São Paulo, July 26th, 2022

International Sustainability Standards Board

Columbus Building

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United Kingdom

Via email: commentletters@ifrs.org

Dear International Sustainability Standards Board (ISSB)

Draft IFRS S1 General Requirements for Disclosure of Sustainability Related to Financial Information; Draft IFRS S2 Climate-related disclosures

Thank you for the opportunity to comment on the two draft standards released by the ISSB on general sustainability-related disclosure requirements (Sustainability Standard) and climate-related disclosure requirements (Climate Standard).

The Brazilian Institute of Corporate Governance (IBGC) welcomes the opportunity to provide a Brazilian corporate governance perspective to this critical global consultation.

The IBGC supports the principle of harmonized sustainability standards under the curatorship of the ISSB and recommends that this consistent approach must be incorporated by all other jurisdictions. Brazilian market players constantly report the need to consolidate existing non-financial reporting frameworks to meet the growing demand from investors for higher quality and comparability. On the business side, these reports enable trust-building, sustain value, and enhance reputation. They are also a tool that helps organizations to identify possible gaps in management and stimulate changes in internal decision-making processes.

In our opinion, the two draft standards are a strong starting point from which a global baseline can be developed. In the Brazilian context, we recognize that the widespread adoption of these new standards would represent a significant improvement in current reporting practices.

Yours sincerely,

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Addressing the Questions on Draft IFRS S2 Climate-related disclosures

Question 2—Governance

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.

The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.

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?

Response: Yes, but in relation to governance requirements, we would suggest the following improvements:

1. 5 (a): we suggest adding disclosure requirements that go beyond identifying the body or individual responsible for climate-related risks and opportunities. We suggest including the requirement for information on the composition of this governance body. It is relevant to know whether the board is diverse enough in knowledge, skills, experience and background so that the debates are effective and decisions are based on knowledge and understanding of threats and opportunities related to climate change.
2. 5 (b-g): The wording of paragraph 5 could be improved. Paragraph 5 (a) refers to "governance bodies or individuals" responsible for overseeing climate-related risks and opportunities. However, 5(b)-(g) refer only to "bodies". Smaller entities may not have complex governance structures and therefore these matters may be subject to oversight by specific individuals. Therefore, we recommend referencing bodies and individuals throughout the requirements.
3. 5 (d): in addition to the way and frequency with which governance bodies are informed about risks and opportunities related to sustainability, we suggest that

it is also a requirement to inform which bodies have the information and whether and with which frequency these topics are part of their discussion agendas.

Question 3—Identification of climate-related risks and opportunities

Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).

Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

Response: the IBGC noticed that the exposure draft uses both "significant" and "material" in the document. It may be appropriate to clarify whether preparers should read them as having different or similar meanings. If they are meant to be different, we suggest defining "significant" in Appendix A (as materiality is already defined in Exposure Draft S1).

(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?

Response: the IBGC agrees with the proposed requirements to consider disclosure topics.

Question 6—Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over
the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

Response: the IBGC agrees that the disclosure of actual and anticipated financial effects associated with climate change enables users of general purpose financial statements to assess enterprise value. However, as quantitative data might be hard to obtain and very subjective – which could result in questionable information being disclosed – companies should have a choice to also provide qualitative information, using a cost/benefit analysis.

(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?

Response: the IBGC agrees that the disclosure requirements seem to cover a broad range of relevant issues.

(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?

Response: the IBGC agrees that the disclosure requirements seem to cover a broad range of relevant issues. However, companies should have a choice to disclose also qualitative information regarding those issues as some companies do not give quantitative guidance on financial metrics – therefore that would be inconsistent with companies’ disclosure policies.

Question 17—Other comments

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

Response: It would be interesting if companies interested in adopting a dual materiality concept could do so. To this end, the document could indicate criteria or signs of how to carry out this adoption in a structured and integrated manner.