with the ISSB's work, the Committee is exploring using Pillar 3 of the Basel Framework to promote a common disclosure baseline for climate-related financial risks across internationally active banks in support of the Committee's prudential and financial stability mandate. This is part of the Committee's holistic approach to addressing the range of climate-related financial risks to the banking system, spanning regulatory, supervisory and disclosure-related elements.

Building on its existing relationship with the IFRS Foundation, the Committee would welcome further collaboration and engagement with the ISSB as our respective work progresses. The Committee is supportive of the objectives of the standards as well as their structure and content, subject to some key observations set out in this letter. Responses to specific questions from the Exposure Drafts are included in the Annexes.

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Global baseline

The Committee supports the ISSB's efforts to establish a comprehensive global baseline to improve the consistency, comparability and reliability of sustainability disclosures that is interoperable with jurisdictional standards. The Committee therefore welcomes the ISSB's plan to create the Sustainability Standards Advisory Forum and its creation of a working group to facilitate interoperability with jurisdictional initiatives that are occurring in parallel.

The ISSB should seek to minimise unnecessary divergence with other standards as they are developed. Striving for compatibility in disclosure requirements could minimise fragmentation, optimise reporting efficiency by preparers, and meet the needs of market participants, while not compromising the ISSB's ambition to deliver a high-quality global baseline upon which jurisdictions can build.

Timeliness

The Committee supports the ISSB's ambition to create comprehensive sustainability standards and to deliver its general requirements standard at the same time as its climate disclosure standard. However, if the ISSB concludes that further work is required to achieve this objective, we would encourage the ISSB to consider how to protect the timeline for delivery of climate-related disclosures under IFRS S2. We note that the general features in IFRS S1 may prove to be necessary for the application of IFRS S2, where other parts of IFRS S1 are more relevant for broader sustainability disclosures. The Committee acknowledges that this may mean that elements of the sustainability disclosure requirements in IFRS S1 might be phased in over time, potentially through subsequent detailed standards.

Linkage to financial statements and risk management processes

The Committee notes the relevance of climate-related disclosures to risk management processes, as well as their significance to the regulatory capital framework through the reflection of climate-related risks in accounting valuation. The Committee believes that it may be of benefit for all users and stakeholders if disclosure practices, and standards developed by the ISSB, are as closely aligned as possible with both the financial reporting and the risk management practices of banks and ensure that the ISSB's new disclosure standards enhance the integrity of financial reporting.

Core content

The Committee supports the reporting of both cross-industry and industry-specific metrics by banks and their counterparties. Banks depend on high-quality, consistent and comparable disclosures from their counterparties to identify and manage climate-related financial risks.

As part of its review of the ISSB exposure drafts, the Committee has reviewed the proposed industry-based disclosure requirements that would be applicable to commercial banks, but has not reached conclusions regarding whether they would meet the ISSB's objectives related to assessing enterprise value. The Committee is considering appropriate metrics for internationally active banks as part of its work to develop a Pillar 3 framework, based on its prudential mandate. This may be an area where future collaboration would be valuable as our respective work progresses.

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While the ISSB proposals consider both physical and transition risks, the disclosure requirements for transition risks are generally more developed. From a supervisory perspective, the Committee considers that both types of climate-related financial risks have the potential to affect the banking sector and financial stability more widely and therefore believes that disclosure requirements for physical risks should be given sufficient attention.

The Committee supports requirements for banks and their counterparties to make forward-looking disclosures. For example, the Committee supports the ISSB's proposals for disclosures about climate-related targets and how the firm intends to meet them, which would be required where entities have set such targets. Disclosures that enable users to understand the resilience of a firm's strategy to climate-related changes through scenario analysis will also be valuable. Users of climate-related disclosures, including banks, need forward-looking information in addition to current information about climate-related metrics in order to make informed lending and investing decisions.

Limiting the scope for broad "practical expedients"

The Committee encourages the ISSB to explore how the use of broad "practical expedients" can be limited for entities capable of delivering high-quality disclosures, which may include internationally active banks, and to foster continued improvements in disclosures as data and methodologies develop. We noted that similar to IFRS 9, the ISSB's draft standards include practical expedients that may not be directed at internationally active banks. However, widespread and unnecessary use of these expedients by major banks and other entities could result in low-quality application.

The Committee recognises the potential tension between rapid application on the one hand, and consistent and high-quality application on the other, as well as the need for flexibility to ensure standards can be applied by a range of entities. The Committee therefore encourages the ISSB to develop an underlying principle that can be applied consistently throughout IFRS S1 and S2 that would either limit the need for the current practical expedients and/or would help users and preparers understand when and how those expedients should be used.

We hope you find our comments constructive and helpful. This letter has been prepared by the Committee's Task Force on Climate-related Financial Risks, chaired by Kevin Stiroh, Senior Advisor at the Federal Reserve Board and Frank Elderson, Vice-Chair of the Supervisory Board at the European Central Bank. If you have any questions regarding these comments, please contact Joanne Marsden at the Basel Committee Secretariat (+41 76 350 8541).

Yours sincerely

Pablo Hernández de Cos

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Annex 1: Detailed comments on Exposure Draft Proposed IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Question 1 – Overall approach

(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?

Auditability, or the ability to provide another suitable form of assurance on compliance, should be an ultimate aim of the ISSB standards, and verifiability is an important characteristic of useful disclosure information. However, there are several aspects of the disclosures in IFRS S1 and S2 that may make reasonable assurance difficult to achieve upon initial implementation, and the finalisation of IFRS S1 and S2 should not be contingent on auditability in the short term, or the development of a suitable assurance standard by relevant assurance standard setters.

The nature of some climate disclosures means that traditional "financial statement" audit opinions may not be suitable. For example, some sustainability-related financial information is aspirational (as recognised in IFRS S1 C13), and is subject to very different time horizons and boundaries compared with accounting information. For example, ECL, which is forward-looking and applies assumptions about the future to existing exposures, is quite different to making disclosures about "anticipated changes" to business models and financial statement line items (IFRS S2 13 and 14). The broad and undefined "sustainability" scope in IFRS S1 as well as the choice of metric, methodology or procedure applied by the entity may also make it challenging to determine compliance.

In support of future potential assurance, IFRS S1 and S2 could be enhanced by containing an explicit requirement to disclose the "framework", including the specific requirements to disclose the applied metric, methodology or procedure applied in an entity's disclosures to establish norms and a clear approach. A clear definition of materiality along the value chain, and its boundaries, strengthened by additional examples in the Illustrative Guidance, may also reduce uncertainty for auditors and supervisors. Including more explicit disclosure requirements in the governance and/or risk management sections of IFRS S1 and S2 regarding the controls and processes put in place by an entity may improve the robustness and integrity of data and information used for sustainability- and climate-related disclosures, in particular if these disclosures may not be subject to mandatory audit requirements.

The Committee encourages the ISSB to continue its engagement with the IAASB as to the nature of assurance standards, and especially what assurance reports need to contain. This recognises the challenges of applying the traditional single reasonable assurance opinion on sustainability disclosures given the lack of underlying standards and the forward-looking nature of what is being disclosed.

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Question 2 – Objective

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

The Committee is supportive of the objectives of the standards as well as their structure and content, subject to the messages set out in this letter.

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

The Committee is concerned that without supporting standards, "sustainability-related" is not sufficiently defined. As a result, IFRS S1 may be hard to apply for sustainability-related financial information that is not defined in a supporting disclosure standard (such as climate-related disclosures in IFRS S2), and therefore may not deliver the global baseline goals of consistency and comparability.

It is important that the standards provide definitions for key concepts ("materiality", "significant" and "sustainability-related"). This would greatly assist entities with their interpretation of which sustainability-related matters they have to report on in a comparable manner for the benefit of users.

If the ISSB maintains the current requirement for sustainability disclosures within IFRS S1, the ISSB could consider providing a narrower definition of the main sustainability-related factors to be considered. Alternatively, if the ISSB plans to consult on its standard-setting priorities (including the future Exposure Draft topics / sustainability factors), it could make a reference in IFRS S1 to those potential future standards.

Question 5 – Reporting entity

(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?

We believe that maintaining the same reporting entity would give consistent information to users. However, obtaining the necessary information for joint ventures and associates may be challenging for preparers. The proposed disclosures of information for unconsolidated joint ventures and associates are not consistent with the definition of consolidated reporting entity, to the extent that the undertaking reported above are not consolidated for accounting purposes. Entities may experience present operational difficulties accessing the necessary information from these entities on a timely basis, since they are not "controlled" by the parent entity.

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

We support the proposed requirement as it would provide certainty and facilitate users' cross-referencing of the relevant financial statements to accurately assess enterprise value.

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Question 6 – Connected information

(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?

Please see also our response to IFRS S2 Q6.

The Committee notes that while linkages between different types of sustainability information will exist, the linkage between sustainability-related risks and the financial statements is most important from the Committee's perspective. Financial information related to risks demonstrating the qualitative characteristics (particularly as applied in IFRS S2) could meet financial statement recognition criteria over time. We would encourage the ISSB to consider placing greater emphasis on and further clarify these linkages within disclosures, and to work with the IASB so that complementary disclosure can be made about climate disclosures and affected financial statement line items.

The Committee supports the standards requiring disclosure of "connected information" (IFRS S1), and "financial position, financial performance and cash flows" (IFRS S2). It also supports the sustainability standards applying similar concepts and characteristics to the IASB's accounting standards. This should facilitate the transition of amounts first disclosed within sustainability disclosures into the financial statements (once they meet recognition criteria) in a seamless way over time. For those sustainability-related risks that are already affecting the financial statements (IFRS S2 14(a)), the proposals should help users easily read across.

However, we recognise that there may be challenges in this connection, in particular in isolating the climate information and impacts within specific financial statement line items, and linking that back to some of the disclosures under IFRS S2. The difference in time horizon, uncertainty, unpredictability, non-linearity and lack of reliable, accurate data and methods between financial and sustainability reporting amplify this challenge. There are also sustainability risks that might affect financial statements in some but not all cases. Care will need to be taken to distinguish between disclosures based on decisions made and settled government policies, and those based on scenarios, potential changes in strategy and policies governments may make.

The Committee notes that the broad scope of IFRS S1, and the connected information requirements in IFRS S1 43, could also create a very wide-ranging requirement for disclosure of linkages between different elements of sustainability disclosure. The ISSB should carefully consider any feedback that may suggest outcomes in this area would be excessive.

The Committee considers the qualitative characteristics of useful sustainability-related financial information (as set out in IFRS S1 Appendix C) as important to preparers' understanding of what risks should be disclosed. The alignment of this appendix to the IASB conceptual framework will support linkage between sustainability disclosures and financial statements. Further guidance on how the qualitative characteristics apply in the content of sustainability disclosures, including how qualitative disclosures can promote verifiability, would benefit both preparers and users of sustainability disclosures.

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Question 8 – Materiality (paragraphs 56–62)

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

Please see also our response to IFRS S1 Q1d.

The Committee supports a materiality principle that draws on the lessons learnt with IAS 1 Presentation of Financial Statements for reporting entities. However, it has some concern about the interaction of "materiality" with the concept of "significant". The ISSB should consider whether the use of, and interaction between, the terms "material" and "significant" throughout the exposure drafts will be sufficiently clear for both users and preparers.

The Committee would also suggest including additional requirements for the disclosure of the assessment and processes undertaken to define which information is deemed to be material with regard to the enterprise value, alongside any specific thresholds used. The ISSB might also consider requiring disclosures similar to those in IAS 1.117-133 on policies and judgments, as well as the proposals in IFRS S1 79–83 on estimation uncertainty. In addition to assisting users, disclosure about key policies and methodologies applied may facilitate better and more consistent disclosures over time.

In order to capture all climate-related financial information in accordance with the objectives of IFRS S2, the ISSB might consider providing further guidance on how the enterprise value could be affected by climate-related risks. The proposed definition of enterprise value (the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt) could be further clarified in regards to the application of the concept of market capitalisation for those entities with no issued instruments.

Additionally, according to IFRS S1 57, an entity shall assess the information's materiality along its value chain "if it could influence the assessment primary users make of its enterprise value". In our view, in the draft standard there is a broad definition of "value chain", which can represent a source of uncertainty for auditors and supervisors. Thus, the ISSB should consider providing a clear definition of materiality and its boundaries, potentially strengthened by additional examples in the Illustrative Guidance.

Question 9 – Frequency of reporting (paragraphs 66–71)

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

The Committee agrees in principle with the proposal, which promotes linkage of sustainability-related financial disclosures to general-purpose financial reporting while maintaining the separate disclosure of sustainability information outside the financial statements. It may assist users in connecting narrative information to related metrics and targets, regardless of where the information is located, thereby promoting transparency and clarity of reporting. The proposal would ultimately benefit banks in efforts to obtain required information from customers and counterparties. Benefits may also be realised through the integration of common processes and controls across both sustainability and financial reporting.

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Timely financial reporting is important for financial stability and there is a risk that implementing the broader sustainability reporting envisaged by IFRS S1 could potentially delay the issue of financial reporting. The ISSB may wish to discuss with relevant authorities any steps that can be taken to facilitate the phasing-in of the implementation of broader IFRS S1 requirements over a longer time frame, without delaying the requirements in IFRS S2 for climate reporting.

Question 11 – Comparative information, sources of estimation and outcome uncertainty, and errors

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

The Committee reiterates the importance of strong linkage between sustainability disclosure and financial reporting. The ISSB may wish to consider strengthening certain features of IFRS S1 to support this linkage. For example, similar to IAS 10, for events after the reporting period (IFRS S1 71), the ISSB may wish to clarify the distinction between "adjusting" and "non-adjusting" events with respect to sustainability disclosures, specifying how the related information should be provided.

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

The Committee agrees that, to the extent possible, financial data and assumptions within sustainability-related financial disclosures should be consistent with those used in financial statement reporting. Financial information related to risks demonstrating the qualitative characteristics (particularly as applied in IFRS S2) have the potential to meet financial statement recognition criteria over time. Therefore there may be a clear benefit in using consistent concepts in the ISSB's sustainability standards to support this convergence. Consistency of data and assumptions between sustainability and financial reporting standards may also encourage better capture of climate risk in IFRS financial statements.

The Committee also supports the disclosure of forward-looking information as the uncertain nature and longer time horizons make it challenging to estimate the impact of climate-related financial risks. Such disclosures may help to improve modelling of such risks, where reliance on historical observation alone is unlikely to reliably predict financial losses that result from unprecedented impacts from climate change, in magnitude, duration and distribution.

The Committee would encourage the ISSB to closely coordinate with the IASB on recognition and measurement to ensure linkage between sustainability-related disclosures and financial reporting.

Question 14 – Global baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

The Committee is strongly supportive of collaboration between the ISSB and the other sustainability standard setters in order to establish a common global baseline. The Committee therefore

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welcomes the ISSB's establishment of the Sustainability Standards Advisory Forum and jurisdictional working group to minimise fragmentation, optimise reporting efficiency by preparers, and meet the needs of market participants.

Furthermore, in view of the need for transparent and comparable disclosures that rely on accurate and reliable data, the goal of achieving a global baseline should not come at the expense of the quality of the standard, and compromises should be minimised. IFRS S2 displays a level of overlap in terms of high-level disclosure requirements with regional standards currently under development. The Committee encourages the ISSB to closely cooperate with regional and national standard setters to minimise unnecessary differences and barriers to interoperability.

Where full alignment is not possible between the ISSB and jurisdictional standards, the Sustainability Standards Advisory Forum may wish to consider whether clear reconciliation tables could be provided to users to clarify where requirements overlap to allow interoperability and avoid double reporting.

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Annex 2: Detailed comments on Exposure Draft Proposed IFRS S2 Climate-related Disclosures

Question 5 – Transition plans and carbon offsets

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

(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?

The Committee supports the ISSB's proposals for disclosures about climate-related targets, and how the firm intends to meet them, which would be required where entities have such targets. Where such plans are disclosed, they may have more value to users (including banks) if the disclosures are comparable.

IFRS S2 appears to permit an entity to report its emissions reductions targets either gross or net of carbon offsets. For the sake of clarity and easy access to corporates' targets, the ISSB may wish to consider reformulating the requirement such that greenhouse gas emission reduction targets would be disclosed gross without offsetting. Should the entity have targets including offsets, those could be disclosed separately.

Question 6 – Current and anticipated effects

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

Please see also our response to IFRS S1 Q6.

The Committee broadly agrees with the proposed disclosure and the caveat regarding the ability to disclose quantitative information. However, as set out in the cover letter, the Committee encourages the ISSB to explore how the use of this kind of practical expedient can be limited for entities capable of delivering high-quality disclosures, which may include internationally active banks. Widespread and unnecessary use of such expedients by major banks, and other entities could result in low-quality application and would not encourage continued improvements in disclosures as data and methodologies develop. Further, the provision of qualitative information should not only be required where the entity is unable to prepare quantitative data. Qualitative information can also support the disclosure of quantitative information where it can be disclosed.

As noted in the cover letter, the Committee recognises the potential tension between rapid application and high-quality application. The Committee therefore encourages the ISSB to develop an underlying principle that can be applied consistently throughout IFRS S1 and S2 that would either limit the need for the current practical expedients or help users and preparers understand when and how those expedients should be used.

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The Committee encourages the ISSB to work with the IASB so that complementary disclosures can be provided for climate disclosures and financial statement line items. For example, we agree it is important to disclose how significant climate-related risks have affected [an entity's] most recently reported financial position, financial performance and cash flows (IFRS S2 14(a)). Disclosures may need to include not only the areas of the financial statements affected but also recognition and measurement policies and methods applied, and how they are the same or different between the climate disclosures and the financial statements, or, for forward-looking climate disclosures, which estimates or assumptions have been used in the financial statement measurement and disclosure (eg how the IFRS 9 Expected Credit Loss scenarios are similar or different to those used in an entity's climate-related scenario analysis disclosed under IFRS S2 15(b)), or how the climate strategy disclosures relate to the financial statements (ie having a disclosure requirement related to IFRS S1 80). A clear definition of anticipated effects within Appendix A may better support consistent disclosure practice.

The ISSB could develop a hierarchy of information that preparers should consider encouraging high-quality disclosure while balancing costs and benefits. The ISSB could consider existing concepts in IFRS 9 around "reasonable and supportable information that is available without undue cost or effort" and the fair value hierarchy in IFRS 13. Other considerations may be maximising the use of information supported by scientific consensus or international agreement. In addition, guidance could be provided as to when different types of disclosures are most relevant so that entities can consider whether qualitative information, quantitative ranges or quantitative point estimates are most appropriate.

(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?

We agree with the proposal; however, we would suggest clarifying the wording of IFRS S2 14(c) and in 14(d) to specify "change over the short, medium and long term", rather than "change over time". The disclosure of climate-related risks for which there is a significant risk of material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year is also relevant to understanding the evolving impact of climate on an entity's financial position and financial performance through time. Additional guidance supporting the disclosure of those risks would be beneficial for both producers and users of climate disclosures.

Question 7 – Climate resilience

(b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, 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?

The Committee broadly supports the ISSB's proposals in relation to scenario analysis. However, the proposal includes an expedient which would allow an entity to avoid using climate-related scenario analysis to assess its climate resilience if it is "unable to do so". The Committee is concerned that widespread use of this expedient by preparers (including major banks) without good cause could

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result in low-quality application and would not encourage continued improvements in disclosures as data and methodologies develop.

As previously noted, we would encourage the ISSB to develop a principle that can be applied throughout IFRS S1 and S2 to minimise use of such expedient by capable entities.

We note that certain usages of scenario analysis might demonstrate a degree of capability that would indicate that access to the expedient was inappropriate – for example, the use of scenario analysis for regulatory purposes, including the assessment of the impact of climate-related risk on business models (noting that scenario analysis may not be used to set capital requirements). Similarly, where scenario analysis is used for financial reporting purposes, such as in consideration of how to reflect climate-related risks in IFRS 9 expected credit loss allowances – given that scenario analysis is a valuable analytic tool for entities to understand the potential impact of climate-related risk on borrowers' credit risk.

As the modelling of climate-related risk is in its infancy, and there are challenges in making long range forecasts, we would further emphasise that it is essential that entities provide sufficient disclosure of the judgments, assumptions and estimates made around scenario analysis. Such disclosures could address concerns about the reliability and verifiability of scenario analysis.

Question 9 – Cross-industry metric categories and greenhouse gas emissions

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

We are considering the appropriateness of specific metrics as part of our work to explore use of the Pillar 3 framework based on our prudential mandate (rather than specifically from an enterprise value perspective).

However, we recognise that the broad definition underlying some of these metrics (as acknowledged in IFRS S2 BC108) may not necessarily result in comparable disclosures across industries. The ISSB may wish to review whether all of the proposed disclosures are genuinely cross-industry metrics and consider whether some of the proposed illustrative examples in the non-mandatory illustrative guidance may rather be incorporated as mandatory industry-based metrics in IFRS S2 Appendix B. Additional guidance may support the comparability of resulting disclosures, for example in relation to metrics for physical and transition risk such as financial reporting aggregates and valuation bases (net book value) to be used.

Question 10 – Targets

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

The Committee generally supports the ISSB's proposals for disclosures about climate-related targets, which would be required where entities have such targets. However, the ISSB may wish to further consider paragraph IFRS S2 23(a), where disclosing entities could be required to reference

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the method and formula behind the metrics used, or (if appropriate) reference the external standard.

Question 11 – Industry-based requirements

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

We agree with the approach of requiring industry-specific metrics to support the cross-industry metrics and deliver the disclosure objectives of the standard.

However, we believe that there is still work to be done on the industry-specific metrics before they can be applied meaningfully. We support the ISSB's plan to further internationalise Appendix B but suggest that the ISSB consider whether the industry-specific metric requirements are all relevant to the disclosure objectives and materially complete to address those objectives.

(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?

We consider it important that the standards deliver consistency and comparability, and also remain relevant and not stifle the significant developments expected in methodology and data expected over coming years. It is important that disclosures facilitate an evaluation and comparison of the assumptions, inputs, and methodologies that underpin entities' chosen methodologies.

The ISSB may consider, in relation to all metrics, whether a hierarchy can be developed (similar to the fair value hierarchy set out in IFRS 13 *Fair Value Measurement*) that would facilitate evaluation of the quality and robustness of inputs and methods used in calculating metrics for any given reporting period.

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

We generally agree, as both absolute and intensity-based financed emission disclosures provide context on an entity's emissions in relation to its business size, fostering comparability between peers.

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

As part of its review of the ISSB exposure drafts, the Committee has reviewed the proposed industry-based disclosure requirements that would be applicable to commercial banks, but has not reached conclusions regarding whether they would meet the ISSB's objectives related to assessing enterprise value. The Committee is considering appropriate metrics for internationally active banks as part of its work to develop a Pillar 3 framework, based on its prudential mandate. This may be an area where future collaboration would be valuable as our respective work progresses.

While the ISSB proposals consider both physical and transition risks, the disclosure requirements for transition risks are generally more developed. From a supervisory perspective, the Committee considers that both types of climate-related financial risks have the potential to affect the banking

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sector and financial stability more widely and therefore believes that disclosure requirements for physical risks should be given sufficient attention.

Question 13 – Verifiability and enforceability

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators?

Please refer to our response to IFRS S1 Q 1(d).

Question 14 – Effective date

(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why?

The Committee supports the ISSB's ambition to create comprehensive sustainability standards and to deliver its general requirements standard at the same time as its climate disclosure standard. However, if the ISSB concludes that further work is required to achieve this objective, we would encourage the ISSB to consider how to protect the timeline for delivery of climate-related disclosures under IFRS S2. We note that the general features in IFRS S1 may prove to be necessary for the application of IFRS S2, where other parts of IFRS S1 are more relevant for broader sustainability disclosures. The Committee acknowledges that this may mean that elements of the sustainability disclosure requirements in IFRS S1 might be phased in over time, potentially through subsequent detailed standards.

We agree with ISSB's proposal to not require comparative information to be disclosed in the first period of application to facilitate swift implementation.

(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?

Much of IFRS S1 is capable of near-term implementation given the alignment with TCFD and existing IAS concepts; however, the requirement to disclose all significant sustainability risks will be challenging (given the definitions of "significant", "sustainability-related" and "materiality" – see responses to IFRS S1 Q2 and Q8, respectively. The ISSB may consider deferring the application of this aspect of IFRS S1 as described in our response to IFRS S2 Q14(a).