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Mr Emmanuel Faber
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International Sustainable Standards Board
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UNITED KINGDOM

28 July 2022

Subject: EBA comments to the International Sustainability Standards Board (ISSB) consultation on the exposure drafts IFRS S1 and IFRS S2

Dear Mr Faber,

The European Banking Authority (EBA) welcomes the opportunity to comment on the Exposure Drafts (EDs) IFRS S1- 'General Requirements for Disclosure of Sustainability-related Financial Information' and IFRS S2 – 'Climate-related Disclosures'.

Following our own role and policy mandates on financial institutions prudential disclosures, including disclosures on Environmental, Social and Governance (ESG) risks, the EBA has a strong interest in promoting transparency and enhanced public disclosures on this topic. Our objective is to reinforce market discipline, encourage financial institutions to strengthen their management of these risks and promote awareness of financial institutions' key role in the transition to a green economy.

Please note that the EBA has recently published (and submitted to the European Commission for the final adoption) the draft Implementing Technical Standards (ITS) specifying uniform disclosure formats, and associated instructions on Pillar 3 disclosures which large financial institutions with securities traded on a regulated market of any EU Member State shall follow for disclosing their exposure to ESG risks. The first application date of the disclosures is 31 December 2022.

Therefore, the EBA very much supports the objective of the ISSB to develop a comprehensive global baseline of sustainability disclosures for the capital markets. Furthermore, the EBA encourages the ISSB to closely cooperate with other standard setters, especially with the EFRAG to ensure alignment with the EU standards and, for the banking sector standards, with the BCBS principles on Pillar III. This cooperation should aim at converging towards a high-level standard common ground across jurisdictions, rather than simply agreeing on a least common denominator.

The EBA provides comments and responses to this public consultation considering the requirements set out in the EBA draft ITS on Pillar 3 ESG risks and from the perspective of a prudential banking regulator. The focus is on those aspects which may be relevant regarding the Pillar 3 ESG disclosures as well as financial institutions' risk management and information needs.

Our key comments are summarised below with the detailed responses to the questions in these EDs provided in the Appendixes to the letter.

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

In general, the EBA agrees with the proposed objective of the IFRS S1 of disclosing sustainability related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess its enterprise value and decide whether to provide resources to the entity. Nonetheless, the EBA suggests clarifying the following aspects of the proposed ED.

Definition and application of materiality

A key concept of the ISSB's proposal is the definition and application of materiality. In this regard, the EBA encourages the ISSB to further develop the concept of materiality, in close cooperation with other standard-setters, and in particular with the EFRAG, to seek a better alignment on the definition of materiality, especially regarding the concept of financial materiality.

Indeed, the assessment of whether sustainability-related information has to be considered 'material' - and then included in the entity's sustainability statement - should bring to the same results under the International Sustainability Standards and the European Sustainability Standards. For this reason, the EBA encourages the ISSB to envisage a concept of "materiality" whose scope is not limited solely to information which immediately affects the enterprise value, but also considering information and phenomena that have an impact on people and environment which may be also relevant to enterprise value creation.

Furthermore, the EBA suggests clarifying the interaction between the terms 'material' and 'significant' information which seems to be used as synonymous in the body of the ED. Indeed, the use of a consistent terminology and concepts would avoid unintended consequences or different interpretations.

It may be also useful to require the disclosure of the assessment and the processes that the reporting entity has followed in the definition of material information, together with any thresholds used. This would ensure consistency, comparability, and verifiability of the information.

Location of information and disclosure of the sustainability-related impacts

The ED proposes that an entity shall disclose the information set up by the IFRS Sustainability Standards as part of its general-purpose financial reporting, including the financial statements. The EBA agrees with the proposed location of the information, which allows a sufficient flexibility and interoperability with jurisdictional requirements as well as with the possibility to include sustainability information into the general-purpose financial reporting by reference to information in another location (e.g., Pillar 3 disclosure).

In addition, the EBA is concerned that this flexibility may lead to scattered sustainability related financial disclosures thus raising challenges for users, supervisors, and auditors in identifying where the standardised sustainability-related financial disclosures appear within the general-purpose financial reporting. For instance, sustainability related information might be reported in various sections of the management report or in the financial statements. The EBA, therefore, suggests that the ISSB further requires an index including all the sustainability-related financial disclosures in applicable IFRS with their location in the general-purpose financial reporting. This would help users navigate through the disclosures.

Definition of value chain

The ED requires the disclosure of information about sustainability-related risks and opportunities related to activities, interactions and relationships, the use of resources along the entity's value chain, associates, joint ventures, and other financed investments.

The EBA believes that the ISSB should provide more illustrative guidance regarding the application of the definition of the value chain, also considering the wide range of different business models, including among others, the financial institutions' ones. This would reduce the risk of inconsistencies and increase the level of verifiability of the information. As a matter of fact, for preparers, collecting and verifying information along all its value chain might be difficult since the information might be not available at the time of request or the entities along the value chain could be not required to produce any sustainability information.

ED IFRS S2 – 'Climate-related Disclosures'

Disclosure requirements for transition plans and carbon offsets

The EBA acknowledges that the distinction between emission reductions in the value chain and the use of carbon offsets is critical to assess the credibility of the entity's transition plan. In this regard, the EBA recommends disclosing the GHG emission reduction targets separately from the use of carbon offsets and requiring entities to disclose on offsets which are certified. This would enhance the transparency and avoid any misleading information on the effective efforts to reduce emissions.

Furthermore, the EBA suggests enhancing and clarifying some disclosure requirements in order to foster transparency on the entity's effort to reduce its GHG emissions and to improve comparability with regards to the GHG emission reduction targets across entities and over time.

Firstly, the EBA recommends that entities are required to disclose both their planned absolute and relative GHG emissions reduction targets. Such disclosure should be also more granular, by envisaging breakdowns by counterparties' sectors and geographic area.

Secondly, the EBA notes that paragraph 23 of the ED IFRS S2 requires the disclosure of any milestones or interim targets, without specifying any fixed intermediate targets. In this regard, it would be greatly beneficial to set key fixed intermediate milestones to allow comparisons across entities and an assessment of the entities' progresses towards the high-level policy commitments of their own jurisdictions. Therefore, the ISSB should consider additional guidance on how and when targets should be updated, and, as a minimum, ensuring transparency on how entities disclose their progress when the targets are updated over time. Thirdly, when disclosing information regarding climate-related targets for transition plans, the EBA suggests making an explicit reference to the goal of limiting global warming to 1.5 °C in line with the Paris Agreement. This would facilitate the comparability of entities' transition plans and a direct assessment of the consistency of each entity's plan with the transition to a climate-neutral economy and with the goals set out in the Paris Agreement.

In addition, the EBA suggests including the disclosure requirements on the locked-in GHG emissions from key assets and products (i.e., estimates of future GHG emissions that are likely to be caused by an entity's assets or sold products within their operating lifetime). This would be also consistent with the EFRAG's ED ESRS E1 under consultation at European level.

Regarding the disclosure of internal carbon prices, the EBA encourages the ISSB to include additional implementation guidance for financial institutions. In addition, entities should be also required to report information about the volume of GHG emissions covered by the internal carbon prices.

Further suggestions including among others, a breakdown of the planned emission reductions and of their adaptation and mitigation efforts by GHG scope are included in the answers to the questions of the public consultation in Appendix 2 to this letter.

Current and anticipated effects of climate-related risks and opportunities

The EBA supports the proposal that entities shall disclose quantitative information on the effects of climate-related risks and opportunities on their financial position, financial performance, and cash flows. However, it should be better explained the meaning of anticipated effects and its interaction with the effects on the enterprise value. Then, on this aspect, the EBA welcomes more guidance.

In addition, the EBA acknowledges the challenges to assess separately the effects of climate-related risks on the entity's financial position and performance and making the forward-looking estimates to comply with the disclosure requirements of the paragraph 14. However, the EBA suggests the ISSB reconsidering whether the exemption provided in paragraph 14 (e) is needed for impacts that have occurred in past accounting periods or within the next financial year (paragraphs 14 (a), (b)).

Cross-industry requirements and industry-based requirements

The EBA observes that the cross-industry metrics in the ED, paragraphs 21 (b), (c), (d), (e) and 23 (a) for targets are loosely defined, which is likely to impair comparability across entities. Therefore, on one hand, the EBA encourage the ISSB to consider further standardising the proposed metrics and, if appropriate, including these requirements as part of the industry-based metrics, in order to enhance comparability. Regarding the disclosure on Scope 1, 2 and 3 emissions, the EBA would also encourage the ISSB to standardise Global Warming Potential (GWP) factor to be used in the calculation of these emissions based on those defined by the Intergovernmental Panel on Climate Change.

On the other hand, the EBA also acknowledges that the further standardisation of the proposed metrics may impede the ISSB's ability to deliver the standard timely. From this perspective, in order to avoid unduly delaying in the adoption of the standards, the ISSB may tentatively consider strengthening the disclosure requirements for the methodologies and for the key inputs used to compute the metrics. This would at least enhance their verifiability.

Regarding the industry-based disclosure requirements, the EBA supports and welcomes the ISSB's approach to revising the SASB Standards to improve their international applicability. However, the EBA observes that the ISSB's proposal seems to be too ambitious since it introduces industry metrics that cover various environmental topics not considered as climate-related risks (water, air quality, water management, waste management, raw materials sourcing). These metrics should be better dealt with in other future topical Standards.

The EBA supports the proposed industry-based requirements for commercial banks and the disclosures of financed and facilitated emissions. Measuring financed (and facilitated) emissions allows financial institutions to make transparent climate-related disclosures on their GHG emissions exposures, to identify climate-related transition risks and opportunities, to define the baseline emissions for target setting in alignment with the Paris Agreement, and to reduce their portfolio climate impact.

The EBA considers that in overall the industry-based requirements for commercial banks and mortgage industry may contribute to improve transparency on both physical risks and transition risks properly. Nonetheless, the EBA invites the ISSB to take into consideration the following suggestions.

For transition risks, it would be appropriate to disclose the sources of the GHG emission information, to know whether they come directly from the banks' counterparties, or whether they are estimated. In addition, it could be required a breakdown by maturity of the gross carrying amount of the exposures since transition risks materialise over the years and it should be explicitly mentioned the disclosure of 'green' information by banks, such as 'ratio of financing their customers in the transitional process over total carbon-related exposures', with the caveat that currently there is no internationally recognized green taxonomy.

As for physical risks, the scope of the industry-based requirements on mortgage industry should be broadened taking as a reference the examples provided in the instructions of EBA ITS on ESG disclosure on template 5 (heatwaves, water scarcity and stress, floods, wildfires, hurricanes, typhoons, landslide, etc.).

In addition to these general comments, the EBA provides more detailed comments and responses to the questions in the EDs in the Appendixes 1 and 2 to the letter.

We stand ready to discuss with you any of the topics raised in this letter should you have any questions regarding our comments.

Yours sincerely,

[signed]

José Manuel Campa

Encl: Appendix 1 – EBA answers to the questions of the consultation on the Exposure Draft IFRS S1
Appendix 2 - Answers to the questions of the consultation on the Exposure Draft IFRS S2

Appendix 1 – EBA answers to the questions of the consultation on the Exposure Draft IFRS S1

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 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?*

The EBA believes that the Exposure Draft (ED) clearly states that an entity would be required to identify and disclose material information about all its significant sustainability-related risks and opportunities.

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

The EBA agrees that the proposed requirements set out in the ED meet the objective of paragraph 1, as the proposed required information helps primary users of general-purpose financial reporting assess the entity's enterprise value and deciding whether to provide resources to the entity.

(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?*

The EBA considers that both the core content and the general features of sustainability-related financial information set out in the Exposure Draft are well defined and it is clear how they would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures.

(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?*

The EBA notes that according to the paragraph 22 of the draft IFRS S1, an entity shall disclose “quantitative information unless it is unable to do so” that allow users of general-purpose financial reporting to understand the effects of the entity's significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period,

the anticipated effects over the short, medium, and long term. When providing such information, in accordance with paragraph 57, the entity shall assess the information materiality along its value chain “if it could influence the assessment primary users make of its enterprise value”. In EBA’s views, such requirements may introduce a source of uncertainty for auditors and supervisors due to the broad definition of ‘value chain’’. For this reason, the EBA recommends the ISSB to provide additional examples in the Illustrative Guidance regarding the application of the definition of the value chain, also considering the wide range of different business models, including among others, the financial institutions’ ones. Please refer also to the answer to question 5 (b). Moreover, an explanation of the meaning of anticipated effects and the interactions of those effects with enterprise value could give more basis auditors to determine whether an entity has complied with the standard.

Question 2—Objective (paragraphs 1–7)

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

The EBA believes that the proposed objective of disclosing sustainability-related financial information is clear. However, the ISSB does not specify what are the sustainability-related matters addressed in the standards. Whilst the EBA acknowledges the challenge of defining the boundaries of sustainability-related financial information before the ISSB carries out its planned consultation about its standard setting agenda, it believes that it would be important to seek a converged scope and definition of what is meant by ‘sustainability’ with the other major standard-setting initiatives.

In addition, the EBA notes that the distinction between the terms ‘sustainability-related financial disclosures’ and ‘sustainability-related financial information’ in Appendix A and its expected use should be clarified.

Finally, the terms ‘material’ and ‘significant’ seem to be used as synonyms in the main body of the ED. Thus, it is important to ensure that the interaction between ‘material’ and ‘significant’ is clarified and to use a consistent language in this sense to avoid unintended consequences or misleading interpretations.

(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?*

Please see the answer to point (a) above.

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?*

The EBA believes that the disclosure objectives for governance, strategy, risk management and metrics and targets are clear and appropriately defined.

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

The EBA highlights that some disclosure requirements for governance, strategy, risk management and metrics and targets may be enhanced to meet their respective disclosure objective. In particular:

- In paragraph 22 (b), EBA suggests giving more guidance regarding sustainability-related risks and opportunities that are expected to have a financial impact within the next 12 months but not already recognized in the financial statements.
- In addition, it may be useful to require a reconciliation, whenever it's feasible, of the sustainability risk and opportunities metrics provided in paragraph 22 (a) with the amounts reported in the financial statements
- Finally, entities should disclose separately the impacts of its own operations and activities on the enterprise value from the impact of the value chain on its enterprise value.

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?*

The EBA agrees with the ISSB approach to define the reporting entity to the same level as the related financial statements.

(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?*

As noted in the answer to question 1 (d), the EBA considers that the application of the disclosure requirements along the entity's value chain should be integrated with examples in the Illustrative Guidance, to avoid risks of inconsistent information across entities and difficulties in auditing and supervising processes.

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

The EBA agrees with the proposed requirement for identifying the related financial statements.

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?*

The EBA suggests distinguishing and disclosing separately the effects of significant sustainability related risks and opportunities already reported in the current financial statements including any provisions, from the expected effects on financial performance and on the enterprise value.

(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?*

Consistently with the answer given to previous point, the EBA believes that the main body of the ED should clarify that the impacts on the enterprise value can be of two different types: impacts immediately reflected in the current financial statements and impacts which will have a future financial impact. The EBA recognizes that could be difficult to separately disclose these effects, then the EBA suggests the ISSB working closely with the IASB as well as the EFRAG to provide more guidance.

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?*

The EBA considers that the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, is clear. However, in order to ensure the comparability of the disclosure across entities using different aggregation methods, the EBA recommends including more guidance on how to disaggregate and present the information.

(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.*

The EBA agrees with the list of authoritative sources for the identification of significant risks and opportunities and the related disclosure requirements, as specified in paragraphs 51-54. However, it should be clarified how these sources are to be used and particularly, whether the entities are expected to review them to allow their applicability in different jurisdictional contexts and whether any order of preference (i.e., a hierarchy of sources) should be followed.

Question 8—Materiality (paragraphs 56–62)

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

The EBA considers that the definition of materiality should be improved in the context of sustainability-related financial information. In this regard, the EBA encourages the ISSB to seek closer collaboration with the EFRAG to ensure a better alignment on the definition of materiality, with particular reference to the concept of financial materiality. In addition, the EBA encourages the ISSB to envisage a concept of “materiality” whose scope is not limited solely to information which immediately affects the enterprise value, but also considering information and phenomena that have an impact on people and environment which may be also relevant to enterprise value creation.

Finally, the EBA recommends that the ISSB requires reporting entities to disclose the assessment and the processes followed for the identification of material information relevant to the enterprise value, together with any specific thresholds used. This would ensure the consistency, comparability, and verifiability of the data.

(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?*

Consistently with the answer to question 6(b), the EBA believes that the different possible impacts on the enterprise value might be better explained in the main body of the ED, together with additional examples in the Illustrative Guidance. This would be also functional to the application of materiality in order to capture the breadth of sustainability-related risks and opportunities. Furthermore, given the proposed definition of ‘enterprise value’ (the sum of the value of the entity’s equity (market capitalization) and the value of the entity’s net debt), clarification on the concept of market capitalization for entities with no issued instruments could be useful.

(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?*

The EBA considers that the related Illustrative Guidance could be broadened to show some examples of material and non-material issues and the process carried out to identify any material issues.

(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?*

The EBA believes that 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 is reasonable.

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?

The EBA supports the proposal of requiring the provision of sustainability-related financial disclosures at the same time as the financial statements to which they relate as it facilitates the connections between these two types of disclosures, and it is coherent with the aim of assessing enterprise value based on events occurred or known within a defined time frame.

However, in relation to paragraph 71, the EBA suggests an alignment with IAS 10, through the introduction of a distinction between adjusting and non-adjusting events and specifying how information about adjusted events should be reported.

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?*

The EBA agrees with the proposals about the location of sustainability-related financial disclosures. Indeed, in accordance with paragraph 72, sustainability-related financial disclosures should be included into the general-purpose financial reporting. This will allow a high level of flexibility and interoperability with other applicable requirements.

However, the EBA is concerned that this flexibility may lead to scattered sustainability related financial disclosures thus raising challenges for users, supervisors, and auditors in identifying where the standardized sustainability-related financial disclosures appear within the general-purpose financial reporting. For instance, sustainability related information might be reported in various sections of the management report or in the financial statements. The EBA therefore suggests that the ISSB further requires an index including all the sustainability-related financial disclosures with their location in the general-purpose financial reporting.

(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?*

The EBA is not in the position to provide an answer to this question.

(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?*

The EBA agrees with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference. In the EBA's view, this proposal is essential to avoid any duplication of information.

(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?*

The EBA acknowledges that this requirement is clearly stated in paragraph 78.

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?*

The EBA acknowledges that these general features have been adapted appropriately into the proposals.

(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?*

The EBA agrees with the ISSB's approach which requires entities to disclose the revised metric in its comparatives when an entity has a better measure of a metric reported in the prior year.

(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?*

The EBA agrees 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. This requirement should apply under any circumstances.

Question 13—Effective date (paragraphs 63–65, 79–83 and 84–90)

(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.*

The EBA expects that most significant European banks have already taken action to report the disclosures recommended in the Commission’s non-binding guidelines on climate-related reporting.

The EBA therefore expects that European banks are already familiar with the TCFD framework, and they would be able to comply with many of the proposed requirements in IFRS S2.

Since the ED IFRS S1 sets out the general principle for reporting sustainability related financial information, the EBA expects that most European banks would be able to apply this standard together with the IFRS S2.

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

The EBA agrees with the proposed relief and highlights that it is consistent with other sustainability focused standards.

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?

The EBA is not aware of any aspects of the proposals in the ED that would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner, however the EBA recommends a close technical collaboration with EFRAG and other sustainability standard setters.

Appendix 2 - Answers to the questions of the consultation on the Exposure Draft IFRS S2

Question 1: Objective of the Exposure Draft

- (a) *Do you agree with the objective that has been established for the Exposure Draft? Why or why not?*
- (b) *Does the objective focus on the information that would enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?*
- (c) *Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?*

The EBA agrees with the proposed objectives, as they are consistent with the risk-based approach used in the supervision of financial institutions. The EBA agrees that the proposed disclosures have the potential to provide a broad overview about how an entity assesses, addresses, and adapts to climate-related risks.

Question 2: Governance

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

The EBA agrees that the proposed disclosure requirements are appropriate to assess who within the entity is ultimately responsible for addressing and managing climate-related risks and what his role is.

Question 3: Identification of climate-related risks and opportunities

- (a) *Are the proposed requirements to identify and to disclose a description of significant climate related risks and opportunities sufficiently clear? Why or why not?*
- (b) *Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?*

The EBA agrees that the proposed disclosure requirements are reasonable and necessary to understand the significant climate-related risks and opportunities that the entity is exposed to.

The EBA believes that the disclosure topics may help streamline the identification of relevant climate-related risks within industries. However, the EBA asks to clarify the practical implications of the reference to the disclosure topics in paragraph 10 of the ED.

The EBA notes that the disclosure topics in Appendix B of the ED include topics that some stakeholders do not consider as climate-related risks (air quality, water management, waste management, raw materials sourcing). Therefore, it should be clarified whether the requirements in paragraph 10 of the ED require an entity to consider broader environmental risks beyond climate. Finally, it should be clarified the practical implications of paragraph 11 of the ED, in particular how the cross-industry metric categories and the industry-based metrics associated with disclosure topics are expected to be used to fulfil the requirements in paragraphs 12-15.

For instance, considering the requirement in paragraph 13 (b) of the ED, it is not clear if the entity shall refer to the cross-industry and industry-based metrics to set the targets for its actions plans.

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain

(a) *Do you agree with the proposed disclosure requirements about the effects of significant climate related risks and opportunities on an entity's business model and value chain? Why or why not?*

Please, with the regard to the value chain, see the answers to questions 1 (d) and 5(b) of ED IFRS S1.

(b) *Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?*

Yes, we agree. Entities should disclose information concerning the concentration of climate related risks and opportunities as much quantitatively as possible. If an institution finds quantitative disclosure not to be feasible, then a qualitative disclosure should be the alternative.

Question 5—Transition plans and carbon offsets

(a) *Do you agree with the proposed disclosure requirements for transition plans? Why or why not?*

(b) *Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.*

(c) *Do you think the proposed carbon offset disclosures will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?*

(d) *Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?*

The EBA agrees with the proposed narrative disclosures about how a company is responding to significant climate-related risks and opportunities and it welcomes the required information about legacy assets and plans to decommission carbon-energy and water intensive operations. However, the EBA believes that the disclosure should be supplemented by the requirement to disclose the net book value of such legacy assets, carbon-energy, and water-intensive assets.

The EBA also supports the disclosure requirements on the climate-related targets including the amount of the entity's emission targets within its value chain.

However, the EBA suggests the ISSB to include the disclosure of the locked-in GHG emissions from key assets and products (i.e., estimates of future GHG emissions that are likely to be caused by an undertaking's assets or sold products within their operating lifetime). This requirement would strengthen transparency about the entity's ability to transition to a lower-carbon economy and it would be consistent with the EFRAG's Exposure Draft ESRS E1 issued in April 2022.

The EBA assumes that when disclosing the climate related targets included in the plan, an entity would be required to disclose the information required by paragraph 23 of the ED in order to provide transparency about the targets. The EBA believes however that this requirement should be explicit in paragraph 13.

Regarding the specific requirement in paragraph 13 (b) (ii) (the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain), the EBA believes that it should be ensured comparability and consistency in the reported targeted reductions of GHG emissions both across entities and over time and it suggests requiring entities to report their targeted absolute gross GHG emissions reductions by scope (similar to the requirement in paragraph 21 (a) (i)) and to disclose separately from the gross GHG emission reduction targets, the expected use of carbon offsets. Indeed, the use of offsets should be understood as a residual measure which should not take precedence over or distract attention and resources from tangible efforts to reduce emissions. The GHG emission reduction targets should be disclosed gross without offsetting. In addition, entities should be required to disclose on offsets which are certified.

In addition, entities should disclose the extent to which they expect their adaptation and mitigation efforts to contribute to the reduction of their scope 1, scope 2 and scope 3 GHG emissions.

The EBA also suggests including an explanation of any divergence between ‘the amount of the entity’s emission target to be achieved through emission reductions within the entity’s value chain’ (paragraph 13 b ii) and the scope 3 greenhouse gases emissions metric required by paragraph 21 (a) (i) (3) of the ED.

Regarding the disclosure requirements on the progress of plans disclosed in prior reporting periods set out in paragraph 13 (c), the EBA asks to clarify whether the metrics referred to in paragraph 20 should be reported as part of the disclosure on the progresses of the transition plan.

Question 6—Current and anticipated effects

(a) *Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?*

(b) *Do you agree with the proposed disclosure requirements for the financial effects of climate related risks and opportunities on an entity’s financial performance, financial position, and cash flows for the reporting period? If not, what would you suggest and why?*

(c) *Do you agree with the proposed disclosure requirements for the anticipated effects of climate related risks and opportunities on an entity’s financial position and financial performance over the short, medium, and long term? If not, what would you suggest and why?*

Generally, the EBA believes that in order to foster comparability the use of quantitative information should be preferred to a qualitative one. Too much qualitative information could make difficult to clearly assess the sustainability risk and opportunities impacts on entities.

The EBA supports the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities.

The EBA acknowledges the challenge to assess separately the consequences of climate-related risks on the entity’s financial position and performance when making forward-looking estimates. Therefore, the EBA agrees with the exemption to provide quantitative information about how the entity expects its financial performance to change over time envisaged in paragraph 14 (d)), provided that the entity explains why it is unable to disclose quantitative information in accordance with the paragraph 14 (e).

However, the EBA suggests the ISSB to reconsider whether the exemption provided in paragraph 14 (e) is needed for impacts that have occurred in past accounting periods or within the next financial year (paragraphs 14 (a), (b)) where the operational challenges should be minor.

In the EBA's view, a rapid application could not lead to a high-quality application. Thus, the ISSB should develop an underlying principle for IFRS S1 and S2 to limit the need for this practical expedient, helping users to understand when and how it should be used. In this scenario, the ISSB could develop a hierarchy of information, considering the existing concepts in IFRS 9 of 'reasonable and supportable information that is available without undue cost or effort' and the fair value hierarchy in IFRS 13. Moreover, the EBA suggest the ISSB to reconsider, in a later stage, when the entities have developed more knowledge on sustainability disclosures, the scope and the application of the expedient.

Question 7 - Climate resilience

(a) *Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?*

(b) *The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.*

(i) *Do you agree with this proposal? Why or why not?*

(ii) *Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?*

(iii) *Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?*

(c) *Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?*

(d) *Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?*

(e) *Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?*

The EBA agrees that information about the results of the scenario analysis will likely provide valuable insights to both users and supervisors about the ability of the entity to operate on the long term and the implications on its capital position.

As regards the requirement to conduct a scenario analysis, the EBA highlights that in its November 2020 [Guide on Climate-related and environmental risks](#), the European Central Bank expects significant institutions which are directly supervised to disclose information about climate-related risks that are material with due regard to the [European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information](#). The ECB recommends NCAs to apply the expectations set out in the guide in their supervision of less significant institutions.

The latter provides that banks should describe the resilience of the company's business model and strategy, taking into consideration different climate related scenarios over different time horizons, including at least a 2°C or lower scenario and a greater than 2°C scenario. The EBA therefore expects that large European banks have already started implementing scenario analysis and for that reason, the ISSB should narrow down the possibility to not provide scenario analysis.

Question 8—Risk management

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess, and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

The EBA agrees with the proposed narrative disclosures.

However, EBA notes that:

- [the supplemental guidance for the financial sector](#) of the TCFD recommendations recommends that banks characterize their climate-related risks in the context of traditional banking industry risk categories such as credit risk, market risk, liquidity risk, and operational risk;
- In its [Final Report on climate-related and environmental risks](#), the European Central Banks considers that physical and transition risks are drivers of existing risk, in particular credit risk, operational risk, market risk and liquidity risk, as well as non-Pillar 1 risks such as migration risk, credit spread risk in the banking book, real estate risk and strategic risk (see Table 1). It highlights that climate-related and environmental risks may, in fact, be drivers of several different risk categories and sub-categories of existing risk categories simultaneously.

Consequently, European banks may not have implemented specific processes to identify and assess climate-related risks as they may rely on their existing risk management procedures for banking risks.

In order to avoid unnecessary duplication of information, the EBA therefore welcomes the option in paragraphs 75 and 77 of IFRS S1 to include information required by an IFRS sustainability standard by-cross reference.

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

(a) *The cross-industry requirements are intended to provide a common set of core, climate related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?*

The EBA broadly agrees with the proposed cross-industry metrics with the following comments:

- The cross-industry metrics in paragraphs 21 (b) 'amount and percentage of assets or business activities vulnerable to transition risks', 21 (c) 'amount and percentage of assets or business activities vulnerable to physical risks' and 21 (e) 'capital deployment' are loosely defined and may lead to inconsistent disclosures across reporting entities. Based on the Exposure Draft's illustrative guidance on climate-related disclosures, EBA understands that entities may choose the reported metrics within a broad set of illustrative examples, including industry-specific metrics. Therefore, the EBA encourages the ISSB to consider further standardizing the proposed metrics and, if appropriate, requiring industry-specific standardized metrics to enhance comparability.
- The disclosure about internal carbon prices may require additional implementation guidance for banks. Furthermore, to enhance transparency, the EBA believes that an entity should also report information about the volume of GHG emissions covered by the internal carbon prices.

(b) *Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general-purpose financial reporting.*

Please refer to the answer to point (a) above.

(c) *Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2, and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?*

The EBA supports the objective of the ISSB to standardize the measurement of GHG emissions. However, the EBA notes that the Basis of Conclusion number 112 states that the ISO Standard 14064 is compatible with the GHG protocol, and therefore, the Basis for Conclusions seem to contradict somehow the body of the standard, which states that an entity shall measure its GHG emission

according to the GHG protocol. The EBA encourages the ISSB to clarify directly in the standard whether a reporting entity may apply the ISO Standard 14064.

(d) *Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?*

The EBA notes that the Exposure Draft requires disclosing the gross greenhouse gases emissions as metric tons of CO2 equivalent. According to the GHG protocol, CO2 equivalent is the universal unit of measurement to indicate the global warming potential (GWP) of each of the six greenhouse gases, expressed in terms of the GWP of one unit of carbon dioxide. It is used to evaluate releasing (or avoiding releasing) different greenhouse gases against a common basis.

Consequently, the EBA understands that different GHGs can have different effects on the Earth's warming and that the translation of each gas to its CO2 equivalent requires assessing its Global Warming Potential (GWP) factor. The EBA therefore encourages the ISSB to standardize the GWP factors to be used in the calculation of Scope 1, 2 and 3 emissions based on those defined by the Intergovernmental Panel on Climate Change. The EBA recommends that entities are required to provide the breakdown of all seven-greenhouse gases, the volume of GHG emissions for each gas and the GWP factor used for the translation into CO2 equivalent.

In addition, the EBA further notes that the GHG protocol Corporate Standard highlights that entities may use various methodologies to measure or estimate their GHG emissions and that direct measurement of GHG emissions is expected to be uncommon. The standard further underlines that the most common approach for calculating GHG emissions is through the application of documented emission factors. These factors are calculated ratios relating GHG emissions to a proxy measure of activity at an emissions source. The IPCC guidelines refer to a hierarchy of calculation approaches and techniques ranging from the application of generic emission factors to direct monitoring.

The EBA therefore urges the ISSB to require further disclosures from reporting entities about the calculation approach used for GHG emissions and how it compares with the hierarchy in the IPCC guidelines. Furthermore, the ISSB should consider requiring reporting entities to disclose the key factors and assumptions used to estimate GHG emissions including if applicable the emission factors.

(e) *Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:*

(i) *the consolidated entity; and*

(ii) *for any associates, joint ventures, unconsolidated subsidiaries, and affiliates? Why or why not?*

The EBA agrees with BC114 that providing transparency about how a group reports the GHG emissions from associates, joint ventures and non-consolidated subsidiaries is essential to allow meaningful comparisons across entities. EBA therefore supports the requirement to disclose separately the Scope 1 and Scope 2 emissions for the consolidated scope and for associates, joint venture, and unconsolidated subsidiaries.

However, the EBA encourages the ISSB to consider providing a single methodology about how a group should include such emissions in the consolidated accounting group. In the interim period during which the ISSB would develop such a binding methodology, the EBA agrees with the requirement to disclose the approach used by the entity as an interim tentative disclosure.

(f) *Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?*

The EBA supports the requirement to include absolute gross Scope 3 emissions as a cross industry metric subject to materiality. This requirement is necessary to allow financial institutions to assess their financed emissions and monitor their contribution to the transition to a lower-carbon economy.

Question 10—Targets

(a) *Do you agree with the proposed disclosure about climate-related targets? Why or why not?*

The EBA broadly agrees with the proposed disclosures about climate-related targets. However, to strengthen comparability and allow users to assess the extent of the entity's effort to reduce its GHG emissions, the EBA believes that standardized information about the planned emissions reductions targets is necessary both in absolute and relative terms. The EBA therefore recommends that the ISSB requires entities to disclose their planned absolute and relative emissions reduction targets, using the metrics defined in paragraph 21 (a) (i) and 21 (a) (ii) of the ED, and to disclose the methodology and formula used to compute the metrics referred to in paragraph 23 (a).

In addition, the EBA notes that paragraph 23 of the ED IFRS S2 requires the disclosure of any milestones or interim targets, without specifying any fixed intermediate targets. In this regard, it would be greatly beneficial to set key fixed intermediate milestones to allow comparisons across entities and an assessment of the entities' progresses towards the high-level policy commitments of their own jurisdictions. Therefore, the ISSB should consider additional guidance on how and when targets should be updated, and, as a minimum, ensuring transparency on how entities should disclose their progress when these targets are updated over time.

Finally, when disclosing information regarding climate-related targets for transition plans, the EBA suggests making an explicit reference to the goal of limiting global warming to 1.5 °C in line with the

Paris Agreement. This would facilitate the comparability of entities' transition plans and making a direct assessment of the consistency of each entity's plan with the transition to a climate-neutral economy and with the goals set out in the Paris Agreement.

(b) *Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?*

The EBA agrees with the proposed definition and finds it sufficiently clear. However, consistently with the answers above, the EBA suggests making an explicit reference to the fact that the 'latest international agreement on climate change' is currently represented by the Paris Agreement (April 2016).

Question 11—Industry-based requirements

[II] *The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.*

(a) *Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?*

The EBA supports and welcomes the approach to revise the SASB Standards given the significant, in some cases, bias towards the US industry, and its shortcomings in the way it is able to cover disclosure requirements throughout the world.

(b) *Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?*

The EBA observes that the ISSB's proposal seems too ambitious by introducing industry metrics that cover various environmental topics not considered as climate-related risks (air quality, water management, waste management, raw materials sourcing). These metrics should be better dealt with in other future topical standards.

(c) *Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?*

The EBA agrees.

[III] *The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals for financed or facilitated emissions.*

(d) *Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?*

The EBA supports that industry-based requirements for commercial banks ask for disclosure of financed and facilitated emissions.

Measuring financed (and facilitated) emissions allows financial institutions to make transparent climate disclosures on their GHG emissions exposure, to identify climate-related transition risks and opportunities, to define the baseline emissions for target setting in alignment with the Paris Agreement, and to reduce their portfolio climate impact. The EBA considers that the disclosure requirements for financed and facilitated emissions of banks are crucial, as well as having a clear and transparent set of rules to measure them.

However, the EBA is of the view that the best source of information for this type of disclosure will always be the proper counterparties. For this reason, the EBA highlights the need to minimize the information to be estimated based on external data sources, try to make use of reported emissions and to clearly distinguish the source of this information (directly taken from banks’ counterparties or estimated).

(e) *Do you agree with the industries classified as ‘carbon-related’ in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?*

Focusing on the area of commercial banking, it would be much appreciated more details on the origin and basis of the classification of industries as ‘carbon-related’ with a view of developing a mapping between this classification and the existing codes. Indeed, the EBA acknowledges that, there is no mapping between this classification and others that are mainly used by the EBA, such as NACE codes. In addition, there is not a unique international classification of industries, and multiple sectoral classifications exist that attend to different segmentation axes. These classifications are widely used for statistical and regulatory purposes in most jurisdictions. Moreover, there are also some sources in which mappings between them can be obtained (for example RAMON - EU statistical mapping reference provides mapping between NACE/NAICS, NACE/JSIC, NACE/ISIC).

(f) *Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?*

The EBA agrees. Measuring financed emissions in absolute terms (i.e., absolute emissions) provides financial institutions with the necessary baseline for climate action in accordance with the Paris Agreement. However, normalized data (translating absolute financed emissions into an emission intensity metric) are also useful for banks and investors to manage climate transition risk, to set targets, or to create new products.

(g) *Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?*

The EBA agrees with the proposal to require disclosure of the methodology used to calculate financed emissions. Nevertheless, it would be quite convenient that the ISSB would recognize in the IFRS S2 and/or Appendix B as a valid methodology for the financial industry the one sponsored by PCAF (Partnership for Carbon Accounting Financials), which is consistent with GHG Protocol.

(h) *Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?*

The EBA does not agree. As stated in the response question above, EBA recommends the ISSB to recognize PCAF as a valid methodology for the calculation of financed emissions.

(i) *In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?*

The EBA is not in the position to provide an answer to this question.

[IV] *Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements. While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).*

(j) *Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?*

Banks and the banking system are exposed to climate change through macro- and microeconomic transmission channels that arise from two distinct types of climate risk drivers. Firstly, they may suffer economic costs and financial losses resulting from the increasing severity and frequency of physical

climate risk drivers. Secondly, as economies seek to reduce carbon dioxide emissions, these efforts generate transition risk drivers. The latter arise through changes in government policies, technological developments, or investor and consumer sentiment.

Therefore, the EBA believes that it is extremely important to measure and manage both physical risks and transition risks properly, as well as providing information to the market about their potential impact on the financial statements. In this regard, the EBA considers that the industry-based requirements for commercial banks and mortgage industry are a good attempt to capture these risks. The EBA invites the ISSB to take into consideration the following suggestions. Regarding transition risks:

- The industry-based requirements for commercial banks do not ask for specification if the GHG emissions information come from the counterparties, or if they have been estimated. It would be very appropriate to know the source of this information.
- It would be very convenient to disclose a breakdown by maturity of exposures since the transition risk materializes over the years.
- It would be very desirable to report “green” information such as “ratio of financing their customers in the transitional process over total carbon-related exposures”, with the caveat that currently there is no internationally recognized green taxonomy.

Regarding physical risks:

- IFRS S2 states in paragraph 21 (c) that information on the amount and percentage of physical risks should be given. This information should refer to the full extent of this risk, however, industry-based requirements on mortgage industry require disclosure mainly on two metrics, being one of them the number and value of the mortgage loans in 100-year flood zones (i.e., FN-MF-450a.1 metric). Therefore, the EBA suggests broadening the scope of physical risks taking as a reference, for instance, the examples provided by the instructions of the EBA ITS on ESG disclosure on template 5 (heatwaves, water scarcity and stress, floods, wildfires, hurricanes, typhoons, landslide, etc.).

(k) *Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general-purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.*

Please see the examples in the answer to question above.

(l) *In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions*

that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

EBA agrees with industry descriptions either for commercial banks or mortgage industry.

Question 12—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 analyzing the likely effects of these proposals?

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

(c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

The EBA believes that the ED already includes the main exemptions needed to ease the practical application of the standard:

- Exemption to the disclose quantitative information on financial position, financial performance, and cash flows (paragraph 14 (e)).
- Exemption to use climate-related scenario analysis (paragraph 15).

As highlighted in answer to question 6, the EBA suggests that the ISSB reconsiders whether the exemption in paragraph 14 (e) is warranted for the requirements in paragraphs 14 (a) and (b).

The EBA notes that the ISSB has largely built its proposed disclosures requirements upon the recommendations from the TCFD and therefore it expects that listed companies and banks are already familiar with the main requirements.

As highlighted in answer to question 9 the EBA believes that some of the cross-industry metrics are only loosely defined which might impair the expected benefits in terms of transparency and comparability of the disclosures.

Question 13—Verifiability and enforceability

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

As highlighted in answers to question 9 and 10 targets, the EBA notes that the required metrics in paragraphs 21 (b), 21 (c), 21 (d), 21 (e) and 23 (a) may be loosely defined and may rely to a large extent on entity-specific metrics.

While the EBA would prefer that the ISSB strengthen the proposed requirements to foster comparability, the EBA is also cognizant that this may impede the ISSB's ability to deliver the standard timely. To avoid unduly delaying in the adoption of the standard, the ISSB may tentatively consider strengthening the disclosure requirements about the methodologies and key inputs used to compute the metrics in order to enhance their verifiability.

In addition, the EBA notes that the ED IFRS S1 requires an entity to disclose the sustainability related information in accordance with the IFRS Sustainability Disclosure Standards as part of its general-purpose financial reporting, but it does not require that the entity includes information allowing users to identify where the information required by the standards is reported within the report. The EBA notes that some jurisdictions, especially in Europe, are requiring an audit assurance on sustainability reporting by companies and that general purpose financial reporting may include both audited and unaudited information.

To allow users to distinguish between audited and unaudited information and to identify where the standardized disclosures appear, the EBA suggests that the ISSB requires an entity to include an index of sustainability related financial disclosures with their location in the report.

Question 14—Effective date

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) *Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why?*

The EBA supports the ISSB's ambition to deliver its general requirements standard at the same time as its climate disclosure standard. The general features set out in the IFRS S1 exposure draft provide important concepts that will support the successful implementation of IFRS S2, and all future ISSB standards.

(b) *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 in the Exposure Draft.*

As highlighted in answer to question 7 on climate resilience, the EBA expects that most significant European banks have already taken action in order to report the disclosures recommended in the

Commission's non-binding guidelines on climate-related reporting. The EBA therefore expects that European banks are already familiar with the TCFD framework, and they would be able to comply with many of the proposed requirements in IFRS S2.

In addition, in January 2022 the EBA submitted a draft ITS to the European Commission which mandates large, listed banks to disclose their scope 3 GHG emissions starting from June 2024 first reference date.

(c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier, and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

The EBA is not in the position to provide an answer to this question.

Question 16—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?

The EBA does not identify any specific provisions within ESRS S2 that would limit its ability to become the global baseline for disclosing climate-related information.