Climate Disclosure Standards Board

27th September 2021

Dr Andreas Barckow,
International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

Re: IASB's Third Agenda Consultation

Dear Dr Barckow,

The Climate Disclosure Standards Board (CDSB) welcomes the invitation to respond to the *Request for Information for the IASB's Third Agenda Consultation ("Request for Information")*. CDSB was set up in 2007 with the mandate to produce a globally accepted approach to reporting material information about climate risks and opportunities to capital markets, in the absence of a globally accepted accounting approach to do so. We do this by offering companies a framework for reporting environmental and climate information with the same rigour as financial information (the CDSB Framework) and other associated application guidance. In turn, this helps companies to provide investors with decision-useful environmental and climate information via the mainstream corporate report. Regulators also benefit from compliance-ready materials. Recognising that material environmental and social information on enterprise value and the associated connectivity with financial capital is essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets.

CDSB is encouraged to see the IFRS Foundation's proposal to create the International Sustainability Standards Board (ISSB) that builds on existing frameworks, standards, and initiatives; starting with climate and building out to cover other sustainability topics as dictated by market demand; and connecting to financial reporting, where recognition criteria is met, so as to provide a complete picture of enterprise value creation to providers of capital. To provide a running start for the potential ISSB, CDSB has been invited to join the Technical Readiness Working Group that brings together leading organisations with expertise on sustainability reporting from an enterprise value creation perspective.

We welcome greater coverage of environmental, social and governance (ESG) matters in the IASB's Third Agenda Consultation, starting from climate. This is consistent with the direction of travel of the potential ISSB, starting from climate and going beyond. We summarise our main comments to the IASB's Third Agenda Consultation below.

Connectivity between the IASB and the ISSB

We believe that a close coordination between the IASB and the ISSB will be vital to the success of both Boards. As pointed out in the *Request for Information*, investors are demanding high-quality information on ESG matters (such as climate-related risk) that is consistent and comparable. We believe that the provision of decision-useful information on ESG matters could only be achieved when the 'front-half' (disclosures) and the 'back-half' (financial statements) of financial reports are connected. In this respect, we would suggest the IASB (and likewise the forthcoming ISSB) to consider allocating specific resources for coordination activity that is complementary to each other and promote connectivity between the IFRS Standards and the potential Sustainability Standards.

Climate first, not climate only

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We are encouraged to see greater consideration of topics on climate-related matters, including *Climate-related risks* and *Pollutant pricing mechanisms*. These projects will meet the urgent needs of capital market participants for assessing entities' exposure to climate-related risks. However, we believe there are numerous ESG matters, apart from climate, that remain to be 'off-balance-sheet'. The IFRS Standards, from our perspective, addresses the full breadth of ESG and other emerging risks which are important to investors and pervasive across capital markets. In this respect, we would encourage the IASB to go a step further and consider exploring the effects a broader spectrum of ESG matters on entities' financial position and performance, and appropriate Standard development to ensure consistent, clear, and comparable disclosure.

Please find our responses to the questions in Appendix 1 attached to this letter. If you have any further questions on our response or for support in your endeavours, please do not hesitate to contact me or our Technical Director, Ravi Abeywardana (Ravi.Abeywardana@cdsb.net) if we can be of further assistance.

Yours sincerely,

Mardi McBrien
Managing Director, Climate Disclosure Standards Board (CDSB)

Appendix 1. CDSB Responses to Consultation Questions

Question 1 — Strategic direction and balance of the Board's activities

(a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.

(b) Should the Board undertake any other activities within the current scope of its work?

We broadly agree with the level of focus for the IASB's current main activities. However, we believe that the IASB should consider allocating resources to a new activity, namely coordination with the International Sustainability Standards Board (ISSB). We believe that coordination of the IASB with the ISSB will be critical to the success of the IFRS Foundation, and both the IASB's and the future ISSB's standard-setting activities. Likewise, we believe that the ISSB's input will be vital to IASB's future projects which are specified in the *Request for Information*, such as *Climate-related risks* and *Pollutant pricing mechanisms*. More broadly, we believe that a formal coordination mechanism between the IASB and ISSB would ensure a coherent and connected financial reporting standard-setting when it comes to enterprise value.

Question 2 — Criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan

(a) Do you think the Board has identified the right criteria to use? Why or why not?

(b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

We fully agree with the criteria that is proposed for assessing the priority of financial reporting issues to be added to the IASB's work plan.

Question 3 — Financial reporting issues that could be added to the Board's work plan

(a) What priority would you give each of the potential projects described in Appendix B—high, medium, or low — considering the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)?

We would like to offer our opinion on potential projects which are most closely related to our area of expertise, including *Climate-related risks* and *Pollutant pricing mechanisms.* Additionally, we would also like to offer some comments on their interactions with other potential projects, including *Going concern* and *Intangible assets.* In our view, these four projects (*Climate-related risks, Pollutant pricing mechanisms, Going concern,* and *Intangible assets*) should be assigned **HIGH PRIORITY**.

We welcome the consideration of *Climate-related risks* into the IASB's workplan. We would assign **HIGH PRIORITY** to this project because we believe that this project has the potential to enhance the overall usefulness of financial reporting given the pervasive nature of climate-related risks. Despite the increasing level of quality of climate-related disclosures in recent times, there is currently no clear signal for investors to assess the effects of climate-related risks on entities' financial statements. The integration of climate-related risks into the financial statements would complement climate-related disclosure in assisting investors' decision making.

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We fully support the consideration to amend IAS 1 *(Presentation of Financial Statements)* and IAS 36 *(Impairment of Assets)* to better reflect entities' exposure to climate-related risks. But, as outlined in the IASB's educational materials, climate-related risks are prevalent issues and, therefore are already captured within the current IFRS Standards. Yet, in practice, the number of companies considering climate-related risks and recognising their effects on their financial statements is very low (only 4% of FSTE 250 in 2020 according to a recent report by ClientEarth and under 30% of world's biggest corporate emitters failed to disclose the effects of climate risk in 2020 financial statements per a recent report by the Carbon Tracker Initiative). Therefore, a clear and obvious way to better reflect climate-related risks in entities' financial position and performance is to consider their effects within the scope of existing IFRS Accounting Standards. To encourage preparers, we would suggest the IASB to consider issuing a more authoritative and comprehensive guidance that could be modelled after, for instance, the CDSB's *Accounting for Climate* guidance (which have been specifically designed to build on the IASB and IFRS Foundation's educational material).

In developing the *Accounting for Climate* guidance (for which we will be publishing further supplementary papers in the coming months considering additional relevant accounting standards), we have identified a few areas where preparers may face difficulty in considering climate-related matters:

- Clarity in how financial instruments such as green bonds, which contain contractual features which did not exist widely in the market when IFRS 9 *(Financial Instruments)* was introduced, should be accounted for. We acknowledge that this is under examination by the IASB as part of its post-implementation review of IFRS 9.
- Currently, under IFRS 13 *(Fair Value Measurement)*, where assets are traded in an active market and transactions take place with sufficient frequency and volume for pricing information to be provided on an ongoing basis, such inputs should be used. However, there may be a potential systemic risk given the limited climate-risk related information in the market and a lack of standard in measuring climate-related risks in the market. As a result, market pricing may not sufficiently and appropriately take into account climate risks, which is a particular problem for Level 1 assets, where no climate-related adjustment factor or overlay would be expected. Preparers and valuers would benefit from additional clarity and guidance for considering such climate-related risks in valuations, where they might not be currently.

We also welcome the consideration of *Pollutant pricing mechanisms* into the IASB's workplan. We would assign **HIGH PRIORITY** to this project because we believe that a true and fair reflection of the effects of pollutant pricing mechanisms on entities' financial statements is vital in supporting the transition to a net-zero future. We believe that a clear and consistent approach for pollutant pricing mechanisms will enhance the efficiency of not only well-established mechanisms (e.g. EU Emissions Trading Scheme), but also recently established supporting mechanisms (e.g. EU Carbon Border Adjustment Mechanism) and emerging voluntary carbon markets which are quickly increasing in importance and stature (see the work of the Taskforce on Scaling Voluntary Carbon Markets). With this regard, we would advise the IASB to consider developing a consistent and comparable approach that can span across various types of pollutant pricing mechanisms.

Additionally, we would also like to flag the potential interactions of the above projects with other potential projects. In line with the IASB's educational material on the matter, we believe that the pervasive nature of climate-related risks could present material uncertainties that, in some circumstances, could raise significant doubt about the *Going Concern* of a company over the foreseeable future. With this regard, we fully support further development of enhanced requirements for assessing and disclosure of the going concern assumption. We believe that this will completement the future work of the ISSB which is intended to provide a transparent approach for reporting the effects of environmental, social and governance (ESG) risks and opportunities which are material to investors. Therefore, we would assign **HIGH PRIORITY** to this project.

Lastly, *Intangible assets* is also critical from an ESG perspective especially because the IFRS Accounting Standards currently do not require the disclosure of key resources and relationships which may significantly contribute to enterprise value creation because they do not meet the recognition criteria at the reporting date, and nor do they address the consumption of the key resources and relationships. We believe that a requirement to disclose the consumption of key resources and relationships and their effects on value creation would better capture ESG performance which may occur at the reporting date. As noted in the *Request for Information*, in future, information about key resources and relationships may be reported in a revised Management Commentary approach which is focused on value-creation that may also interact with the future work ISSB that is focused on enterprise value. We believe that it is critical for the IASB to provide clarity and create the associated connectivity with the ISSB for the disclosure of key resources and relationships which are consumed and drive value creation but do not meet the recognition criteria for intangible assets at the reporting date as per IASB. Therefore, we would assign **HIGH PRIORITY** to this project. Given that specific ESG-related requirements will fall outside of the IASB's remit, we would encourage the future ISSB to consider issuing a complementary guidance as part of its future agenda topic.

(b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026?

We welcome the greater coverage of environmental, social and governance (ESG) matters in the IASB's future workplan, starting from climate. We would urge the IASB to go a step further and consider exploring a broader spectrum of ESG matters which are important to investors and pervasive across capital markets. This would also ensure that the IASB will have the capacity to maintain alignment with the future work of the ISSB when it starts to move beyond its initial focus on climate. We would encourage the IASB to start identifying key areas of ESG-related risks that are already captured within the current IFRS Standards that could be modelled after, for instance, the Financial Accounting Standards Board's (FASB) Staff Educational Paper which outlines the intersection of ESG matters with financial reporting standards. Following this, the IASB and the ISSB should work closely with one another to ensure connectivity between financial reporting and enterprise value disclosures allowing for a full 360 guidance for both preparers and investors on material information.

Question 4 — Other comments

Do you have any other comments on the Board's activities and work plan?

Reiterating our previous point, we believe that a close coordination between the IASB and the potential ISSB will be critical. Given the importance of the agenda consultation process in the determination of the activities of the IASB and the future activities of the ISSB, it would be helpful for both Boards to align their agenda priorities. We believe that it would be useful for the IASB to update its agenda in line with any future agenda consultation done by the ISSB. Likewise, we believe that the future agenda setting of the ISSB is likely to benefit from some of the comments raised within the IASB's agenda consultation.