EUROSIF OPEN LETTER IN RESPONSE TO THE ISSB CONSULTATION CONCERNING THE "GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION" (IFRS 1) AND "CLIMATE-RELATED DISCLOSURES" (IFRS 2)

Eurosif is highly supportive of the work of the International Sustainability Standards Board (ISSB). We welcome the opportunity to provide comments on the exposure drafts outlining the "General Requirements for Disclosure of Sustainability-related Financial Information" (IFRS 1) & the "Climate-related Disclosures" (IFSR 2).

As a pan-European association dedicated to the promotion and advancement of sustainable investing, we are convinced that the widespread adoption of a global baseline will be crucial to **increase the availability, reliability and comparability of sustainability-related information,** interoperable with existing international standards and regulatory frameworks, including the forthcoming European Sustainability Reporting Standards (ESRS).

In recent years the demand for Environmental, Social and Governance (ESG) data has grown dramatically to meet investors expanding and increasingly sophisticated needs as they consider sustainability matters in investment strategies. Initiatives aimed at improving the ESG information reported by companies will in turn support **better ESG data & research products**, and **more sound analysis and investment decisions**.

In the EU market, reliable ESG data from corporates are also essential to enable investors to satisfy the **regulatory requirements stemming from** the Sustainable Finance Disclosure Regulation (SFDR hereafter) and the Taxonomy Regulation, so as to provide accurate information to their clients as to the sustainability characteristics of their products.

As investors hold geographically diversified portfolios, they invest in companies across the globe that operate in diverse markets and regulatory conditions. Hence, it is fundamental that they report sustainability-related information in accordance with convergent global principles and guidelines. For this reason, we strongly believe that two major added values of the ISSB's initiative are the **adaptability to different markets & jurisdictions**, and the **interoperability with already existing and upcoming reporting standards**. The challenge will be to ensure that information disclosed under the ISSB can also be used to satisfy other standards and regulatory requirements.

On this note, we appreciate that the core contents of the IFSR 2 build on the structure of the Task Force on Climate-Related Financial Disclosures **(TCFD)** recommendations and adopts the **industry-based Sustainability Accounting Standards Board (SASB) standards**, which many investors are accustomed to. We also support the collaboration with the **Global Reporting Initiative (GRI)** and encourage further cooperation with the **European Financial Reporting Advisory Group (EFRAG)**, as it provides technical advice to the EU Commission on the development of the ESRS. Further interactions at the technical level between the ISSB and the

EFRAG will prove crucial to **eliminate differences in common definitions and sections**, as well as to assist data preparers, data verifiers and data users navigate the different frameworks.

Ensuring interoperability with existing standards, however, will not be per se sufficient to upgrade the ESG data landscape to the extent that is needed. To achieve this goal, we recommend the ISSB standards to be more ambitious by **encouraging the disclosure of more granular climate-related information – especially on transition plans, metrics and GHG emissions reduction & net-zero targets** – also through **more precise guidance**.

Lack of reliable, comparable and decision-useful climate-related data on targets, transition plans and performance measurements, is often highlighted by investors. To enable them to set credible and ambitious decarbonisation/net-zero targets and to implement relative transition plans at portfolio level, we believe that companies should adopt their own targets & plans, and communicate them appropriately to investors.

In its June 2021 findings [link], the IOSCO also highlighted the "need for greater specificity in standards to complement the TCFD's recommendations".

The ISSB standards represent a significant opportunity to close these data gaps, and improve data consistency and comparability.

In this perspective, we take this opportunity to share the following comments on some general and climate-related reporting requirements that are proposed in the exposure drafts under consultation, including suggestions as to where and how the requirements could be improved.

KEY MESSAGES

OBJECTIVE: THE IMPORTANCE OF DOUBLE MATERIALITY

- While we acknowledge the ISSB's mission to focus its reporting framework on financial materiality, we underline the **increasing interest of investors in data on the negative and positive impacts of companies on sustainability matters**, especially on climate.

- **A growing number of funds and investment strategies are able to easily claim that they contribute to achieve sustainability objectives**. In order to substantiate these claims, when analysing companies investors need to consider a broader range of factors that might not be financially relevant, but can nevertheless be detrimental (or instrumental) to the sustainability objectives set in the investment strategy. In this regard, **more data are needed on companies' impacts**.

- Hence, we are strongly supportive of the **collaboration with the GRI** to build a two-pillar global reporting framework encompassing financial and impact materiality.

- We encourage **further cooperation with EFRAG** and the EU institutions while they are developing a transnational framework based on double materiality. In the next few years, the practical experience of the EU market in applying this framework could provide useful insights on the potential future direction and development of global reporting standards.

MORE TRANSPARENCY & ENHANCED GUIDANCE ON MATERIALITY ASSESSMENT

- Companies should be required to **provide explanations on how they conduct the materiality assessment**, as well as on the **reasons determining their choices** not to fulfil specific requirements when they deem them as non-material.

- It would be highly beneficial for the market if the **ISSB develops additional guidance** on basic principles and procedures that companies are supposed to adopt to conduct their own materiality assessment. Among the clarifications needed, priority should be given to **time-horizon and value chain.**

MORE GRANULAR REQUIREMENTS ON TRANSITION PLANS

While we welcome the formulation currently proposed in IFSR 2, we see room for specifying certain disclosure requirements and for including additional elements. Particularly, the ISSB might consider including:

- an explicit requirement to include **GHG emissions reduction targets**; additionally, the alignment of the targets and the transition plan with the Paris Agreement goals (or the latest international agreement on climate change) and the latest available science should be explained;

- disclosure requirements about the **assumptions** on which the transition plans have been developed, such as the scenario analysis and the sectoral transition pathways adopted;

- disclosure requirements on the **governance & oversight of the transition plans**, including whether the plans have been approved by the governance body/bodies with oversight over climate-related matters, and whether and how oversight and accountability are ensured;

- disclosure requirements on the **Key Performance Indicators used to assess the progress** and explanations as to whether the progress is in line with what initially planned;

- further specifications on the "changes in strategy and resource allocation", and "mitigation efforts" undertaken by the company, for instance on **specific actions planned in the short-, medium- and long-term**, and on their respective goals in terms of GHG emissions reduction.

IMPROVING DEFINITIONS AND CLASSIFICATION OF CARBON OFFSETS & CLARIFY THEIR ROLE WITHIN THE CONTEXT OF ACHIEVING DECARBONISATION TARGETS

We suggest introducing **more precise definitions** of the different types of carbon offsets being considered and clarifying that **carbon offsets should be reported separately from GHG emissions reduction targets**, as required in other well-established standards. The draft ESRS on climate change might be considered as a good template for this.

METRICS: MORE PRECISE GUIDANCE AND DISCLOSURE REQUIREMENTS ON CALCULATION METHODOLOGIES

To make the data more understandable and comparable, the IFSR 2 might require companies to explain the **assumptions made, the methodology adopted and the data sources** used to report on performance metrics. In the future, **additional guidance** and calculation examples could also be included in the standard.

Additionally, we made the following suggestions on the individual metrics.

- We suggest including requirements on **energy consumption and mix, and energy intensity among the cross-industry metrics**: these data are important for investors to understand the position of companies in the transition, and have potential implications in terms of financial risks. Moreover, it would strengthen the interoperability with ESRS.

- Companies should disclose the **scope and boundaries** adopted to calculate their GHG emissions. The standard should explicitly state that a**ny purchased, sold or transferred carbon credits or GHG allowances should be excluded from the calculation of GHG emissions**. Additional clarifications have been suggested with regard to: transition and physical risks, capital deployment and remuneration.

MORE GRANULAR AND COMPREHENSIVE REPORTING REQUIREMENTS ON TARGETS

- The reporting requirements might include also: **the scope of the target**, including explanations about the perimeter of operations and the geographic boundaries considered; the **baseline value** from which progress is measured; the **methodologies and significant assumptions** used to define the targets.

- The ISSB might also consider the opportunity to adopt **additional and specific requirements on the GHG emissions reduction targets**, that can be reported separately from the other targets.

DETAILED COMMENTS

In the following paragraphs we expand upon each of the highlights above, with reference to the questions included in the consultation paper.

OBJECTIVE: THE IMPORTANCE OF DOUBLE MATERIALITY

Question answered: Question 1 – Objective of the Exposure Draft (IFRS 2)

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

We acknowledge the ISSB's priority to develop a global baseline for reporting standards with a focus on financial materiality, thus requiring companies to report information that is necessary to assess the **implications of sustainability-related risks and opportunities on an entity's enterprise value** [IFRS S1, Paragraph 1-7]. We understand the background and reasons that motivate this choice.

Financial materiality, indeed, is increasingly recognised by companies, investors and jurisdictions worldwide, for instance through the TCFD recommendations[1]. Hence, a financial materiality approach can serve the ISSB objective of ensuring that the standards can be combined with jurisdiction-specific requirements, and easily associated with existing reporting practices.
Having said that, we underline that, **investors are increasingly interested in gathering and analysing information on the positive and negative impacts of investee companies on sustainability matters**, (especially on climate), as well as integrating the outcomes of these analysis in their investment decisions.

environment and social communities, in addition to the risks & the opportunities to which they are exposed. Stemming from principles and concepts established in the CSRD, European standards based on double materiality are in the process of being developed by the EFRAG.

Notwithstanding these important developments, the **lack of reliable data & research on sustainability impacts** is evident. In our response to the EU Commission consultation on ESG ratings [link] we highlighted the increasing demand of ratings & research products focused on assessing the impacts of companies on ESG matters.

Hence, we are **strongly supportive of the collaboration between the ISSB and the GRI** aimed at creating a 2-pillar global reporting framework encompassing financial and impact materiality. We see it as an important opportunity to advance the disclosure of information on corporate

[1] For instance, as of October 2021, the TCFD recommendations, which are based on financial materiality, had over 2,600 supporters globally, including 1,069 financial institutions, responsible for assets of $194 trillion. See TCFD Status Report, 2021: link

impacts. We thus advise that a **pragmatic approach to** connect the two standards and to identify the areas where financial- and impact-led materiality assessment may coincide (e.g. on GHG emissions metrics) is rapidly put in place.

We also encourage further collaboration with the EFRAG and the EU institutions, as they are building an ambitious reporting framework based on double materiality. **In the next few years the experience of the EU market in applying the ESRS could provide with useful insights relevant to the potential future direction and development of global reporting standards**.

MORE TRANSPARENCY & ENHANCED GUIDANCE ON MATERIALITY ASSESSMENT

Question answered: Question 8 – Materiality (IFRS 1)

(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?

(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?

We welcome that the standards establish the materiality assessment as an entity-specific exercise and requires outcomes to be reconsidered at each reporting period. The relevance of sustainability matters can vary according to multiple factors, ranging from industry, to location, size, regulatory and market conditions, and short-term circumstances. Hence, we support the provision according to which "An entity shall apply judgement to identify material sustainability-related financial information" [IFRS 1, Paragraph 56-62].

However, we harbour concerns over the approach to the materiality assessment currently proposed in the general standard, specifically:

- **no further guidance** is provided to companies on how they can conduct the assessment (for instance, on the time-horizon and the boundaries of the value chain being considered);
- for information that are not deemed material, **companies are not explicitly required to provide any explanation** as to how and why they have come to such conclusion.

From an investor's perspective, this current formulation poses at least three challenges:

- It increases the amount of **information potentially hidden** from the investors' analysis;
- **It lowers the level of comparability** among companies, because the relevance of data is assessed according to different and untransparent methodologies;
- **It increases the risk of distortions** – for instance, companies with sophisticated methodologies to detect risks and very transparent towards investors, might end up with a worse sustainability profile than companies less advanced and/or less transparent.

To mitigate these risks the General Requirements Standard might require companies to provide clarifications on **how they conduct the materiality assessment**, as well as on the **reasons determining the choices not to fulfil specific requirements** when they consider them as not material.

The objective of these additional disclosures should be to **convey information that can be relevant for better analyses and investment decisions**. Hence, the length and granularity of the explanations should be contained to what is strictly necessary to achieve said objective. **Explanations on materiality assessment should not be an excessive burden for companies, but rather an additional opportunity** to explain to investors their efforts to monitor and manage sustainability matters. More information could also drive **convergence towards best practices**, and constant advance.

Additionally, it would be highly beneficial for the market if the ISSB were to develop and publish **additional guidance** on basic principles and procedures that companies should adopt to conduct their own materiality assessment. Among the clarifications needed, the assessment of the **time-horizon and the value chain should be prioritised**. This would contribute to harmonising reporting practices, and may ultimately improve the comparability of data.

As a further reflection, it may also be worth considering that **investors tend to deem some performance metrics as always material for all companies**, regardless of any circumstances or characteristics of the reporting entities[2]. For instance, we strongly encourage the ISSB to take on board the position that the TCFD has expressed in its 2021 update [link] to the Recommendations, according to which **all organisations should disclose Scope 1 and Scope 2 emissions independent of a materiality assessment, and are strongly encouraged to disclose also Scope 3 emissions**, even though these remain subject to materiality. The ISSB may also consider encouraging companies that have emissions reduction targets to always report on the transition plans, irrespective of the materiality assessment.

These provisions, even if not legally binding per se´, can **foster market expectations** and induce more companies to disclose relevant information. Considering that the availability of data is one of the biggest challenges in the sustainable investing industry, a global baseline on reporting should be the **opportunity to close as many data gaps as possible**[3].

[2] For instance, according to the results of a survey conducted by the TCFD in June-July 2021 [link], 91% of the respondents among users consider very useful the data on Scope 1 and Scope 2 emissions and 80% consider very useful the data on Scope 3 emissions. 70% of respondents (among users & preparers) think that Scope 1 and Scope 2 should be always disclosed irrespective of materiality (47% think so for Scope 3 emissions). Over 90% of respondents believe that the disclosure of transition plans for companies with emissions reduction commitments would lead to better decision making.

[3] For instance, a May 2022 FTSE Russell's paper has demonstrated that disclosures of Scope 1 and Scope 2 GHG emissions are still lacking, with specific incidence in some countries, and among companies with certain characteristics. See: FTSE Russell, Mind the gaps: Clarifying corporate carbon: link

MORE GRANULAR REQUIREMENTS ON TRANSITION PLANS

Question answered: Question 5 – Transition plans and carbon offsets (IFRS 2)

(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.

We are supportive of the reporting requirements on transition plans proposed in the IFRS 2 [Paragraph 13]. Moreover, we welcome the implementation of many of the elements recommended by the TCFD in its latest Guidance on Metrics, Targets, and Transition Plans [link], such as the link to targets & metrics, and the changes to businesses and strategy.

However, we believe **the standard could be more ambitious** by improving the stringency of some reporting requirements, as well as by demanding disclosures on additional elements. To this end, we put forward the following suggestions:

- Introduce an explicit requirement to include **GHG emissions reduction targets**, and explain their alignment with the **Paris Agreement goals** (or the latest international agreement on climate change) and the **latest available science**. In the current draft, the reduction of GHG emissions, the international agreements, and the latest science are only briefly mentioned in the definition of transition plan in the Glossary, and in the reporting requirements on the targets. The Paris Agreement is currently joined by 193 parties, and there is scientific consensus around the need to limit global temperature increase to 1.5°C: we consider there is sufficient consensus around these two elements to include them in the formulation of the IFRS 2.

Accordingly, we propose:

- Requiring companies to disclose **whether the transition plans have been approved** by the governance body/bodies with oversight of the other climate-related matters, and whether and how oversight and accountability are ensured.

- Adding disclosure requirements on the **assumptions** on which the transition plan has been developed, such as the scenario analysis and the sectoral transition pathways adopted.

- Asking for disclosure on the **Key Performance Indicators used to assess the progress** and explanations as to whether the progress is in line with what was initially planned.

- Increase the granularity of information that should be disclosed on “changes in strategy and resource allocation” and “mitigation efforts”, e.g. specifying the **individual actions**

planned in the short-, medium- and long-term, possibly accompanied by the respective goals in terms on GHG emissions reduction.

The ESRS on climate change might provide a good template for these requirements [See ESRS E1: E1-1].

Additionally, we note that the disclosure requirement on transition plans also includes a reference to **“legacy assets”**, which are commonly defined as “stranded assets”. We note that the ESRS on climate change introduces a similar concept in the disclosure requirement on transition plans, which nonetheless is more focused on “locked-in emissions” [ESRS E1: E1-1, paragraph 15(d)]. While we understand that the objective of these disclosure requirements might be similar, we also observe that “stranded assets” is a monetary metric, whereas “locked-in emissions” implies a performance measurement expressed in CO_{2e}. The ESRS on climate, instead, explicitly requires reporting on stranded assets under the disclosure requirement on the financial effects of transition risks [see ESRS E1: E1-16, AG 81(a)], a choice that we consider more appropriate. To improve the alignment with ESRS, we suggest that ISSB also locate the reference to legacy assets in the metric on “transition risks” [Paragraph 21(b)].

IMPROVE DEFINITIONS AND CLASSIFICATION OF CARBON OFFSETS & CLARIFY THEIR ROLE WITHIN THE CONTEXT OF ACHIEVING DECARBONISATION TARGETS

Question answered: Question 5 – Transition plans and carbon offsets (IFRS 2)

(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 IFRS 2 demands companies describe the type of offsets that they intend to deploy, to prove their credibility, and to explain their relative contribution to the emissions reduction targets [Paragraph 13(b)(iii)].

We are appreciative of the improvements that have been introduced to the previous Climate-related Disclosures Prototype: mainstreaming the practice of disclosing on offsets would represent a significant step forward in terms of the quality of information currently available.

Nevertheless, **further precision and rigour would be necessary** to ensure an adequate clarity on the robustness and credibility of targets and transition plans. This can be achieved:

1. by clarifying the **definitions of individual types of offsets**, and
2. by introducing clearer guidance as to **whether the climate-targets can be presented as relying on carbon offsets** or not.

On point 1. According to the draft currently being considered, it is incumbent on the reporting entities to list, name, and describe the type of carbon offsets that they intend to use (e.g. whether the offset is nature-based or centred on technological carbon removals).

The data reported would be more accurate and comparable if the standard introduced a **classification of types of offsets with respective definitions**, to be inserted in the Appendix A – Defined terms. For instance, the classification might include the following types: removals in own operations and the value chain; mitigation projects outside the value chain and financed through carbon credits; avoided emissions from products and services, as proposed in the ESRS on climate change [See Draft ESRS E1: E1-12; E1-13; E1-14].

On point 2. The IFRS 2 currently requires reporting entities to explain "the extent to which the targets rely on the use of carbon offsets" [Paragraph 13 (b)(iii)(1)]. In this regard, we note **that investors generally prefer that carbon offsets are reported separately from the decarbonisation targets, which should rely solely on GHG emissions reduction**. This approach, indeed, provides more clarity on the forward-looking position of the companies towards abating their own emissions, and clears the risk that companies artificially inflate the ambition and credibility of their plans through excessive use of unreliable carbon offsets.

This approach is also adopted by other major reporting standards. The Science-based Targets Initiative methodology, for instance, postulates that removals can be adopted only as an option to neutralise very limited amount of residual emissions [SBTi Corporate Net-Zero Standard 1.0]. The GRI standards [GRI 305: Emissions 2016] and the draft ESRS also require companies to report their GHG emissions reduction targets and carbon offsets separately. For instance, the draft ESRS E1 requires that removals, carbon credits and avoided emissions are reported in the section dedicated to the Performance measurements, separately from the disclosure requirement on GHG emissions reduction targets.

We acknowledge that the debate on the role of offsets in achieving climate mitigation objectives is still open, and following different paces and trajectories in different jurisdictions. Hence, we understand the context in which the ISSB will have to ponder options and solutions. By no means we are suggesting that the IFRS 2 should express a judgement and take a position on how companies should pursue their mitigation targets. **Our suggestion only focuses on increasing the clarity around the nature and use of offsets**.

We suggest the ISSB aligns its approach to existing standards and clarifies that **emissions targets and carbon offsets are to be disclosed as distinct elements of the transition plan**.

Metrics: more precise guidance & disclosure requirements on calculation methodologies

Question answered: Question 9 – Cross-industry metric categories and greenhouse gas emissions (IFRS 2)

(a) Do 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.

When it comes to climate-related considerations, a major challenge for data users is to compare data from different companies, especially on performance metrics & targets, because they are calculated with different methodologies. Explanations on those methodologies are largely unavailable or inadequate, thus further undermining the capacity of users to fully understand the data disclosed[4].

In this regard, we welcome the upgrades introduced in the IFRS 2, as compared to the latest TCFD application guidance on metrics and targets. Still, to further increase reliability and comparability of climate-related data at international level, **we strongly encourage the ISSB to develop and publish additional guidance on calculation methodologies and implementation examples**.

At the same time, we acknowledge that at this juncture for **some indicators there are no consolidated calculation standards currently in use and sufficiently widespread** (e.g. financial effects of physical and transition risks, capital deployment). Therefore, at this stage it might be contentious for the international standard setters to recommend specific methodologies, while at the same time ensuring the standards can be applicable by the widest base possible of preparers and users, and maintain the highest level possible of likelihood of adoption by different jurisdictions.

Bearing in mind these practical complexities, we consider that a **reasonable and interim solution** could be to require companies to **explain the assumptions made, the methodology adopted, and the data sources** used to report on performance metrics – at least for those where it is difficult to select robust calculation methodologies.

More transparency on calculation methodologies would **render data more understandable and comparable** to data users (investors and data providers). Moreover, increasing the accessibility to information on calculation methodologies and data sources can **support improvements** and encourage reporting entities to **converge towards best practices**.

In the near future improved practices and increased homogeneity among preparers and users could provide international standard-setters with sufficient basis to set calculation guidance and application examples, building on best practices and well-consolidated approaches.

[4] See TCFD Status Report, 2021 [link]

We are strongly supportive of the list of metrics proposed in the IFRS 2, which are mirroring the TCFD recommendations, and are generally considered as valuable datapoints for investment decisions. In the last few years preparers and users have developed familiarity with these metrics, even though several challenges on methodologies and data availability still occur. Moreover, most metrics are generally aligned with the proposed ESRS, with workable differences.

As previously stated, we are convinced that the ISSB standards have great potential to enhance reporting practices and data quality. To unlock this potential the standards could introduce **more precise requirements on some performance metrics**, in accordance with other existing and well-established reporting frameworks.

Hereafter we provide some comments and suggestions on how the reporting requirements could be further improved.

- *Consider including requirements on energy consumption and mix, and energy intensity among the cross-industry metrics*

Energy-related indicators are relevant for detecting the companies' risks and impacts relative to the use of resources. In particular, **energy consumption and intensity are important in terms of financial materiality**, as they can imply risks affecting the enterprise value. For instance, a company which escalates its energy consumption year after year may increase its exposure to transition risks, e.g. by facing increased costs for energy inputs. Data on energy can also be **valuable information to understand the commitment of a company to the transition towards carbon neutrality**, as well as to track its progress in this regard. Other international standards, including the GRI Standards, already include sections on energy.

The **draft ESRS** on climate change also requires companies to report data on energy, such as **energy consumption and mix and energy intensity**. For financial market participants (FMPs) selling products in the EU market, indeed, the data on energy performance are necessary to **comply with the requirements of the Sustainable Finance Disclosure Regulation (SFDR)**. More precisely, energy consumption and mix and energy intensity are considered as Principal Adverse Impact Indicators (PAIIs), which FMPs are required to disclose at entity level and across all portfolios as per SFDR. Even if these regulatory requirements only apply in the EU market, we should be cognisant that investors usually operate worldwide, therefore the data on companies subject to the CSRD and ESRS are not enough to satisfy their compliance needs.

Nevertheless, to better serve investors' needs and improve harmonisation with the EU standards **the ISSB might consider including energy-related metrics in the list of cross-industry reporting requirements**.

Finally, introducing reporting requirements on energy would reinforce the consistency with the stated objective of the Climate Standard, according to which an entity is required to disclose information that enables users 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" [Paragraph 1(b)].

- *Additional disclosures on GHG emissions metrics*

On GHG emissions metrics we suggest adopting the following additional disclosures:

- **On Scope 1, 2, and 3 emissions** – Companies should always be required to explain the **organisational and operational boundaries**, and the **emissions factors** adopted to calculate their GHG emissions.

- On **Scope 1, Scope 2 and Scope 3 emissions** – The ISSB standard might also explicitly require companies to **report data excluding any purchased, sold or transferred carbon credits or GHG allowances**, as required in the draft ESRS. This is to prevent deceptive disclosures whereby insufficient efforts to reduce GHG emissions in the company's own operation are tentatively covered by accounting carbon offsets. This practice often prevents investors from understanding the dimension of the emissions physically associated with a company's operations, assets or value chain, and the reduction efforts needed. We understand this provision is implicitly implied in the term "Gross GHG emissions", as explained in the Basis for Conclusion [BC 110]. However, we suggest explicitly adding this specification in the text of the disclosure requirement.

- **On Scope 1 emissions** – The ISSB standard may require companies to report the **share (%) of emissions under regulated emission trading schemes** (if necessary, with a phase-in provision). This specification is meaningful for the enterprise value, as emitting under ETS requires the purchase of certificates, which should be considered for identifying transition risks, as well as for the sake of financial accounting. This requirement is included, among others, in the draft ESRS on climate change [ESRS E1: E1-7, paragraph 40(b)], as well as among the example metrics provided by the TCFD, thus this addition could be considered to improve alignment among standards.

- On **Scope 2 emissions** – Companies should be explicitly requested to express figures using the **market-based** and the **location-based methods**. Reporting figures according to both methodologies is important, because it provides investors with information on the emissions occurring where the energy is consumed (location-based), and emissions generated according to different types of purchase contracts (market-based): these two figures might differ significantly, and can inform different decisions and levers to reduce emissions. The breakdown of Scope 2 emissions on market-based and location-based methods is recommended, among others, by the GHG Protocol Corporate Standard, the GRI standards, and it is requested in the CDP climate change 2022 questionnaire and the draft ESRS on climate change [ESRS E1: E1-8, paragraph 43].

- *Additional disclosures on other performance metrics*

- **On transition risks and physical risks** – The requirement to calculate "the amount and percentage of assets" exposed to risks might not be entirely and/or always meaningful to gain a full perspective on the vulnerability of the company to climate-related risks. On the contrary, reporting on "business activities" vulnerable to risks always enables an evaluation on the revenues, turnover, and CapEx expectations. Therefore, we suggest amending the requirement so as to demand companies to report on **assets AND business activities** (instead of assets OR business activities). Additionally, investors would benefit if companies would report the locations and purpose of assets they believe are vulnerable to physical risk. This could lead to the identification of clusters of assets with similar risk profiles or areas where different models may disagree, a topic on which the opacity is very elevated at the moment.
  Additionally, we consider it appropriate that companies disclose financial effects occurring in the short, medium, and long-term.

- On **capital deployment** – We suggest requiring the disclosure of the **percentage of capital deployment**, besides the absolute data. In this way, companies would be required to show to what extent they invest in climate-related projects, as compared to total CapEx and expenditures. For instance, in its 2021 recommendations the TCFD mentions the "percentage of annual revenue invested in R&D of low-carbon products/services" as an example of metric for reporting on capital deployment. **Narrative explanations on the types of projects, activities, and technologies financed** would also be important to provide investors with additional tools to understand the credibility of the plans of the investee companies to mitigate risks and/or exploit opportunities.

- **On remuneration** – In addition to the requirements already outlined in the IFRS 2 [Paragraph 5(f) and 21(g)], the ISSB standard might be more explicit in requiring companies to disclose **whether they link the remuneration to climate targets according to specific Key Performance Indicators (KPIs)**. In that case, companies should describe the KPIs used and the key assumptions that justify their robustness.

MORE GRANULAR AND COMPREHENSIVE REPORTING REQUIREMENTS ON TARGETS

Question answered: 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?

We appreciate that (to some extent) the ISSB has taken on board well established standards and reporting frameworks. The proposed requirements are well positioned to bring significant improvements in the clarity about the climate-related targets set by companies, especially on GHG emission reduction and/or net-zero.

To further allow reporting entities to communicate appropriately their targets, as well as enable investors to understand those targets, we suggest including the following additional requirements (which will also improve the interoperability with the draft ESRS on climate change):

- **the scope of the target**, including explanations about the perimeter of operations, activities, and the geographic boundaries considered;

- **baseline value** from which progress is measured;

- the **methodologies and significant assumptions** used to define the targets, including, where possible and relevant, the selected scenario, data sources, alignment with science-based methodologies.

Additionally, the ISSB may consider the opportunity to **adopt additional and specific requirements on climate mitigation, emissions reduction, and net-zero targets**, that can be reported separately from the other targets (similarly to the approach adopted by the EFRAG in its draft ESRS on climate change [ESRS E1: E1-3]). The following requirements can be added:

- companies should clarify which Scopes are considered in the target, and explain the **consistency of these targets with the GHG perimeter** disclosed under the GHG emissions metric;

- the targets should be disclosed in **absolute value and, if deemed meaningful, in intensity value** (now the standard requires to disclose absolute OR intensity value); if companies disclose the targets in intensity value, they should also clarify and explain the denominator chosen.

As a further step, in the future the ISSB might also consider preparing additional guidance to **encourage companies to converge towards more standardised practices**, for instance on setting short-, medium- and long-term targets, and baseline years. Key takeaways could be taken from the application of the ESRS on climate change, which have very advanced requirements on target-setting.