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## Response to ISSB Exposure Drafts IFRS S1 and IFRS S2

### Introduction

This response<sup>1</sup> comprises:

- Pages 1 to 4: This paper's most significant comments.
- Pages 4 to 19 responding in order of the questions asked in the exposure draft.
- The following attachments:
  - A. How companies can report their capacity to transition to Net Zero GHG emissions in a readily-assurable, comparable manner thus providing investors with actionable information. This proposal is based on TCFD & SBTi.  
Attachment A Appendix: CPP Investments template for reporting a company's capacity to transition to net zero
  - B. The case for extending the GHG Protocol to cover forward Carbon Dioxide Removal prices.  
Attachment B Appendix: Coverage of the cost of Carbon Dioxide Removal in the IPCC AR6 WG3 April 2022 report on Mitigation of Climate Change
  - C. Implementing the 24<sup>th</sup> March 2022 IFRS Foundation / GRI agreement to create an interconnected approach for sustainability reporting.

### **A) It is imperative that ISSB standards are rapidly finalised and implemented to assist decarbonisation.**

The Paris Agreement's objective halting global warming at a level which avoids dangerous climate change is of paramount importance making implementing the sustainability standards exceptionally urgent<sup>2</sup>. The ISSB standards, well implemented, should play a key role in achieving this by motivate investments aligned to a rapid transition to net-zero carbon GHG emissions.

### **B) The S2 standard should specify a template for reporters to consistently report their capacity to transition to Net Zero GHG emissions.**

Without this, reports are likely to vary greatly in their approach and thus fail to provide investors with the consistent information required for them to decide which companies will prosper as the economy moves to Net Zero GHG emissions.

### Recommendations:

1. The standard should require reporters to present their capacity to decarbonise following a template along the lines of that proposed by CPP Investments. See **Attachment A** for details.
2. The Greenhouse Gas Protocol's scope should be extended to provide 'Standard Costs' for Carbon Dioxide Removal in, say, 2040, 2050 and 2060. See **Attachment B**. Note that, as with existing work of the GHG Protocol, this involves taking difficult to interpret information in the

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<sup>1</sup> The author is pleased to provide a 'Word.docx' copy plus spreadsheets with supporting analysis to anyone who emails him at [rgibson@hkust.hk](mailto:rgibson@hkust.hk).

<sup>2</sup> IFRS's launch timing is excellent, being four days before IPCC release of its [AR6 WG3 report](#) which warns that: 'Without immediate and deep emissions reductions across all sectors, limiting global warming to 1.5°C is beyond reach'. It is truly urgent to have mandatory, global reporting on Climate Issues to help direct investment towards Net Zero aligned business and away from other business.

IPCC's Assessment Reports and providing simple rules which companies can use for their reporting. **(For notes on IPCC coverage see appendix to Attachment B)** There is significant uncertainty as to what these future costs will be but having 'Standard Costs' for accounting causes companies to report consistently. Should Investors believe a different cost to the standards is appropriate they have consistently prepared reports and can adjust for the cost difference to get information for their investment decisions.

**C) The presentation of 'General Features' and 'Qualitative Characteristics of Useful Sustainability-Related Financial Information in the ISSB standards must be improved.**

The S1 and S2 EDs contain 'General Features' and 'Qualitative Characteristics of Useful Sustainability-Related Financial Information.' based on IASB's 2018 Conceptual Framework. It is difficult to understand them as:

- They are set out in different places (main text and appendixes) of the two EDs.
- They are lengthy with significant duplication.
- They do not distinguish between 'requirements' and the 'guidance' which supports these requirements.
- There is no clarity as to if, and when, these 'General Features' and 'Qualitative Characteristics of Useful Sustainability-Related Financial Information' trump the detailed requirements of the remainder of the exposure drafts.

To concludes there is a substantial risk that reporters and assurers will treat these **General Features** and **Qualitative Characteristics of Useful Sustainability-Related Financial Information** as 'background music' to which they pay little attention to as they work to use, for example, the 642 pages of rules in S2 Appendix B.

**Recommendation:** 'General Features' and 'Qualitative Characteristics of Useful Sustainability-Related Financial Information.' should be:

- Edited to provide (a) short statements of mandatory **requirements**, (b) '**recommendations**' which are on a comply or explain basis; and, (c) **supporting guidance and examples**.
- Put all together in an appendix to S1 rather than being divided between the body and appendixes of S1 and also partially placed in S2. Further they should have an introduction listing the requirements.
- Given a them name such as 'Principles' together with a clear statement of that their **requirements** must be followed to be in accordance with the ISSB standards.

**D) Concerns about S2's Appendix B - Industry based requirements'**

S2 appendix B mandates 642 pages of 'Industry based requirements' copied from the 'SASB rulebook' with references to US law removed and industry sectors added for financial services. As noted in point Comment C) above, it is not clear if/when **General Features** and **Qualitative Characteristics of Useful Sustainability-Related Financial Information** override the detailed rules. Problems in implementation are likely to include:

- Reporters, Assurers, Investors and Other report users will 'NOT BE ABLE TO SEE THE WOOD FOR THE TREES.' As a result, the detailed rule following may not meet the purpose of the standard.
- An '*if in doubt report*' approach leading to excessive information which is costly to produce and which obscures material items.
- The standard being vulnerable to the 'Enron type' problem where a focus on detailed rules hides a failure to comply with fundamental principles.
- Burdening the Climate standard with these mandatory rules is likely to slow down its adoption by companies which have not previously used SASB.

## Recommendation:

The balance between the 'Cross Cutting (Topic) Standards' and the 'Industry Disclosure Requirements' should be edited as follows:

1. The 'Cross Cutting (Topic) Standards' to cover disclosures which are common to most industries for Topics such as GHG Emissions, Water use, Waste Management, and Impact on Biodiversity.
2. Industry Segment Disclosure Requirements which are supplementary to the Topic Standards. These should take the relevant 'Topic Standard' as their starting point and provide additional items such as standards for Industry Segment specific disclosures.

Note: This recommendation should greatly reduce the volume of the standard from the current 642 pages for the 'Industry Disclosure Requirements' just for climate with, many more pages to follow as standards are issued for other topics.

## E) Implementing the 24<sup>th</sup> March 2022 agreement between ISSB and GRI to cooperate so their standards becoming the two pillars of international sustainability reporting.

This agreement is most welcome and, if well implemented, will accelerate the adoption of ISSB standards by building on the existing GRI user base. Without this initiative many reporters will feel they have to '*take two steps backwards in order to take one step forwards.*'

The ISSB/GRI agreement is for reporters to:

1. Cover Topics which are material to enterprise value in their Annual Report per ISSB; and,
2. Cover Topics which are important to stakeholders but not material to enterprise value in their Sustainability Report per GRI.

This split is welcome as it permits the Annual Report to focus on issues which are relevant to financial capital providers.

The split is not, however, simple given the high degree of overlap likely between ISSB and GRI standards. To explain:

- Which Topics are enterprise value material to a reporter depends on the nature of its business. The variety of business types means nearly all Topics currently covered by GRI are enterprise value material to some reporters. Thus, once ISSB has built out its standards, it will cover most Topics currently covered GRI.
- **Dynamic materiality** will lead to topics moving between being, and not being, enterprise value material. Hence their moving between its Annual Report per ISSB and its Sustainability Report per GRI. Given this most CFOs will prefer to follow ISSB standards for items which are currently in their sustainability report but may move to their annual report.

Further details on work required to get the ISSB and GRI standards to work well together is given in **Attachment C. Recommendations** include:

1. A **single jointly held vision** for the purpose of both ISSB and GRI standards. This vision should cover the reporting by all significant organisations. Not just by listed companies.
2. A process for **continuous improvement on the alignment** of ISSB and GRI standards.
3. A statement on **the relationship between the fundamentals of ISSB and GRI standards**. Specifically, between:
  - ISSB's '*General features*', '*Qualitative characteristics of useful sustainability-related financial information*' and other elements of the ISSB Exposure Drafts; and,
  - GRI '*Principles*' and '*Key Concepts*'.

This statement should include (i) common terminology for these fundamentals; and, (ii) when they should override detailed reporting rules.

4. **For Topic / Industry Sector standards:** Recommendations on reducing the divergence between ISSB's Industry-based disclosure requirements and GRI's Sector Standards.
5. **An 'interoperability' document** covering:
  - A common structure, as far as is possible, for future GRI and ISSB topic standards.
  - Cross qualification of the use of each other's Topic standards.
6. A single **Glossary and iXBRL taxonomy** covering terms used by GRI and those used by ISSB. Preparation of this glossary should include work to minimize differences.
7. A requirement that reporters publish a **single ISSB & GRI Report Content Index** covering sustainability topics in both a company's Annual Report and its Sustainability Report. (See Attachment C for details).
8. A requirement that reporters publish a single **'About our Reports'** guide covering both their Annual Report and Sustainability Report. This should be included in both reports. (See Attachment C for details).
9. Harmonizing the **'Business Models'** of ISSB and for GRI. (See Attachment C for details).
10. Change the term 'sustainability-related financial information' to 'EV material sustainability disclosures'. (See Attachment C for details).

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This document has minor edits from the version submitted. Email me if you want:

- A copy which tracks the changes.
- A copy of the full document in Work Excel