Bundesverband deutscher Banken e. V. | P.O. Box 040307 | 10062 Berlin | Germany

Ms. Sue Lloyd & Mr. Emmanuel Faber
International Sustainability Standards Board
The IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Association of German Banks
Torsten Jäger
Director
Telephone: +49 30 1663-2160
torsten.jaeger@bdb.de

Association of German Public Banks
Simon Recker
Director
Telephone: +49 30 8192-230
simon.recker@voeb.de

ISSB Exposure Draft IFRS S2

Joint feedback by the Association of German Banks (BdB) and the Association of German Public Banks (VOEB)

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Prepared by Swt

Dear Ms Lloyd,
Dead Mr Faber,

We – the Association of German Banks (BdB) and the Association of German Public Banks (VOEB) – welcome the ISSB's initiative to establish an international baseline standard for sustainability reporting and we expect this standard to become the international market standard for sustainability reporting by globally active corporates.

Compared to the TCFD recommendations, the IFRS S2 is more detailed and require more specific information, e.g. in relation to governance structures or transition plans and compensation. The ISSB considers transition plans to be part of the undertaking's strategy and requires the disclosure on reduction targets for emissions and on compensating measures. The disclosure of transition plans may be very challenging for some corporates and may thus impact the timely publication of the information.

We are looking forward to our continuous cooperation. We remain at your disposal in case you have any questions.

Yours sincerely,

Torsten Jäger	Simon Recker
Director	Director
Head of Sustainability	Head of Division Banking Supervision and Finance
Association of German Banks	Association of German Public Banks

Bundesverband deutscher Banken e. V.
Burgstraße 28 | 10178 Berlin
Telefon: +49 30 1663-0
Website: bankenverband.de

USt.-IdNr DE201591882
Lobby Register No R001458
EU Transparency Register No 0764199368-97

Comments on the specific questions raised for IFRS S2

Question 1: Overall of the Exposure Draft

(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

It should be considered that financial institutions have gained more experience with the disclosure of climate-related risk as they have with climate-related opportunities (level of preparedness and capabilities and data availability).

(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?

N.A.

(c) Do the disclosure requirements set out in the Exposure Draft meet the objective described in paragraph 1? Why or why not? If not, what do you propose instead and why?

N.A.

Question 2: Governance

(a) 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?

N.A.

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?

Paragraph 14a: it might be difficult to ensure consistent/comparable approaches to the disclosure of financial impacts. A clarification on how climate-related risk events are defined would be helpful to ensure consistent approaches across disclosing companies.

(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?

N.A.

Question 4: Concentrations of Climate-Related Risks and Opportuntieis 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?

N.A.

(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?

N.A.

Question 5: Reporting Entity (paragraphs 37-41)

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

Comparability of the transition plans should be fostered by taking into account the latest international or national agreements. As an option, transition plans could also be enriched through locked in emissions and decarbonisation levers.

(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.

N.A.

(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?

Yes, the information of carbon offset is useful to understand the entity's approach to reducing emissions and the disclosure of carbon offset is transparent. It can be an effective tool, if future emissions will be avoided by the purchase and decommissioning of CO2-emission certificates or if emissions will be captured in nature or stored in the earth. Credibility can be achieved by the purchase and decommissioning of CO2-

emission certificates or by external verification and certification schemes by means of certified carbon offsets.

(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 effects? Why or why not? If not, what do you propose instead and why?

Yes.

Question 6: Connected Information (paragraphs 42-44)

(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?

N.A.

(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?

N.A.

(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?

In our view, the scope of the required information should be based on the recommendations of the TCFD and should not be extended. The difficulties and challenges of determining quantitative data are sufficiently well known and are taken up in principle by the ISSB. The requirements of paragraph 14 are likely to lead, at this stage, to entities explaining that no quantification can be made due to a lack of data.

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?

In our opinion, the information requested here may potentially go too deep into a company's business strategy. To a certain extent, the response is undoubtedly useful, *but the information should overall remain realistic. In particular, information on planned projects should be requested with restraint, if at all.*

(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?
N.A.

(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?
In our opinion, companies should be free to choose which method they use.

(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?
Climate risks are not equally substantial for every company, so that a mandatory scenario analysis for all companies cannot be justified. There should be room for trade-offs between the added value of the information on the one hand and the costs/expenses of determining it on the other.

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

N.A.

(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?

N.A.

(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?

N.A.

Question 8: Risk Management

(a) 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 to you recommend and why?

N.A.

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?

Many banks are supportive of the integration of the TCFD's cross-industry metrics categories, which provide a consistent framework while leaving the flexibility for institutions to apply metrics relevant to their business models. While some financial institutions use internal carbon prices as a variable within internal climate scenario analysis exercises, it is not a metric many banks are comfortable publishing for reasons related to confidence in data quality and perceived relevance to climate risk measurement and portfolio alignment activities. While this might be sensible for some firms including asset managers, this information is not helpful for other financial institutions.

(b) Are there any additional cross-industry metric categories related to climaterelated 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.

N.A.

(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?

N.A.

(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 ($NO2$))?

We are in favour of aggregating the information on greenhouse gas emissions. We consider a separation by the type of greenhouse gas to be too detailed.

(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 information on greenhouse gas emissions should only be required for fully consolidated companies (analogous with financial statements). Therefore, we consider the proposal (required disclosures for entities under (ii)) to be too far-reaching, because it is not compatible with the IFRS accounting standards. Associated companies or joint ventures are subject to less detailed IFRS reporting requirements than directly controlled companies.

(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?

N.A.

Question 10: Targets

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

In our opinion, the required specifications are formulated too strictly and may prevent the setting of targets if all the requirements mentioned have to be met individually. It would be better to cite these as examples.

(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?

N.A.

Question 11: 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?

As part of the jurisdictional initiatives, close cooperation with the European Commission and EFRAG is required, once these institutions develop the European industry-specific standards, to ensure that the disclosure requirements are aligned as far as possible.

(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?

N.A.

(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?

N.A.

(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?

We ask for further clarification on financial emissions requirements:

- *We are questioning the requirement on 'Scope 3 Financed Emissions Product Scope—Derivative' which is not yet defined by the Partnership for Carbon Accounting Financials (PCAF) standards. Derivatives are usually executed along with a loan facility to a client. Including both products can lead to unnecessary double counting. There can also be unintended consequences for different types of derivatives. For example, an interest rate swap allowing netting may produce a much smaller cash flow compared to a cross-currency swap that cannot be netted due to notional exchange in two different currencies.*
- *Currently, ED IFRS S2 requires all the Scope 3 financed emissions to be calculated for all sectors. For instance, the ISSB defines Mortgages to include Home Equity Line of Credit (HELOC), but the PCAF standard excludes HELOC from its methodology. The same is true for trading books loans and investments, sovereign bonds, and facilitated emissions.*
- *ED IFRS S2 currently does not have explicit language about how trading book assets are to be treated. Under PCAF, most of the trading book loans and investments are currently considered out-of-scope for financed emission calculations.*

  There are also open questions regarding the right treatment of specialty funded securitization assets. If both the assets (Mortgage Loans) and the liabilities (Securitization Liabilities) are on the balance sheet, it implies that the bank doesn't *directly fund the asset. Clarification would be required if it should be included into the bank's financed emission calculation in such a case.*

(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?

N.A.

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

N.A.

(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?

N.A.

(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?

N.A.

(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?

N.A.

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

N.A.

(k) Are there any additional industry-based requirements that address climaterelated 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.

N.A.

(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?

N.A.

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 analysing the likely effects of these proposals?

N.A.

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

N.A.

(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?

N.A.

Question 13: Verifiability and Enforceability

(a) 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.

N.A.

Question 14: Effective Date

(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?

Considering prior experience regarding IFRS implementation, users should be offered at least one to two years to implement the reporting standards and their underlying methodologies into their frameworks. When setting the effective date, the ISSB should give adequate time for entities to understand and implement the requirements in the

IFRS Sustainability Standards. As the ISSB has based the two exposure drafts on the TCFD recommendations and the SASB standards, the ISSB should take the following into consideration when setting the effective date:

- *those disclosure requirements in the TCFD recommendations and the SASB standards that entities have not yet implemented, in particular the new disclosure requirements in the TCFD's 2021 revision.*
- *those disclosure requirements which the ISSB has added on top of the disclosure requirements of the TCFD recommendations and the SASB standards.*

Additional notes:

- *Climate-related disclosures have been in the focus of many stakeholders and have hence developed faster than broader ESG disclosures.*
- *Broader experience with climate-related disclosures was often achieved in the context of other disclosure standards, such as TCFD.*
- *Is it possible to set transition periods with regards to the publication or effective date?*

(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.

N.A.

(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?

N.A.

Question 15: Digital Reporting

(a) 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)?

N.A.

Question 16: Global Baseline

(a) 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?

N.A.

Question 17: Other Comments

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

N.A.