CCGG Canadian Coalition for Good Governance
THE VOICE OF THE INVESTOR

July 26, 2022

Emmanuel Faber, Chair
Sue Lloyd, Vice Chair
International Sustainability Standards Board (ISSB) IFRS Foundation
Columbus Building
7 Westferry Circus
Canary, Wharf London E14 4HD, UK

Dear Chair Faber and Vice Chair Lloyd,

Re: CCGG Response to IFRS Exposure Draft S1- General Requirements for Disclosure of Sustainability-Related Financial Information

The Canadian Coalition for Good Governance (CCGG) welcomes the opportunity to provide the IFRS International Sustainability Standards Board (ISSB) with our comments in respect of the ISSB's consultation on the Exposure Draft IFRS S1- General Requirements for Disclosure of Sustainability-Related Financial Information (the Exposure Draft).

CCGG's members are Canadian institutional investors that together manage approximately $6 trillion in assets on behalf of pension funds, mutual fund unit holders, and other institutional and individual investors. CCGG promotes good governance practices, including the governance of environmental and social matters, at Canadian public companies and assists institutional investors in meeting their stewardship responsibilities. CCGG also works toward the improvement of the regulatory environment to best align the interests of boards and management with those of their investors and to increase the efficiency and effectiveness of the Canadian capital markets. A list of our Members is attached to this submission.

OVERVIEW/GENERAL COMMENTS

CCGG strongly supports the formation of the ISSB and its efforts to establish international sustainability-related disclosure standards[1].

Investors need consistent, comparable, and relevant information on environmental, social and governance risks that are industry-specific and financially material to a company's operations. Some ESG issues, notably climate change, are systemic and have the potential to impact all

[1] See CCGG's December 11, 2020 Submission to the IFRS Foundation Trustees, supporting the establishment of an International Sustainability Standards Board and recommending alignment with existing initiatives, notably TCFD and SASB.

businesses in varying degrees. Other issues are industry or sector specific. Investors need comparability across issuers, which requires all issuers to disclose consistent information in a consistent place. Investors need this information to make informed investment decisions. As environmental, social and governance (ESG) risks accrue across industries, sector-based materiality disclosures become increasingly important. The ISSB's Exposure Draft represents an important evolution in achieving such sustainability-related disclosures and facilitating informational transparency. CCGG commends the ISSB's diligence and urgency with respect to moving this work forward.

In addition, CCGG fully supports aligning sustainability disclosures with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)[2]. The ISSB's approach corresponds to CCGG's long-standing view that mandatory disclosure of material ESG information should also be aligned with the TCFD framework. CCGG has been a public supporter of the TCFD since 2020. CCGG is of the view that TCFD along with the sector-specific standards developed by the Sustainability Accounting Standards Board (SASB) work well together as a foundation for sustainability-related disclosures. Whereas SASB identifies potential material ESG issues and related metrics by sector relevance, TCFD provides a framework to holistically assess governance, strategy, and risk management. Importantly, the TCFD framework provides a forward-looking component through the discussion and disclosure on scenario analysis, and the framework can also be used in conjunction with the SASB standards to identify relevant reporting metrics that are industry specific.

As CCGG's mandate is focused on improving corporate governance in public companies, our submission provides detailed comments in responses to the questions related to the proposed governance disclosures and higher-level commentary in response to the ISSB's other questions, where relevant to our mandate.

[2] See CCGG's, The Directors' E&S Guidebook, 2018 which recognized both TCFD and the Sustainability Accounting Standards Board (SASB) as good models for E&S disclosures; In June 2020, CCGG became a public supporter of TCFD; On November 25, 2020, eight of Canada's largest public pension plans released a joint statement requesting that companies disclose material, industry-relevant environmental, social and governance performance factors using the SASB standards and the TCFD framework to drive standardized reporting. Also see CCGG's: September 7, 2020 Submission to the Ontario Capital Markets Modernization Taskforce advocating for ESG disclosures built on SASB and TCFD; CCGG's December 11, 2020 Submission to the IFRS Foundation Trustees, supporting the establishment of an International Sustainability Standards Board and recommending alignment with existing initiatives, notably TCFD and SASB; See also CCGG's June 9, 2021 Submission to the US SEC in response to its request for public comment on climate change-related disclosure and CCGG's January 31, 2022 Submission to the Canadian Securities Administrators re: CSA Notice and Request for Comment Proposed National Instrument 51-107 Disclosures of Climate-related Matters and CCGG's June 16, 2022 Submission to the US SEC re: The Enhancement and Standardization of Climate-related Disclosures for Investors.

RESPONSES TO CONSULTATION QUESTIONS

QUESTION 1—OVERALL APPROACH

a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose 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 Standard? Why or why not? If not, how could such a requirement be made clearer?

It is clear that an entity would be required to identify and disclose material information about all of the *significant* sustainability-related risks and opportunities to which it is exposed, in the context of information necessary for investors as users of general-purpose financial information to assess enterprise value. This is clearly stated in paragraph 2 of the draft.

Paragraph 9 (Scope) further clarifies that sustainability-related risks and opportunities that are not reasonably linked to such assessments by primary users of general purpose financial reporting are **not** within the scope of the standard and therefore do not require disclosure.

In addition, paragraph 50 (General Requirements: Identifying sustainability-related risks and opportunities and disclosures) expressly requires such disclosures and paragraph 51 incorporates a list of relevant sources to which a reporting entity must either "refer" or "consider" when identifying sustainability-related risks and opportunities that are decision-useful to primary users of general purpose financial reporting.

Paragraph 51 requires reporting issuers to "refer" to specific IFRS Sustainability Disclosure Standards (e.g. the IFRS Exposure Draft [S2] Climate-related Disclosures) but also to "consider":

a) disclosure topics in the industry-based SASB Standards;
b) the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures);
c) the most recent pronouncements of other standard-setting bodies, whose requirements are designed to meet the needs of users of general purpose financial reporting; and
d) the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

The draft is clear as to the different sources a reporting entity must "refer to" or "consider" in order to comprehensively identity significant sustainability-related risks relevant to investors as primary users of general purpose financial information (although it is less clear as to how a reporting entity should use these multiple sources, see response to Question 7(b) for more context on this point).

The Exposure Draft, however, does not consistently use references to *significant sustainability-related risks and opportunities.* For example, the wording in paragraph 50 with respect to identification of sustainability-related risks and opportunities does include reference to *significant* sustainability-related risks and opportunities but paragraph 51 does not. In addition, the Exposure Draft does not define *significant* and does not provide guidance or context as to the relationship and/or differences between the *significance* and *materiality* of the sustainability-related risks or opportunities a reporting entity is expected to identify. Greater clarity with respect to the definitions, distinctions and relationship between these two concepts would be beneficial. Alternately, the ISSB may simply wish to delete the concept of *significant* in favour of consolidation around the concept of *material*.

For further discussion on materiality see the response to Question 8 below.

(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

CCGG agrees that the proposed requirements set out in the Exposure Draft generally meet its proposed objective as stated in paragraph 1 subject to the caveat that the Exposure Draft subjects all sustainability-related disclosures to a materiality threshold as determined by the reporting entity.

While we agree that materiality should drive disclosures about specific sustainability-related risks and opportunities, the TCFD requires that governance and risk management process disclosures should be made in all cases, notwithstanding materiality[3].

Understanding governance structures and approaches and risk management processes is important for investors in determining how a reporting entity is overseeing such issues including with respect to how it is assessing materiality. Investors need to understand *how* a company is identifying, overseeing, measuring and managing its material sustainability-related risks and opportunities in order to properly assess the company's enterprise value. In other words, descriptions as to how a reporting entity approaches its governance and risk management for identifying material sustainability-related risks and opportunities is relevant to investors and the process a company uses to determine what information and topics are material enough to disclose is also a critical piece of information for investors. This materiality assessment and discussion of the methodology used to perform such an assessment should be a part of the general requirements for sustainability-related disclosure as they are relevant to identification and determination of what other IFRS Sustainability Disclosure Standards may apply and could potentially avoid duplicate disclosures in such other standards.

[3] Task Force on Climate-related Financial Disclosures, Final Report Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017 at Figure 4, page 14.

As noted above, paragraph 51 requires that reporting entities "shall refer to" issued IFRS Sustainability Disclosure Standards (e.g. the IFRS Exposure Draft [S2] Climate-related Disclosures) and in addition to, or possibly in the absence of, such a topic specific IFRS Sustainability Disclosure Standard, reporting entities "shall consider" disclosure topics in the industry-based SASB Standards, the ISSB non-mandatory guidance (such as CDSB water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies, whose requirements are designed to meet the needs of users of general purpose financial reporting, and the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

The Exposure Draft expressly does not require disclosures with respect to how a reporting entity applies its materiality assessments when considering such sources in order to identify the topics against which it should disclose.

Instead, the Exposure Draft incorporates an assumption that by identifying only the categories of industries a reporting entity has determined are applicable, the information a reporting issuer decides to disclose relevant to that industry is *de facto* that which has been determined to be material. Therefore, the fact of what has been disclosed against is deemed sufficient information for an investor to understand what has been "referred to" or "considered" and determined to be immaterial. Paragraph BC 66 of the Basis for Conclusions on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information states:

> By disclosing industry or industries that an entity has identified as being applicable, the Chair and Vice-Chair intended that greater transparency would be provided about the materiality assessments that an entity has made. In particular, it would be apparent if an entity did not disclose a metric that is required to be provided for an entity in that industry, subject only to materiality. *The Exposure Draft does not propose a disclosure about how materiality assessments have been made as there was concern that such disclosures may be boiler plate.* [Emphasis added]

We disagree. This approach requires investors to assume that absent disclosures about a specific set of industry specific sustainability risks and opportunities, any other sustainability-related risks and opportunities have been considered and determined to be immaterial without any insight into how such determinations were made or how governance oversight was exercised.

CCGG recommends that the ISSB should follow the TCFD's approach with respect to governance and risk management disclosures not being subject to materiality thresholds, and in addition, should require disclosures with respect to materiality assessments. While not recommending a prescriptive approach, we do not view such disclosures as onerous. They could include information with respect to: who performed the assessment, was it done by a third party, were external stakeholders consulted, if so, which ones; what frameworks were used; and a description of the board's oversight role with respect to the assessment process, for example was the assessment approved or signed off by the board.

c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

As noted in the responses to questions 1(a) and (b) above it is clear that reporting entities must "refer to" other IFRS Sustainability Disclosure Standards when identifying significant sustainability-related risks and opportunities. It is also clear that other topic specific IFRS Sustainability-related Disclosure Standards take precedence for disclosures made in respect to that standard, for example, see the preamble to paragraph 11 of the Exposure Draft which states that disclosures will be provided: "Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise…".

Reporting entities may benefit from additional guidance as to how disclosures under different topic specific standards should fit together especially where there may be overlaps or duplication. See response to Question 7(b) for more context on this point.

(d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

CCGG will not be responding to this question.

QUESTION 2— OBJECTIVE (PARAGRAPHS 1-7)

(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

Subject to the definitional amendment noted in response to Question 2(b) below, the proposed objective of disclosing sustainability-related financial information is clear.

In particular we are supportive of the following elements incorporated into the objective which are set out in paragraphs 1 through 7 of the draft:

- investors, as the primary users of general purpose financial information, are identified as the intended audience for the disclosures;
- the purpose of the information is to enable investors to assess enterprise value in order to decide whether to provide resources, but we would also add that investors use this

information for other purposes including monitoring and other critical stewardship activities such as voting and engagement;

- subject to our comments above with respect to governance and risk management disclosures, the information to be disclosed with respect to identified significant sustainability-related risks and opportunities is that which is material to investors as primary users in order to facilitate an assessment of enterprise value;

- sustainability-related financial information used to assess enterprise value is broader than information reported in the financial statements and includes governance related information and information about the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy; and

- information should be disclosed in a way that is comparable both as against the reporting entities own previous disclosures and with respect to disclosures from other entities. As noted throughout CCGG's response, comparability is very important for investors and cannot be emphasized enough.

(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

The definition is clear but does not include a reference to governance oversight. When articulating that sustainability-related financial information is broader than information disclosed in the financial statements, governance oversight of risks and opportunities is expressly referenced as being a component of that broader landscape and incorporated into the concept of "sustainability-related financial information" [see paragraph 6(a)].

We would recommend that the definition be amended slightly (as set out below) to recognize that governance related information is important for users of sustainability-related financial information to assess the implications of sustainability-related risks and opportunities on enterprise value.

> **Sustainability-related financial information**- Information that gives insight into sustainability-related risks and opportunities that affect enterprise value, providing a sufficient basis for users of general purpose financial reporting to assess the **<u>[governance oversight of and]</u>** resources and relationships on which an entity's business model and strategy for sustaining and developing that model depend.

QUESTION 3—SCOPE (PARAGRAPHS 8–10)

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

CCGG will not be responding to this question.

QUESTION 4—CORE CONTENT (PARAGRAPHS 11–35)

a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

CCGG strongly supports alignment of the ISSB's sustainability-related disclosures with the four pillars of the TCFD recommendations. CCGG has been a supporter of TCFD for climate-related financial disclosures since 2020 and has been of the view that it is a good model for organizing disclosure of other sustainability-related financial information since 2018[4].

As noted in the response to question 1(b) above, CCGG would like to see the ISSB clarify, consistent with the approach taken by the TCFD, that sustainability-related governance and risk management disclosures are not subject to materiality.

As currently structured, there is a risk that reporting entities make determinations that sustainability-related disclosure topics are not material (even after reference to the ISSB Sustainability Disclosure Standards, the SASB industry disclosure topics and metrics, and the other sources referred to in paragraph 51 of the Exposure Draft). If this is the case, then no disclosures would be required as to how these determinations were made, how risk procedures address such determinations and how the board exercises its governance oversight responsibilities over them. Investors require this information to be able to assess how a company is approaching sustainability-related issues. Investors require transparency with respect to how a board is assessing and determining whether and which sustainability-related risks are material to it and what practices are in place to oversee the risks that are identified.

CCGG does not believe that there is a prescriptive, one size fits all approach to the board oversight of sustainability-related risks and opportunities, and individual boards are best positioned to determine how oversight is exercised. As such, disclosure becomes an especially

[4] CCGG's, The Directors' E&S Guidebook, 2018 at Figure 1.

valuable tool for companies to inform investors as to how they are discharging this core obligation.

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

As a corporate governance focused organization CCGG's response to this question will provide detailed responses with respect to the governance disclosure requirements.

GOVERNANCE:

CCGG finds the governance disclosures requirements in the Exposure Draft to be consistent with CCGG's own recommendations regarding board oversight of material ESG matters as set out in its E&S Directors Guidebook, as follows:

- **Board Structure [Paragraphs 13(a)-(b)]:** CCGG agrees that a company should identify the board members or board committee(s) responsible for the oversight of sustainability-related risks but the ISSB should not be prescriptive as to how boards discharge this oversight obligation. Committee structures will be relevant to the company's business and reflect the company's risk profile and will vary based on the company's size, sophistication and industry. In some cases oversight of sustainability-risks and opportunities may be distributed across several committees or board members. Boards need to have the flexibility to organize and exercise their oversight responsibilities in the most appropriate manner for their company and industry, provided only that they are transparent with their investors as to how this has been done. CCGG views committee charters as an effective tool for setting out climate related accountabilities and risks but the documentation proposed by the ISSB in the Exposure Draft, including terms of reference, board mandates and other related policies would also be appropriate depending on the needs and processes of the company. Wherever these responsibilities are captured, these documents should be regularly reviewed as risks evolve and be readily accessible to investors[5];
- **Board Composition and Competency [Paragraph 13(c)]:** CCGG agrees companies should disclose whether any board member has sustainability-related (environmental, social, governance) expertise and provide a description of the nature of the expertise (including whether it is specific to an ESG issue e.g. climate change; or more general e.g. experience such as sitting on a sustainability committee). We would further advocate for disclosure with respect to how the expertise is relevant to the company's material sustainability risks and opportunities given its business, industry, financial responsibilities and risk profile. A key tool for making this disclosure is for the board to maintain a skills and competency

[5] CCGG's The Directors E&S Guidebook, May 2018 at 19-20, see recommended practices 16-18 focused on Board Structure.

matrix which not only provides shareholders with insight as at how the board looks at its current composition but also reveals gaps and potential areas for enhancement[6];

- **Board Education:** CCGG is of the view that notwithstanding whether or not a board determines that specific sustainability (or ESG) expertise is a required skill set in an individual board member, board education with respect to business relevant sustainability and ESG issues is important in order to build awareness and knowledge within the board as a whole. CCGG believes that the board should consider the use of independent advisors or external presentations to provide different perspectives and viewpoints. Companies should disclose what sustainability or ESG education has been received by the board and its committees[7]. CCGG is of the view that sustainability-related board education initiatives should be included in the disclosure required by paragraph 13(c) of the Exposure Draft.

- **Board Risk Oversight [Paragraphs 13(d) and (e)]:** Oversight of material risk factors including those related to sustainability-related impacts is a core function of the board[8]. Investors expect environmental and social risks to be fully integrated into a company's approach to identifying, assessing and managing risks, for example, through the use of an enterprise risk management (ERM) system or equivalent. CCGG recommends that the board should disclose to investors its approach to sustainability-related risk oversight. This would include the process the board uses to review management's risk assumptions, materiality assessment and risk prioritization[9]. In our view, this disclosure should also extend to include the frequency by which the board or board committee discusses sustainability-related risks.

- **Board Oversight of Strategy [Paragraph 13(e)]:** With respect to corporate strategy, material sustainability-related factors should be incorporated into the corporation's strategy and overseen by the board where they represent significant risk or value to the company (either immediately or over time). The board should disclose to investors how sustainability-related considerations factor into the company's long-term vision and strategic objectives and should disclose the frequency with which the board reviews such

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[6] CCGG's The Directors E&S Guidebook, May 2018 at 18, see recommended practices 13-15 focused on Board Composition.
[7] CCGG's The Directors E&S Guidebook, May 2018 at 20-21, see recommended practices 21 focused on Board Education.
[8] CCGG's The Directors E&S Guidebook, May 2018 at 14; also see CCGG's Building High Performance Boards, Guideline 11: "directors are responsible for risk oversight, including overseeing management's systems and processes for identifying, evaluating, prioritizing, mitigating, and monitoring risks. Directors are also responsible for approving the corporations risk parameters including risk tolerance and appetite. Such parameters are designed to prevent the destruction of asset and shareholder value and to reduce the likelihood of underperformance over the long term."
[9] CCGG's The Directors E&S Guidebook, May 2018 at 14-16, see recommended practices 9 focused on Risk Management.

considerations as part of its evolving strategic plan. For example, CCGG recommends management and board focus sessions be held annually (at a minimum)[10].

- **Board Oversight of Targets [Paragraph 13(f)]:** Where a company has sustainability-related targets or goals, investors would expect disclosure as to how the board or a delegated committee exercises independent oversight. This could include disclosures with respect to how the targets/goals are set, how they are related to long-term shareholder value and how progress against such goals is measured, as well as the link between goals/targets and actual sustainability performance (or an explanation as to the absence of such link). CCGG views this as a component of the board's oversight of corporate strategy.

- **Board Oversight of Sustainability-related Performance and Executive Remuneration [Paragraph 13(f)]:** Executive compensation is a key mechanism for incentivizing behaviours and performance to achieve the company's short-, medium- and long-term strategic priorities. The board has a responsibility to monitor this performance and do so using appropriate metrics and milestones. To the extent that material sustainability-related priorities are incorporated into the strategic plan, relevant performance evaluation metrics should be included in the management compensation structure and integrated into executive compensation disclosure.

  Disclosure should provide sufficient information for investors to understand how:

  - sustainability-related metrics and performance targets support shareholder value and long-term strategy;
  - the board evaluates performance and allocates compensation, particularly in situations where sustainability-related objectives form part of discretionary compensation awards or rely on qualitative measures as opposed to quantifiable metrics or milestones; and
  - in circumstances where sustainability-related priorities are excluded from performance metrics, the board should explain why they are not captured[11].

- **Board Oversight of Management's Role in Sustainability-related Risks and Opportunities [Paragraph 13(g)]:** As part of a robust risk management system there should be clear accountability as between the board, the CEO and senior officers with respect to the assignment and ownership of climate related risks within the company's management structure[12]. CCGG supports full disclosure with respect to how and to whom

[10] CCGG's The Directors E&S Guidebook, May 2018 at 16-17, see recommended practices 10-12 focused on Risk Management.
[11] CCGG's The Directors E&S Guidebook, May 2018 at 22-23, see recommended practices 25.
[12] CCGG's The Directors E&S Guidebook, May 2018 at 14-16, see recommended practices 6-9.

within the company's organization accountability for sustainability-related risks is assigned.

We do not have detailed comments on the other disclosure requirements of strategy, risk management and metrics and targets except to reiterate our support for the Exposure Draft's TCFD aligned core requirements and to highlight that CCGG agrees with the Exposure Draft's proposal that reporting entities should disclose sustainability-related risks and opportunities and the time horizon over which impacts could expect to affect the reporting entity. CCGG agrees that short-, medium and long- term time frames should not be prescribed by a standard setter as this will be industry and business specific (as recognized by the ISSB in paragraph 18). We agree with the proposed provision requiring a company to specify how it determines and defines in years, its short-, medium- and long-term time horizons (as described in paragraph 16(b)).

QUESTION 5–REPORTING ENTITY (PARAGRAPHS 37–41)

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

CCGG agrees with this in principle but recognizes that there may be circumstances where such reporting is not appropriate. We observe that paragraphs BC 52 and BC 53 of the Basis for Conclusions document accompanying the Exposure Draft note that the ISSB expects specific IFRS Sustainability Disclosure Standards (such as those proposed related to climate) will address such issues.

(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

CCGG generally supports the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain.

The combination of the ISSB's definition of 'value chain' in Appendix A, which is very broad, and the illustrative examples in paragraph 40 of the Exposure Draft, read together are somewhat confusing and may be difficult for a reporting entity to interpret[13]. Clarity or guidance should

[13]See Exposure Draft S1 at Appendix A: which defines "Value chain" 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

be provided to assist in interpreting what disclosure is required and how a reporting entity is expected to make disclosures and collect data with respect to entities in its supply chain that are not directly controlled and/or are not themselves reporting entities.

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

In our view this would be implied given the ISSB's proposal that sustainability-related disclosures would be included as part of the package of disclosures accompanying the general purpose financial reporting, which would include the relevant financial statements. That said we do not see requiring this express identification as creating any additional reporting burden.

Also see CCGG's response to Question 10.

QUESTION 6—CONNECTED INFORMATION (PARAGRAPHS 42–44)

(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

CCGG is not in a position to provide detailed comments on this question but supports the importance of connectivity in principle.

(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

See response to part 6(a) above.

QUESTION 7—FAIR PRESENTATION (PARAGRAPHS 45–55)

(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

CCGG will not be responding to this question.

delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates; and Exposure Draft paragraph 40 (2) requires an entity to disclose material information about all significant sustainability-related risks and opportunities to which it is exposed. These risks and opportunities relate to activities, interactions and relationships and to the use of resources along its value chain, such as: (a) its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain; (b) the assets it controls (such as a production facility that relies on scarce water resources); (c) investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and (d) sources of finance.

(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

CCGG agrees in principle with the sources of guidance to identify sustainability-related risks and opportunities but encourages the ISSB to clarify or provide more guidance as to how reporting entities are to interpret the list of sources specified in paragraph 51. For example, if there is a specific ISSB Sustainability Disclosure Standard such as the proposed Exposure Draft S2 for Climate-related Disclosures does a reporting entity need to consider the additional sources of guidance or is adherence to the specific standard sufficient? For example, the Climate-related Disclosure Standard itself sets out a regime for identifying climate-related issues and requires consideration of the SASB-derived industry related materiality categories in Appendix B of that standard[14].

Conversely, in cases where there is no relevant ISSB Sustainability Disclosure Standard does the reporting entity need to consult all of the sources or do they represent a cascading set of alternatives (for example the first item on the list is the disclosure topics in the industry-based SASB standards, the second refers to the ISSB's non-mandatory guidance, is the consideration of the SASB standards mandatory while the ISSB non-mandatory guidance best practice?). Greater guidance and clarity on this point would be beneficial.

Please also see our responses to Question 1.

QUESTION 8—MATERIALITY (PARGRAPHS 56–62)

(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

The definition of materiality is found in paragraph 56 and states:

> *Sustainability-related financial information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity.*

[14] See paragraph 10 of Exposure Draft S2 Climate-related Disclosure Standard.

CCGG agrees that this definition is clear and generally aligned with the Canadian capital markets definition[15] and also clarifies that materiality is linked to information that could reasonably be expected to influence investor decisions.

CCGG strongly agrees with the investor focus of the definition. We further agree that the reporting entities are the appropriate entities to determine materiality and that it requires judgement specific to the entity, as noted in paragraphs 58 and 59 of the Exposure Draft. We further agree that, with the exception of process disclosures relating to governance and risk management highlighted in our responses to Question 1(b), reporting entities should not be required to make non-material disclosures as noted in paragraph 60 of the Exposure Draft.

CCGG observes that sector-specific SASB Standards encourage companies to disclose the financially relevant, potentially material industry-specific sustainability-related risks and opportunities that most directly impact long-term enterprise value. For this reason, the sector-specific SASB Standards are a good starting point for companies when making materiality assessments. We further recognize that the ISSB's approach, by referring to the alternative frameworks and peer disclosures listed in paragraph 51 is striving to allow flexibility to ensure material issues particular to the nuances of a company that may not be captured by SASB are identified and disclosed.

We do not agree, however, that reporting entities should not be required to disclose their processes and assumptions with respect to how materiality assessments are made and judgement is exercised and how governance oversight of such decisions is addressed by the reporting entity's board. Please see our response to Question 1(a) and (b) above.

As a small point, we recommend that the definition of materiality be moved to Appendix A with other definitions to facilitate users finding it easily.

(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?

See commentary in response to Question 1(a) and (b).

(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?

See commentary in response to Question 1(a) and (b) and response to Question 7(b).

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[15] See for example, Ontario Securities Commission Form 51-102F1, Management's Discussion and Analysis: information is likely material where a reasonable investor's decision whether or not to buy, sell or hold securities of the issuer would likely be influenced or changed if the information was omitted or misstated.

(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

CCGG agrees with the proposal to relieve a reporting entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. Also see response to Question 12.

QUESTION 9—FREQUENCY OF REPORTING (PARAGRAPHS 66–71)

Do you agree with 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? Why or why not?

CCGG agrees with 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. This alignment assists investors with both comparability and consistency with respect to the information disclosed. We are cognizant that this may pose challenges for reporting entities in the early stages of working toward compliance and would refer to our comments regarding a phased in effective date in response to Question 13 below.

Consideration should further be given to the timing of such disclosures such that they are encouraged to be made on an annual basis at a consistent time aligned with proxy decisions and prior to shareholder voting at annual general meetings. Achieving such timing consistency and predictability would enable investors to evaluate progress on sustainability-related metrics for the year leading up to the AGM and support evaluations of executive performance and related compensation tied to ESG targets.

QUESTION 10—LOCATION OF INFORMATION (PARAGRAPHS 72–78)

(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

CCGG strongly supports locating the sustainability-related risks disclosures as part of its general purpose financial reporting, i.e. as part of the same package of reporting that is targeted at investors and other providers of financial capital and as clearly identifiable within the disclosures. This is consistent with recent proposals by the Canadian Securities Administrators in Canada, and the Securities and Exchange Commission in the US for climate-related disclosures.

We further agree that the IFRS should not prescribe a particular location within the package as this is best determined at the jurisdictional level consistent with domestic regulatory practices.

The approach recommended by the IFRS is consistent with other jurisdictions and will support standardization of disclosure and comparability between companies because investors will not have to search multiple online locations and documents in order to find disclosures related to sustainability-related risks. In addition, by requiring the disclosures to be part of the same package as the general purpose financial reporting, such disclosures will be subject to the same level of oversight and scrutiny by the board and senior management, enhancing the attention paid by the company to its sustainability-related disclosures and supporting the reliability of what is disclosed.

(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

CCGG is not aware of any such requirements in Canada.

(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included 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? Why or why not?

CCGG's preference is for all sustainability-related information to be disclosed in one place. If cross-referencing is permitted, all cross-referenced disclosures should be subject to the same board and executive oversight requirements as the general purpose financial reporting.

(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

Paragraph 78 provides as follows:

> *When IFRS Sustainability Disclosure Standards require the disclosure of common items of information, an entity shall avoid unnecessary duplication. For example, when an entity integrates its oversight of sustainability- related risks and opportunities, the disclosures on governance shall also be integrated rather than provided in the form of separate governance disclosures for each significant sustainability related risk and opportunity*

Greater guidance could be provided with respect to how common disclosures across IFRS Sustainability Disclosure Standards should be dealt with to avoid duplication and streamline reporting for examples where governance or risk management approaches are enterprise wide.

QUESTION 11—COMPARATIVE INFORMATION, SOURCES OF ESTIMATION AND OUTCOME UNCERTAINTY, AND ERRORS (PARAGRAPHS 63–65, 79–83 and 84–90)

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

CCGG will not be responding to this question.

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

CCGG will not be responding to this question.

(c) Do you 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? Are you aware of any circumstances for which this requirement will not be able to be applied?

CCGG agrees that financial data and assumptions with sustainability-related financial disclosures should be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible. Where adjustments are made or financial data and assumptions are different, disclosure with respect to such differences should be required, following a similar model to the Non-GAAP disclosure requirements that currently exist in Canada[16].

QUESTION 12—STATEMENT OF COMPLIANCE (PARAGRAPHS 91-92)

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

While it would be our hope that jurisdictions would not use local laws or regulations to prohibit sustainability disclosures under IFRS Sustainability Disclosures, as a global standard, the ISSB must account for this possibility without potentially stifling efforts by reporting entities to adhere to as much of the standard as they can within a particular jurisdiction's legal and regulatory regime.

The IFRS's approach appears to be a pragmatic one, but we agree that the ISSB should require the reporting entity to disclose the categories of information it is not disclosing pursuant to the law or regulation and also refer to the relevant law or regulation for purposes of transparency

[16] See, Canadian Securities Administrators, National Instrument 52-221 Non-GAAP and Other Financial Measures Disclosure, August 12, 2021; also see CCGG position paper, Use of Non-GAAP Measures in Executive Compensation, December 2019, which provides some analogous guidance as to the kinds of governance/board level disclosures investors would like to see with respect to the use of such measures in executive compensation.

as contemplated in paragraph 62[17]. In addition, while more complex to consider, the ISSB may also want to consider if a certain proportion of disclosures is required in order to claim compliance under this relief in the event a jurisdiction attempts to prohibit reporting entities from disclosing under significant portions of the IFRS Sustainability Standards or entirely prohibits disclosure under a topic specific standard (E.g. climate change-related).

QUESTION 13—EFFECTIVE DATE (APPENDIX B)

(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.

CCGG does not have a view as to when the ISSB should set an effective date. We do recommend however that the ISSB consider a phased or rolling implementation given that it will take some time for reporting entities to become fully compliant with the requirements of the Exposure Draft[18]. We would recommend that the ISSB consider requiring governance and risk management disclosures to be implemented first, with strategy and metrics and targets to follow. This is how the TCFD framework on which the Exposure Draft is based was intended to be implemented and also is consistent with engaging the board in the foundational work of integrating sustainability-related governance and risk oversight into the governance mechanisms of the reporting entity.

In addition, we would recommend that the ISSB consider proportionality when considering effective dates and potentially provide a longer implementation period for smaller and less sophisticated reporting entities. This is similar to approaches being considered in the context of proposed regulatory climate-related disclosure regimes in Canada and the United States. Such entities may not be as far along in considering or disclosing on sustainability topics and have a longer learning curve than larger and more sophisticated reporting entities.

(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

CCGG will not be responding to this question.

[17] Paragraph 62 states: An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. *If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction.*

[18] While S1 is silent with respect to requiring assurance, Paragraph C23 of Appendix C requires sustainability-related disclosures to be provided in a way that “enhances verifiability”. CCGG is generally supportive of achieving some form of contemporaneous implementation of audit or other assurance standards for sustainability-related disclosures. CCGG supports the ISSB’s alignment with the IASB. CCGG further encourages the ISSB to engage with the ongoing ESG sustainability assurance and ESG reporting project of the IAASB.

QUESTION 14—GLOBAL BASELINE

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

We do not see any aspects of the proposals that would limit the ability of IFRS Sustainability Disclosure Standards to provide a global baseline for users of general purpose financial reporting to make assessments of enterprise value. Much of the information requested, notably the information about governance practices, and risk management processes, will be useful to other stakeholders. Domestic regulators and individual jurisdictions are able to build on this baseline and require different or additional information provided it does not obscure the material information required by IFRS Sustainability Disclosures Standards. That said, CCGG encourages the ISSB to continue to work closely with and collaborate with international regulators to ensure that domestic regulatory regimes are as consistent as possible with the ISSB's global baseline. This is the most effective way to drive consistency and comparability for investors and to reduce compliance and implementation costs for reporting entities.

QUESTION 15—DIGITAL REPORTING

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

CCGG will not be responding to this question.

QUESTION 16—COSTS, BENEFITS AND LIKELY EFFECTS

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

Benefits to reporting entities may include reduced costs of capital and increased access to institutional investors. Benefits to institutional investors include the ability to compare and integrate disclosures into their investment analysis more easily (potentially without having to rely on external data sources) and to facilitate benchmarking against industry peers.

Potential costs of reporting include additional administrative or reporting burdens which may have a disproportionate impact on smaller and less sophisticated companies (see response to Question 13 above with respect to phasing in implementation and effective dates).

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

CCGG will not be responding to this question.

QUESTION 17—OTHER COMMENTS

Do you have any other comments on the proposals set out in the Exposure Draft?

CCGG has the following additional comments:

- Clarification as to which of the sources listed in paragraph 51 which a reporting entity must either "refer to" or "consider" are intended to be mandatory and which are guidance, and the differences in interpretation implied therefrom.
- Many of the disclosures in the Exposure Draft will entail forward looking information. Differing domestic regulatory requirements with respect to how such disclosures are treated for liability purposes in different jurisdictions may impact what and how reporting entities are able to disclose. While outside the scope of the ISSB's mandate and jurisdiction, the ISSB may wish to engage with international regulators in respect of this topic to endeavour to ensure that disclosures are as consistent as possible across international borders. CCGG is generally supportive of safe harbours for climate-related disclosures given the nature of such disclosures.
- The draft should be reviewed for internal consistency with respect to the use of defined and undefined terms and the flow of the document. For example, as noted in CCGG's submission, materiality is an important interpretive concept in the Exposure Draft but it is not found in the defined terms in Appendix A and is not explained until the end of the document with important information related to how materiality is to be disclosed or not disclosed found in the Basis for Conclusions document and not in the draft itself.

CONCLUSION

We thank you again for the opportunity to provide you with our comments. If you have any questions regarding the above, please feel free to contact our Executive Director, Catherine McCall, at cmccall@ccgg.ca or our Director of Policy Development, Sarah Neville at sneville@ccgg.ca.

Yours truly,

'Bruce Cooper'

Bruce Cooper
Chair, Canadian Coalition for Good Governance

CCGG MEMBERS 2022

- Alberta Investment Management Corporation (AIMCo)
- Alberta Teachers' Retirement Fund (ATRF)
- Archdiocese of Toronto
- BlackRock Asset Management Canada Limited
- BMO Global Asset Management Inc.
- Burgundy Asset Management Ltd.
- Caisse de dépot et placement du Québec
- Canada Pension Plan Investment Board (CPPIB)
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- Manulife Investment Management Limited
- NAV Canada Pension Plan
- Northwest & Ethical Investments L.P. (NEI Investments)
- Ontario Municipal Employee Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- OP Trust
- PCJ Investment Counsel Ltd.
- Pension Plan of the United Church of Canada Pension Fund
- Public Sector Pension Investment Board (PSP Investments)
- QV Investors Inc.
- RBC Global Asset Management Inc.
- Régimes de retraite de la Société de transport de Montréal (STM)
- RPIA
- Scotia Global Asset Management
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- State Street Global Advisors, Ltd. (SSgA)
- Summerhill Capital Management
- Teachers’ Pension Plan Corporation of Newfoundland and Labrador
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