Paris, July 27th 2022

Paris EUROPLACE - Finance For Tomorrow
Palais Brongniart – 28, place de la Bourse,
75002 Paris
FRANCE

Mr Emmanuel FABER
Chair
International Sustainability
Standard Board

Dear Mr Faber,

Paris EUROPLACE represents the Paris International Financial Centre's market players, international corporates, investors, banks, financial intermediaries, and other financial services providers. FINANCE FOR TOMORROW, its branch dedicated to sustainable Finance, aims at making the Paris Financial Center the international leader on green finance and promote sustainable finance as the new reference.

Reliable, comparable and exhaustive data is key to reallocate capital flows towards a sustainable, low-carbon and inclusive economy. To that end, standardisation is a key milestone. We therefore welcome the work performed by the ISSB and the opportunity to comment on the exposure drafts covering General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS S2).

To reach the objective of developing a global sustainability-reporting baseline, that enable useful, usable, and comparable disclosures, Paris EUROPLACE and FINANCE FOR TOMORROW would like to raise to the attention of the ISSB the two following crucial points of vigilance.

First, to reach a global baseline, cooperation among major standard-setters should be enhanced. Therefore, we welcome the approach taken by EFRAG to ensure interoperability with ISSB on climate-related disclosures which are essential.

Secondly, we would like to emphasize the necessity to promote concise and understandable sustainability reporting requirements, so as to make this set of publicly available information really valuable for all investors and the civil society. As a matter of fact, it appears to us that an excessive regulatory burden may not only weaken and endanger best efforts made by companies to successfully reach a net zero economy, but also create useless uncertainties for investors to correctly interpret enormous quantities of data and information provided by firms.

In addition, we would like to underline the important following points:

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- **Enhancing cooperation with other jurisdictions to ensure interoperability of the standards and avoid a double reporting burden for the undertakings**

It will be crucial for a global adoption and/or recognition of IFRS Sustainability Disclosure Standards to design an equivalence or substituted compliance regime for sustainability-related disclosures to avoid the undertakings to disclose under two or more standards where the informational content is equivalent.

For European companies in particular, in order to avoid excessive reporting burden, interoperability between European and International sustainability reporting standards is essential. Companies should not have to report on the same topics under different standards reflecting different regulatory and/or conceptual approach. It is thus of utmost importance that a reporting under European Sustainability Reporting draft Standards (ESRS) be recognized as equivalent to IFRS Sustainability standards. We are convinced that the structure of European Sustainability Reporting draft Standards (ESRS) reporting areas is compatible with ISSB exposure drafts, even if one proposes a TCFD's structure (governance, strategy, risk management, metrics and targets) while the other is structured around ESG pillars. Moreover, information required under ESRS is more granular regarding climate-related disclosures and would therefore be totally sufficient to satisfy the requirements of international standards.

However, to ensure that the reporting of non-European companies under ISSB sustainability standards will be sufficient for European investors and other financial markets players, we believe that the granularity of required disclosures should be enhanced in ISSB exposure drafts. In particular, we invite ISSB to work as closely as possible with EFRAG to maximize interoperability and, where possible, to converge. Consequently, we urge ISSB to reinforce dialogue and co-construction with EFRAG to ensure alignment between both standards.

We also recommend ISSB to clarify its intention to develop Sustainability Standards in the future for other environmental, social and governance objectives. We encourage ISSB to take advantage of the ongoing jurisdictional initiatives on sustainability disclosures, such as the work already performed by EFRAG, to develop these future standards.

- **Defining materiality assessment more precisely**

The definition of sustainability-related financial information in ISSB exposure drafts focuses on the financial materiality and the entity's enterprise value, including the impact of the entity's climate footprint on its financial indicators.

But the time horizon is not defined and the guidelines to assess material information is not precise enough. There is consequently a potential source of varying interpretations across different jurisdictions, hence leading to comparability issues. A narrow approach of the enterprise value by the undertaking will thus not provide sufficient and useful information for investors and other stakeholders.

We encourage ISSB to further expand in the coming months the concept of sustainability-related materiality to capture investors' information demands in their entirety. Indeed, investors today pursue investment strategies that are increasingly taking into account ESG considerations. To this extent, they are not only interested in the sole enterprise value but may also be interested in the impact of an undertaking on the planet and people.

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To that end, we welcome that ISSB recognizes in §6 of IFRS S1 that sustainability-related financial information is broader than information reported in the financial statements and could include "…(c) information about the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them…". ISSB should however address more clearly the impact materiality.

We also suggest that ISSB relies on the EFRAG draft standard that provides more details to assess the materiality of sustainability-related financial information: "Sustainability-related financial risks or opportunities are measured as a combination of a probability of occurrence and magnitude of financial effects" (ESRS1 – general principles). Moreover, EFRAG provides details on the due diligence process that should be applied to identify material potential and actual impacts. Additional ISSB guidance would be useful, taking into consideration the need to remain pragmatic in the reporting requirements. If not, materiality decisions will remain judgmental which may not be auditable and lead to discrepancies, misinformation and possibly investment distortions.

Regarding climate-related disclosures, in order to avoid diverging interpretations and ensure all undertakings report on this key topic, it would help to define long-term time horizons (which may vary by sector and/or topic) under which the impact on the enterprise value should be considered. We believe a minimum time horizon of 30 years could be considered to assess the financial materiality of climate-related risks and opportunities. If not, given the focus of the exposure drafts on the sole financial materiality, undertakings may consider that long and medium-term climate risks are not material.

The enhanced guidance and time horizon definition will help to ensure consistency with the double materiality approach adopted by EFRAG. It will be crucial to ensure a perfect interoperability between international and European sustainability standards.

Moreover, we believe that for each topic, the standard should clearly define a level of materiality by sector.

Finally, it should be clearly stated that companies are not required to disclose information that could raise business secrecy and/or liability issues.

- **Setting clearer boundaries to the definition of the value chain**

We are concerned by the requirement for an undertaking to "measure its significant sustainability-related risks and opportunities, including those related to its associates, joint ventures and other financed investments, and those related to its value chain". We believe requirements to assess the entire value chain question the feasibility of sustainability reporting. It implies to collect a huge amount of information, even from indirect business relationships. It seems difficult, if not impossible, to obtain such extensive data, potentially covering hundreds of thousands of suppliers and sub-contractors annually.

To help undertakings meet these requirements, we suggest considering the level of control and influence over the business relationships, in addition to the materiality criteria, by focusing on direct business relationships, and limit reporting on most salient risks and impacts. The use of available proxies or factors, such as the emission factors used for the calculation of carbon footprint, should also be possible to avoid long and costly reporting processes among the whole value chain.

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Furthermore, the scope of sustainability reporting should be aligned with the scope of financial reporting. We consider that implementation of the sustainability disclosure standards would not provide relevant information if the scope of sustainability and financial reporting were not aligned. The quality of information published would indeed depend on the reporting entities' capacity to collect reliable data on risks and opportunities from their suppliers and from companies they do not control.

- **Including some mandatory indicators**

The European Union's ambitious sustainable finance framework includes the adopted Sustainable Finance Disclosure Regulation which aims to provide further transparency regarding the sustainability factors of financial products and prevent greenwashing.

Pursuant to this regulation, financial institutions are required to disclose 'principal adverse impacts' (PAI) of investment decisions on sustainability factors. To fulfil this requirement, financial institutions must disclose a list of 'adverse sustainability indicators' among a list of 47 indicators[1] (among which 14 mandatory indicators and 2 additional indicators to be selected within a list of 33 indicators and to be published by financial institutions). Financial institutions rely on information from their counterparties to meet this regulatory requirement.

EFRAG, when drafting the ESRS Exposure Drafts, made sure SFDR PAI indicators (47 indicators) would be covered by the proposed disclosure requirements. The approach taken by EFRAG was to directly implement the indicators wherever possible or, when not possible, to make sure that the information needed by the financial institutions would be easily identified and found in the ESRS Exposure Drafts Disclosure Requirements. Similarly, we urge ISSB to include all these indicators in their requirements to allow financial institutions to comply with SFDR.

- **Going further and reviewing the requirements in terms of climate-related disclosures**

We acknowledge the importance for companies to disclose transition plans, which are essential for investors. However, we believe ISSB should require more precise information that reflect companies' best efforts to contribute efficiently to the objective of the Paris Agreement. First, under ISSB exposure drafts standards, the scenario used by an entity to assess its resilience and targets should be based on the "latest international agreement on climate change", while EFRAG explicitly refers to a 1.5°C-scenario. We recommend that ISSB explicitly encourages companies to define clear targets, that are science-based and reflecting more precisely how they implement their best efforts as contributions to reach the objectives of the Paris Agreement. This is central for primary users to assess the steadiness of an entity's transition plan.

We also strongly side with the proposed disclosures about an entity's climate-related scenario analysis. Nonetheless, it seems difficult to reach a global and comparable baseline regarding scenario analysis if the selection of scenarios is at the discretion of the entity. We suggest that the use of at least one scenario aligned with international agreements or other international framework (IPCC or IEA scenarios) should be mandatory in order to increase consistency of the analysis and comparability across entities for investors.

[1] Without indicators applying to Sovereigns and Real Estate. See Annex 1 to Commission Delegated Regulation 2022/1288 to SFDR.

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Finally, given the fact that transition plans could have strong social and societal consequences, we believe the strategy should not be limited to climate and GHG emissions but should also include a description of all significant positive and negative risks, opportunities and impacts related to the climate strategy. For example, workforce reduction and job losses (a social impact) and how the entity manages these impacts in those areas should be well-described.

- **Limit the use and report carbon offsets separately**

Moreover, we do not agree with the way ISSB proposes to allow the use of carbon offsets for defining the level of GHG emissions reduction targets. To meet international climate objectives, **'offsetting' should only be accepted for GHG emission sources that do not have viable reduction alternatives** due to technological or financial constraints. Companies might use offsets as a contribution to their objectives, but **those offsets should only be used to compensate residual emissions that companies cannot reduce by implementing their best efforts**. The way the exposure draft deals with carbon offsetting goes against this principle. We believe that transition plans should rather focus on planned and current actions taken to mitigate emissions beyond carbon offsets. ISSB and EFRAG are both aligned with the GHG Protocol for measuring scope 1, 2 and 3 emissions which does not include carbon offsets. We are convinced that carbon offsets should only be included in the definition of net zero targets as proposed by EFRAG.

Additionally, we note that the carbon offset definition includes avoided emissions. We recommend that avoided emissions should be excluded from carbon offsets as their nature is completely different. They should be reported in a separated optional disclosure. Each type of carbon offset (emission reductions, avoided emissions,carbon removals), both self-produced or acquired by the reporting entity, **should be accounted for and reported separately**.

Carbon offsets may be taken into account to reach companies' objectives only if: (i) those offsets rely on high quality criteria to be defined within the standard (ii) the company and its auditor justify those criteria are met, and (iii) as long as the separate accounting aforementioned is respected.

For detailed guidelines on "carbon neutrality" and "offsetting", we invite you to refer, for instance, to the principles developed by the Net Zero Initiative, a Carbone 4 project supported by the French Agency for Ecological Transition (ADEME), the French Ministry of Ecological Transition, and twenty-one major companies.[2]

- **Industry based metrics**

Paragraph 51 states that in addition to IFRS Sustainability Disclosure Standards, an entity shall consider the disclosure topics in the industry based on SASB Standards. SASB standards have a US focus and in-depth assessments per industry are needed. Indeed, appendix B still contains many references to US Regulations only; those references should be replaced by international references. We urge ISSB to conduct fieldwork and dedicated outreach to industries to amend the standards. If ISSB aims to truly provide a global baseline which addresses main ESG concerns in a harmonized and standardized manner, it should rather embrace existing international voluntary frameworks, including the GHG Protocol, GRI, OECD Guidance and UNGPs.

[2] https://www.net-zero-initiative.com/en

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Likewise, it is not clear if the KPI required in Appendix B are mandatory or subject to a materiality assessment (for which, as stated before, the guidance is not sufficient). The list of topics that will be covered by future Sustainability IFRS standards has not been defined. Yet, appendix B of the climate standard mixes sector specific KPIs relating to climate and to various other topics (water, air pollution, etc.). The direct link with climate disclosures is not clear, neither how these industry-based requirements will be articulated with the future requirements on other sustainability topics.

- **Ensuring digitalization to improve accessibility of data**

We support the European approach in the draft Corporate Sustainability Reporting Directive (CSRD) and the initiative to create a single European data hub- the European Single Access Point (ESAP) based on standardized, machine-readable format of sustainability reporting. We therefore insist once again on cooperation to ensure that the taxonomies that will be developed by ISSB and EFRAG and the reporting formats are compatible.

We look forward to further engage with ISSB on such critical project.

Yours sincerely,

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