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PDC n° 46

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Subject : Exposure Draft on IFRS S1: General Requirements for Disclosure of Sustainability-related Financial information and Exposure Draft on IFRS 2: Climate-related Disclosures

Dear Mr Faber, dear Emmanuel,

I am writing to you as Chairman of the French accounting standard-setter (Autorité des normes comptables or ANC) following extensive work carried out by its Sustainability Reporting Committee and due consultation with its Board to express our views on the above-mentioned Exposure drafts related to sustainability reporting.

As a European national standard setter, ANC fully supports the European Union initiative on sustainability reporting embodied into the Corporate Sustainability Reporting Directive (CSRD) and the elaboration of the related sustainability standards by EFRAG (ESRS). In this context, and fully in line with its long-standing support to the IFRS Foundation's efforts, ANC welcomes and overall supports the ISSB initiative to propose a global baseline at international level which may allow interoperability with jurisdictional standards. The initiative should reduce the fragmentation of reporting systems and foster the availability of relevant and comparable sustainability information for the benefits of investors and other stakeholders.

In order to achieve this interoperability, we consider that the following points are particularly critical: (i) the need for definition and content clarification of terms such as global baseline, 'sustainability', enterprise value, value chain; (ii) the adoption of the double materiality approach allowing an appropriate onboarding of impact materiality issues; (iii) the clarification of the role of industry-based SASB standards and other guidance in the proposed sustainability reporting structure.

Accordingly, ANC encourages the ISSB to work closely with EFRAG in order in particular to explore a possible alignment on the double materiality concept and to harmonise the definitions of all sustainability-related terms to the maximum extent possible. ANC also encourages all forms of multi-jurisdictional dialogue and cooperation.

Appendix A and B to this letter provide ANC's detailed comments on these two EDs.

Should you need any further information, please do not hesitate to contact me.

Yours sincerely,

Patrick de Cambourg

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APPENDIX B – QUESTIONS FOR RESPONDENTS RELATED TO IFRS S2 CLIMATE REPORTING

<u>Question 1 — Objective of the Exposure Draft</u>

(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

ANC agrees in general with the proposed objective and welcomes the ISSB's approach of enabling users of an entity's general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value; to understand the entity's response to and strategy for managing its significant climate-related risks and opportunities; and to evaluate the entity's ability to adapt to significant climate-related risks and opportunities.

However, ANC believes that the double materiality approach would be more appropriate in the current context where climate change has already started to impact economic players in many different ways. ANC notes that IFRS S2 already considers GHG emissions (Impact materiality) as material information (even if subject to the entity's materiality assessment as stated in IFRS S1 Paragraph 58). ANC would support requirements relating to GHG emissions reduction as well as requirements to demonstrate the credibility of these future reductions (by providing information on decarbonisation levers and associated financial planning) because ANC considers that this information is also related to the enterprise value, at the very least impacting its reputation. The ANC also refers to our letter responding to IFRS S1 ED where ANC draws attention to the need for a clearer analysis of the respective areas of and interaction between financial and impact materiality.

(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?

ANC considers that the proposed objective should cover the entity's contribution to climate change in addition to its exposure to climate-related risks and opportunities based on the impact materiality perspective. Focus should be on the credibility of its emission reduction targets through the disclosure of the decarbonisation levers aiming at achieving the emissions reduction targets.

(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?

ANC believes that the ISSB should provide more detailed guidance accompanying the disclosure requirements (particularly on financial cross-industry metrics) in order to meet more accurately the proposed objectives, as this would allow users of general purpose financial statements to obtain comparable information across entities.

Furthermore, ANC stresses that the disclosure requirements should cover more clearly the entity's efforts to mitigate climate change in line with the Paris Agreement and limiting global warming to 1.5°C, especially its actions first to reduce GHG emissions and then to remove them.

<u>Question 2 — Governance</u>

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?

ANC believes the proposed disclosure requirements meet the objective of providing information on processes, controls and procedures used to monitor and manage climate-related risks and opportunities.

Question 3—Identification of climate-related risks and opportunities

(a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

ANC welcomes the proposed requirements to identify and disclose significant climate-related risks and opportunities. Indeed, there is a well-founded expectation among users, who rely on the entity's ability to create value and therefore wish to understand how it is exposed to climate-related risks and opportunities.

However, in line with its answer on General requirements (IFRS S1), ANC believes that the proposed requirements could gain clarity, notably by providing a definition of the term 'significant' and of the associated criteria which will enable the determination of significance, be they qualitative or based on quantitative thresholds. As currently drafted, materiality decisions will remain judgmental, which may not be easily auditable and comparable.

(b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

ANC supports the approach taken by the ISSB to consider the applicability of disclosure topics (Appendix B, Paragraph 10) in the identification and description of climate-related risks and opportunities.

Nevertheless, based on the ANC's understanding, the assessment of climate materiality shall start from Appendix B (SASB industry metrics) as stated in paragraph 10 as well as possibly from other guidance (CDSB, GRI, etc.) and standards (EFRAG for instance) as stated in IFRS S1 Paragraph 51. We wonder if the use of "shall refer" in paragraph 10 and 11 should not be replaced by "may refer"?

Finally ANC believes that this materiality assessment process may result in inconsistencies from one entity to another as the universe of risks used may vary and as the criteria for prioritising the most significant risks remain largely based on the exercise of judgment.

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain

(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

ANC supports the proposed disclosure of the effects of significant climate-related risks and opportunities on an entity's business model and value chain.

However, as stated in its answer to IFRS S1 General Principles, ANC believes that the concept of value chain should be better defined, especially on how the scope should be considered. More specially, it should be specified whether an entity shall identify and disclose significant climate-related risks and opportunities in the value chain up to a point where they have financial control and/or operational influence and/or along the full value chain. For instance, an entity could include franchises and affiliated companies for which there is operational influence, but no financial control.

(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?

ANC does not agree that the disclosure required of an entity's concentration of climate-related risks and opportunities should be limited to qualitative information. ANC recommends that quantitative information on the value chain (i.e., related to Scope 2 and 3 GHG emissions) shall be disclosed in addition to qualitative information even if only approximated. While acknowledging that quantitative information is expected to mature over time, ANC proposes explaining in the Basis for Conclusions that rough estimates are legitimate and acceptable from the start based on §79 to 83 in IFRS S1, but that these estimates are expected to be improved over time.

Question 5—Transition plans and carbon offsets

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

ANC recognises that transition plans represent a crucial component of the entity's overall Climate strategy that lays out a set of targets and actions supporting its transition toward limiting climate change to 1.5°C.

Yet, the current definition of transition plans is vague and open to wide interpretation, which may result in a lack of robust reporting and greenwashing allegations.

(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.

To strengthen the credibility of transition plans, "absolute GHG emissions reduction" should become a core feature rather than an example of action that may be disclosed at the discretion of the reporting entity.

Moreover, transition plans should clearly refer to emission reduction targets without using carbon offsets. If no targets have been set, an entity shall be required to provide the reasoning for and timespan over which it expects to set such targets in the future.

(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?

ANC suggests that a more neutral presentation of the use of emission offsets should be adopted. The current drafting in paragraph 13(b) seems to give disproportionate weight to the offsets by implying that the entity could present offsets as GHG emissions reduction levers in its value chain.

In aligning with the approach recommended by the international community (EFRAG, Science-Based Target Initiative, the GHG Protocol or ISO), ANC advocates for separating the GHG emission reductions in the value chain from offsets due to two main limits of offsets. First, they are a source of greenwashing if they do not fulfil stringent quality criteria, and even by the best standards, there are still uncertainties related to the temporal aspects of carbon sequestration, the potential risks of carbon release through deforestation, fire, disease and drought. Second, they can lead to masking the need for GHG reductions in the entity's own operations and value chain and locked-in high-carbon infrastructures. Indeed, they can make it difficult to see the evolution of the actual greenhouse gas emissions over time, and this can give a false impression that climate risks can be easily eliminated.

In this context, ANC also believes that the notion of "carbon credits" should be used rather than "offset" (as drafted in EFRAG's draft ESRS E1).

(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?

ANC suggests to include a disclosure in paragraph 21(a) requiring the appropriate information in relation to the actual use of carbon offsets (not only future offsets) and to make clear if the reporting is based upon location or market-based methodologies.

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?

ANC agrees that entities shall disclose quantitative information on the current and future effects of climate-related risks and opportunities and provide qualitative information if they are unable to estimate quantitative effects. ANC wonders if the word "anticipated" should not be replaced by future or potential.

(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?

Financial effects that have already crystallised as a result of climate-related risks and opportunities should already have been reflected in the financial statements under the requirements of financial reporting.

Consequently, ANC believes that the proposed disclosure requirements should only cover potential effects that may occur in the future due to climate-related risks and opportunities and do not meet the recognition and measurement requirements for inclusion in the financial statements at the reporting date. Financial effects of climate-related risks and opportunities that occur in the reporting period should be covered by financial reporting with an appropriate connection to sustainability reporting.

Alternatively, ANC suggests clarifying what the difference is between the information under paragraph 14(a) and (b) and the information in the financial statements.

(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?

Given that this topic has not been sufficiently debated, ANC recognises that it will be challenging for entities to provide high quality disclosures on the anticipated effects as described in paragraphs 14(c) and 14(d). Therefore, ANC supports the proposal to open the door for qualitative disclosure or to phase-in the disclosure. ANC stresses that application guidance is needed to improve quality and comparability of the proposed disclosure requirements under paragraphs 14(c) and (d). ANC acknowledges that no commonly agreed methodology exists to assess the quantitative future potential financial effects of climate-related risks. But ANC suggests that an entity shall be required to ensure it applies the most mature and accurate methodologies available in its specific field for measuring the quantitative potential financial effects of its climate-related risks, including the use of climate and business scenario analysis, and to disclose its assumptions and the limitations of these assumptions.

Furthermore, ANC emphasises that the information about changes over time in paragraphs 14(c) and (d) should include a distinction between the short, medium and long term. ANC questions that, in the case of climate transition risks and opportunities, short-term relates up to 5 years from the reporting year, medium-term between 5 to10 years and long-term to more than 10 years, but no later than 2050. Is there a justification to disconnect sustainability reporting time horizons from those used in the financial statements? Should it be the case does it create a risk of confusion for users? In addition ANC would argue that, in the case of physical risks, the definition of short, medium and long term relates to the ones provided in high emissions climate scenarios, for example based on IPCC SSP5-8.5.

<u>Question 7 — Climate resilience</u>

(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?

ANC welcomes the disclosure requirement of the entity's climate resilience to enable users of general purpose financial reporting to understand whether the entity's strategy and business model(s) can withstand significant climate-related risks over time and under different plausible future situations. The proposed requirements should specify the scope of the resilience analysis, including whether the upstream and downstream activities in the value chain have been covered. Focus should be made on an entity's broader value chain, which is fundamentally important for any resilience analysis.

The proposed requirement in paragraph 15(a)(iii)(3) should clarify what is meant by 'effect' of current or planned investments in climate-related mitigation, adaptation or opportunities for climate resilience. More specifically, it shall specify whether an entity shall disclose its assessment of resilience after or before mitigation actions (net or gross risks). We assume it should be after mitigation actions.

The proposed requirements on scenario analysis lack clarity in terms of what specific information needs to be considered by an entity when conducting the analysis.

The proposed requirement in paragraph 15(b)(i)(3) should specify that scenarios associated with both transition risks (1.5°C scenarios) and physical risks (high emission scenarios) are useful to analyse the entity's climate resilience. Yet, high emission scenarios (physical risks) and 1.5°C scenarios (transition risks) provide complementary information in terms of climate resilience.

The proposed requirement in paragraph 15(b)(i)(4) implies that a 1.5-degree scenario should be included in the resilience analysis. It may be worth clarifying that such a scenario is not expected to be considered by the entity for other purposes like the emissions reduction target setting.

ANC questions how a global and comparable baseline regarding scenario analysis could be achieved, given that the selection of scenarios is at the discretion of the entity.

Finally, ANC notes that IFRS S2 leaves room for the entity to decide whether or not to use scenario analysis. While acknowledging that scenario analysis may be costly or difficult for some entities, ANC advocates that it is a highly useful approach to test the current business model of the entity and its strategies against a spectrum of possible future climate situations. The 2021 TCFD Status Report outlined that only 5-13 % of the surveyed companies disclosed the resilience of their strategies using scenario analysis in the periods 2018-2020. In this context, ANC underlines that this approach may reduce relevance and comparability for users of general purpose financial reporting. Alternatively, ANC proposes requiring entities that do not use scenario analysis, to explain the reason why not.

Question 8 — Risk management

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

ANC supports the proposed requirements on risk management but wonders what the reason is for locating the risks assessment after the strategy part which describes the strategy and action plans (paragraph 13) for addressing the identified significant risks. ANC also wonders if paragraph 17d that highlights the risk management process would not be redundant given Paragraph 13a on plans and efforts. Do plans and efforts to mitigate risks differ from risk management?

The proposed disclosure in paragraph 17(b)(ii) of IFRS S2 requires the entity to disclose how it prioritises climate-related risks relative to other risks, whereas the proposed disclosure in paragraph 26(b)(ii) of IFRS S1 asks the same for prioritisation of sustainability-related risks relative to others (including, presumably, climate). ANC believes that the proposed requirements should clarify how an entity shall conduct this prioritisation, including the steps to be followed and criteria to be considered, in order to provide accurate and comparable information.

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?

(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?

ANC notes that most of the cross-industry metrics are not precisely defined, which may lead to poor comparability. ANC advocates for the need of application guidance in order to improve quality and comparability of the proposed disclosure requirements.

The proposed disclosure requirements in paragraph 21(a) should not be left at the discretion of the entity. The disclosure of Scope 1, 2 and where relevant scope 3 GHG emissions should be mandatory for all entities in alignment with the CSRD final text. Alternatively, a phase-in-approach could be discussed for Scope 3 GHG emissions.

The proposed disclosure requirements in paragraph 21(a) should clarify that an entity shall provide information on emission factors used, including the source of those factors, in order to support the provision of faithful, comparable and verifiable information.

The proposed requirement on Scope 2 GHG emissions should specify whether an entity has chosen between market and location based, or whether it shall report on both. ANC supports the need for reporting Scope 2 GHG emissions according to both market-based and location-based data to clarify the pathway to achieving emission reduction targets when based on renewables certificates and in line with best practice from GHG Protocol.

The proposed disclosure requirements in paragraph 21(b) and (c) use the term ‘vulnerable’ for assets at risk, which is subjective and may lead to different interpretations by entities. Vulnerable assets should be explicitly defined.

Similarly, the proposed disclosure requirements in paragraph 21(b), (c), (d) and (e) use the term ‘amount’, which is not a precise terminology and may create difficulties of understanding for entities.

The proposed disclosure requirements in paragraph 21(b), (c) and (d) should indicate if the climate-related risks and opportunities should be considered after mitigation actions or not. This should be clarified, as risks factors are usually disclosed as net risks in financial reports, while the sustainability approach is to demonstrate how the entity mitigates its (gross) risks through the implementation of mitigation actions plans and associated resources (thus giving the net risk which can be considered as a first ‘big picture’ of the resilience of the entity’s business model and strategy).

The proposed disclosure requirement in paragraph 21(f) should insist on the compatibility between internal carbon prices and those used in financial statements and financial planning, for instance in the context of impairments and fair value measurement, in order to strengthen the robustness and credibility of the information disclosed.

The proposed disclosure requirement in paragraph 21(g) on remuneration should clarify what the term ‘linked to climate-related considerations’ means. Focus should be made on the link with attaining GHG emission reduction targets, as this category of climate-related targets is deemed of primary significance based on the impact and financial materiality perspectives.

Question 10—Targets

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

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

ANC welcomes the proposed requirements on climate-related targets, as they provide users of general purpose financial reporting with an understanding of the targets the entity has adopted to address its material climate-related impacts, risks and opportunities.

Yet, performance in IFRS S2 mostly refers to financial performance and not to the achievement of emissions reduction targets, which may not foster progress in terms of climate change mitigation. It is simply stated in paragraph 13(b)(ii): “the amount of the entity’s emission target to be achieved through emission reductions within the entity’s value chain”. Comparability between targets may be difficult to achieve with such a general target definition.

Based on the above, ANC strongly encourages the ISSB to clarify the intention and scope of the proposed requirements in paragraph 23. Particularly, it shall specify whether the entity is required to disclose it has or not set a GHG emissions reduction target.

The proposed disclosure requirements in paragraph 23 should require disclosure of the scope of the target to increase comparability across entities.

ANC suggests aligning target values with 2030 and 2050 to support alignment with the international community (Paris Agreement, EFRAG).

ANC proposes presenting GHG emission reduction targets by decarbonisation levers to demonstrate the robustness of the decarbonisation pathway of the entity and its operationalisation.

ANC stresses that it would add value to include metrics that give information on what has already been achieved – for example, past GHG emission reductions or removals achieved to demonstrate an entity’s past efforts and be a reference for the following years.

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?

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

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

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).
Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals for financed or facilitated emissions.

(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?

ANC questions the applicability of the metrics in a jurisdiction-agnostic context. Indeed, Appendix B still refers to US legislations and private frameworks that do not need to go through formal due process, which may be an issue for future developments in terms of public interest.

ANC would encourage the ISSB to clarify which metrics are mandatory and to consider the applicability of other industry-based content in addition to what is described in Appendix B (see answer to Q7 of IFRS S1) .

ANC suggests that the ISSB should explain the rationale behind some industries being considered carbon-related, while others are not.

It is not clear how the industry-based requirements will relate to future sustainability topic standards that have not yet been defined. Further guidance is needed on this point.

Question 12—Costs, benefits and likely effects

(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

(c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

ANC believes that expected costs of implementation are difficult to assess at this stage. A relevant assessment of the expected costs, benefits and likely effects will only be possible when more specific application guidance is available and when convergence for a global baseline is reached. A careful assessment in due course is recommended.

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? If you have identified any disclosure requirements that present challenges, please provide your reasoning

ANC supports the idea that assurance would lead to an improvement of the quality of sustainability information. Mandatory assurance is definitely a driver of quality, alongside proper information systems, internal control and good corporate governance.

However ANC considers that a significant effort is required from the standard setter and from the organisations providing auditing standards. Standard setters should consider to the maximum extent possible if the standards provide sufficiently precise suitable criteria as a reference for the expression of an audit opinion. Organisations issuing auditing standards should consider how to best adapt auditing techniques to the specific nature of sustainability reporting (forward-looking information, qualitative information, scenarios…).
Regarding the verifiability of the information, ANC considers indeed that providing assurance requires suitable criteria. The draft IFRS S2 involves a significant degree of judgement and assumptions relating to numerous disclosure requirements. This is particularly true for:

- materiality judgements as no criteria has been defined except “investor focused material information”.
- cross-industry metrics like transition risks (the amount and percentage of assets or business activities vulnerable to transition risks), physical risks (the amount and percentage of assets or business activities vulnerable to physical risks), climate-related opportunities (the amount and percentage of assets or business activities aligned with climate-related opportunities), capital deployment (the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities); these metrics are not very precisely defined.

Auditors may face significant challenges when verifying forward-looking information, the value chain, the due diligence process, financial effects and complex performance metrics where there are no recognized measurement methodologies. The complexity and increased amount of information required by IFRS S2 may lead to a significant increase in the work effort required from preparers to produce this information and for auditors to verify it.

Question 14—Effective date

See IFRS S1

Question 15—Digital reporting

See IFRS S1

Question 16—Global baseline

See IFRS S1

Question 17—Other comments

See IFRS S1