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Re: ISSB's Exposure Drafts 'IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information' and 'IFRS S2 Climate-related Disclosures'

Dear Mr Faber,

OIC is pleased to have the opportunity to provide its comments on the Exposure Drafts IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures.*

As expressed in previous consultations on sustainability matter, the demand of harmonized sustainability standards is strong by stakeholders, operators and markets in general.
While we support the EU initiative, we strongly believe that the coordination and integration between these standard-setting initiatives must be absolutely pursued. Differences in the setting, definitions and content of the two set of standards (ESRS and IFRS Sustainability EDs) should be avoided. It would not be good for the integration of the markets itself if there were differences such as to make the comparability of information by users complex or even to favor regulatory arbitrage.

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Therefore, with the aim to contribute to the development of a high-quality set of international standards that can be interoperable in order, if any, to be integrated with specific regional disclosures, please find below our comments.

ED IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Question 1 - Overall approach

We think that the ED clearly states that an entity needs to identify and disclose all material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure.

The list of other sources in para. 51 can help preparers to provide appropriate information on identified disclosure topics. The paragraph, read together with the para. 53, seems to be aligned with the provisions - in the accounting reporting - by IAS 8 when a particular issue is not expressly addressed by a standard. For greater clarity, it would be desirable that it be explicitly required that each source from which management has drawn, as well as, of course, the possible evaluation made to choose which information to provide outside the ISSB standards, was described in detail, as happen for the accounting standards in use (in the context of the financial statements).

Question 2 - Objective (paragraphs 1–7)

We suggest to better clarify that the entity needs to consider the financial effects that result external risks and opportunities but also the financial effects that results from its impact on the extern (environment and people), the so called "boomerang effect".

We think, indeed, that this second aspect was more clearly described in the prototype published in November 2021 which stated that "*Material information could include but is not limited to information about: (a) an entity's impacts on society and the environment, if those impacts could reasonably be expected to affect the entity's future cash flows*; …" rather than in para. 6(c) of the ED.

The para. 6(d) indicates that the sustainability-related financial information can also include information about "*the entity's development of knowledge-based assets*". The ED does not provide a definition of these assets while we believe that a clarification about to which assets it is intended to refer would be necessary for a homogeneous application of the standard, favoring the comparability of the information and its verifiability.

Regarding the definitions of "sustainability-related financial information" and "sustainability-related financial disclosure", provided in the Appendix A, we believe that the

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difference between them is not clear. In the ED both concepts seem to be used indistinctly.
Therefore, a clarification in the definition of the two different terms and in the interrelation between the two different concepts is fundamental.

Question 3—Scope (paragraphs 8–10)
In principle, we agree that the proposals in the ED could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP.

Question 4—Core content (paragraphs 11–35)
In general, the objectives for each of the core content parts on Governance, Strategy, Risk management and Metrics and Targets are clear.

The para. 22 proposes that entities disclose information that enables users of general purpose financial reporting to understand the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term.
We understand that the ED, not defining the short, medium and long term horizon, permits entities to anchor prospective information to their financial planning.
We support this proposal since these are forecast information, and therefore delicate by definition. Our stakeholders have represented that the lack of support for financial planning, which follows a preparatory and approval process by the company, could jeopardize the quality of financial information provided over different time horizons.
Given that today, at least from the feedbacks gained from our stakeholders, the entities do not provide such information, we suggest to defer this request.

Finally, with regard to the para. 22(b) which requires information about the sustainability-related risks and opportunities, already recognize in the most recent financial statements, 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, we believe that a clarification would be useful to understand which could be the risks and opportunities that are expected to have a financial effect within the next 12 months but which are not already recognized in the financial statements.
We observe also that the IAS 1, para. 125, requires the same disclosure in case of uncertainty in the estimates "*An entity must also disclose, in the notes, information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. These disclosures do not involve disclosing budgets or forecasts*.".

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The present ED, but also the ED S2 on climate-related disclosure, does not link this expected adjustment to the carrying amounts of assets and liabilities to estimation uncertainty.
Therefore, it would be appropriate to clarify also if the cases envisage by the ED are the same of IAS 1, and if so, the principle of connectivity should be recalled.

Question 5—Reporting entity (paragraphs 37–41)

The ED proposes that sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements. It also requires the entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed, including those along its value chain.
With reference to the boundaries of reporting entity, it is not clear whether associates and joint ventures should be included. In the case that the reporting entity is required to include associates and joint ventures accounted for using the equity method, it should be clarified whether the information should be presented on the basis of the equity interest or the entity "as a whole". In the latter case, there would be the risk of a "double counting" of the investment, as the same information would be presented in different financial statements. Therefore, we propose to clearly state that the boundaries of reporting should be limited to subsidiaries only.

Regarding the value chain, it is defined, in Appendix A, as "*The full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include those in the entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates*."

In general, we think that the following three issues arise with regard the value chain:

1. definition of the subjects to be considered in the value chain;
2. definition of the information to be acquired from these subjects;
3. availability and verifiability of the value chain information.

We believe that, in the interest of comparability and verifiability of information, it would be essential that clearer criteria are defined to determine the perimeter of the value chain by providing a rationale for it. For example, by delimiting the value chain to significant and

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stable relationships over time, in accordance with the criteria in the proposed European Directive on Corporate Sustainability Due Diligence.

While in the context of the climate, the value chain model (Scope 3) is already defined by other international initiatives taken as a reference by entities (GHG Protocol), and there are also conversion tables that allow them to autonomously estimate the scope 3 GHG emissions without the need to request such data from counterparties, we recommend the ISSB, when developing other topical standards (eg water, pollution), to carefully assess the points 2) and 3) above-mentioned.
Indeed, it is necessary to define more precisely which transactions must be taken as a reference both upstream and downstream. For example, if even in terms of water consumption, in line with scope 3, reference must be made to the relationships of the value chain with the company.
It is then necessary to assess whether the company is able to calculate this information independently or needs to request the cooperation of the counterparty.

Question 6—Connected information (paragraphs 42–44)
The ED proposes that an entity be required to provide information that enables users to assess the connections between the various sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements.
We agree with this proposed requirement and we suggest that whenever a topical standard requires information on current effects and in general on financial statements, such standard recalls the connectivity principle as defined in IFRS S1.
We observe that the IFRS S2 *Climate Change*, in the section on financial effects "Financial position, financial performance and cash flow", does not contain any reference to the connection with the financial statements.

Question 7—Fair presentation (paragraphs 45–55)
We do not have particular comments. See our reply to question 1 regarding the list of possible sources of guidance.

Question 8—Materiality (paragraphs 56–62)
We agree that financial materiality, whether it refers to phenomena captured in the financial statements or to longer-term phenomena that do not meet the criteria to be recognized in the financial statements at the reporting date, should be assessed according to the investor's perspective as defined by the international accounting standards.
Indeed, the financial materiality in the sustainability context, regardless of whether it derives from a risk (e.g. physical risk) /opportunity or whether it is a consequence of an impact that the entity generates on the external environment (see also Question 2), should be applied with the same criteria than the financial materiality in the financial statements.

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An investor can be misled by both omitted or incorrect financial information in the financial statements and omitted or incorrect financial information to be included only in the sustainability report, such as, for example, financial forward-looking information.

Moreover, we suggest the ISSB to develop guidance on how to perform the materiality analysis, including the process to identify those impacts that could reasonably be expected to affect the entity's enterprise value.

Question 9—Frequency of reporting (paragraphs 66–71)
We generally support 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.

Question 10—Location of information (paragraphs 72–78)
We generally support that the ED deliberately avoids requiring the information to be provided in a particular location to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.
We also agree with the possibility to include information by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)
We 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.

Question 12—Statement of compliance (paragraphs 91-92)
We generally support the relief proposed that an entity cannot disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. However, we suggest that in this case, the entity indicates the omitted disclosure and the reason for not providing it.

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Question 13—Effective date (Appendix B)

We generally support the relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

Question 14—Global baseline

Please refer to the introduction of this letter.

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ED IFRS S2 Climate-related Disclosures

Question 1—Objective of the Exposure Draft
We observe that the scope (para. 3) is not clearly defined with regard the climate-related risks the entity is exposed. Indeed, these risks include but are not limited to those physical and transitional.
In the Basis for Conclusion (paragraph BC 50) it would seem that with this opening the ED refers to other issues strictly related to the climate, such as water, biodiversity, not specifically dealt with in the standard, but which could affect the assessment of climate-risks and opportunities.
We think that the scope should be clearly identified to favor consistency.

Moreover, regarding the concepts of "*physical risks from climate change (physical risks)*" and "*risks associated with the transition to a lower-carbon economy (transition risks)*", although operators have familiar with these concepts, a better definition of them would still be useful. In particular, referring directly to the TCFD/EU climate guidelines or integrating related content, for example by detailing the sub-categories of physical and transition risks.

Finally, we note that the Appendix A includes some definitions that have a novative character and others instead taken from other standards/frameworks, such as "*legacy assets".* For those, it would be preferable to recall the official source.
It would be also useful to define or clarify the following words:
- "*unable*", as done in IAS 8 for "*impracticable*";
- "*significant*" and "*material*" (used indistinctly in the ED);
- "*unconsolidated subsidiaries*".

Question 2—Governance
We generally support the proposed requirements on the governance related to risks and opportunities associated to climate-related matters.

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain
As indicated in our reply to ED S1-Q5, we believe that, in the interest of comparability and verifiability of information, it would be essential that clearer criteria are defined to determine the perimeter of the value chain by providing a rationale for it. For example, by delimiting the value chain to significant and stable relationships over time, in accordance with the criteria in the proposed European Directive on Corporate Sustainability Due Diligence.

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Question 5—Transition plans and carbon offsets

The para. 13 requires the entity to provide information on the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans. In providing this information, the entity must also include, under para. 13(b)(ii), information relating to the climate-related targets included in the plan and the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain and, under para. 13(b)(iii), the intended use of carbon offsets in achieving emissions targets.

As regards point b)(ii), it is difficult to understand how it is possible to quantify an objective concerning the value chain.

As regards point b)(iii), it is not clear whether the emission targets are to be expressed net or gross of the expected compensation. Although, the information on carbon offsets can help to understand the approach to reduce emissions, the carbon offsets (through carbon removal or emission avoidance) our stakeholders highlighted that it is a phenomena not yet mature for which generally accepted methodologies do not exist.

Moreover, a clarification about the concepts of "*direct adaptation and mitigation efforts*" and "*indirect adaptation and mitigation efforts",* included in para. 13(a), would be appropriate.

Question 6—Current and anticipated effects

Please see our reply to ED S1-Q4 regarding the financial effects and to ED S1-Q6 on connected information.

Question 7—Climate resilience

Regarding climate-related scenario analysis it could be useful also for uniformity in the approach, to identify guidance that entities can use as reference.

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

The ED requires entities to provide information on GHG emissions with regard to Scope 1, 2 and 3 in accordance with the GHG Protocol, requiring to report Scope 1 and Scope 2 emissions separately for (1) the consolidated accounting group (the parent and its subsidiaries) and (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in point (1).

On this point, while the GHG Protocol provides for different approaches to determine which emissions to include in scope 1, 2 and 3 (including how to include the emissions of

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associates, joint ventures, etc.), the ED proposes instead the inclusion of emissions relating to associates and JVs in scope 1 and 2.
Our stakeholders raise the issue that in the current practice the emissions of associates and JVs are commonly included in Scope 3. Therefore, at least at national level, this proposal would result in discontinuity with the prevailing methodology.

Moreover, with regard to the Scope 3, our stakeholders have highlighted that today, even companies in the same sector, calculate this indicator differently.
Therefore, in the interest of comparability and verifiability of information it would be appropriate that clearer criteria be defined:

- to determine the perimeter of the value chain by providing a rationale at the base. For example, delimiting the value chain to significant and stable relationships over time, in line with the contents of the proposed Directive on Due Diligence;
- to provide more guidance to calculate GHG in order to favor comparability between entities.

Question 10—Targets
As indicated in our reply to ED S1-Q4 we agree that also the targets are aligned with the entities' planning.

Question 11—Industry-based requirements
We think that having developed industry-based indicators starting from the SASB Standards is a good approach. However, we observe that some indicators are not specific for the climate.

We note that B8 and B9 are meant to help entities to identify industries for reporting. A more detailed guidance may be needed in order to favor comparability and to avoid that a conglomerate may select an excessive number of industries.
Moreover, we believe that it should be clarified whether metrics need to be calculated to reporting entity level or to value chain level.
Finally, we note that the number of metrics required is very voluminous and the length of the consultation period was not sufficient to adequately assess them all.

Question 14—Effective date
As already commented in replying Q6, given that the entities do not provide today quantitative information regarding the potential financial effects, we suggest to defer this request.
Moreover, flexibility should be provided regarding the information about the value chain.

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Question 16—Global baseline
Please refer to our general comment in the introduction of the letter.

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

Yours sincerely,

Angelo Casò
(OIC Executive Board President)

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