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As the SR TEG meeting is taking place the day before this meeting, the EFRAG Secretariat kindly requests SRB members to assess this version of the DCL which is identical to the version uploaded to SR TEG. A marked-up version after SR TEG will be made available to SRB members before the meeting as a late upload.

ISSB ED Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy updates – [Draft] Comment Letter

EFRAG encourages You to submit your comments electronically using the online survey [INCLUDE LINK]. Alternatively, EFRAG accepts comment letters submitted by using the [‘Express your views’](#) page on EFRAG’s website, then open the relevant news item and click on the ‘Comment publication’ link at the end of the news item.

Comments should be submitted by 10 July 2023.

International Sustainability Standards Board
IFRS Foundation
Opernplatz 14
60313 Frankfurt am Main
Germany
[XX June 2023]

Dear Mr. Faber

Re: ED Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the *Exposure Draft Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates*, issued by the ISSB on 11 May 2023 (the ‘ED’). This letter is intended to contribute to the ISSB’s due process.

EFRAG follows with attention the future developments on the SASB Standards, as they are one of the sources for the development of sector-specific ESRS. EFRAG has started preparatory work and expects to issue in the next few years sector-specific ESRS as foreseen by the CSRD to cover the entire spectrum of the 77 SASB industries through 39 sector standards. As for the sector agnostic standards, interoperability is key also at sector level and EFRAG stands ready to support the ISSB since the first stages of standard setting, to enhance future interoperability. ESRS 1 (draft November 2022) also foresees

a transition provision that allows ESRS preparers to refer to the SASB standards as a source of sector guidance, pending the issuance of the ESRS standards.

EFRAG generally agrees that the proposed methodology would improve the international applicability of the SASB standards but points to the following improvements that could be made: i) keeping an acceptable comparability level when working with national references and ii) the ratification status of international references.

EFRAG consider the proposed methodology a reasonable transition approach, pending a more extensive standard setting activity to enhance the SASB Standards, as done for S2 Climate.

In particular, EFRAG considers that there is room for further improvements of the SASB standards beyond the internationalisation of these standards. For example by requiring contextual narrative disclosures. EFRAG provides a number of examples of where technical improvements are possible such as the quantification of scope 3 and use of sold products emissions or information on assets at risk and stranded assets in the Oil and Gas industry.

Subject to the considerations above, EFRAG agrees that the revision approaches will improve the international applicability of the SASB standards.

EFRAG cautions that some metrics are only available behind a payment wall and when being relied upon these increase the cost/benefit analysis of the future standards such as the IEA datasets.

EFRAG agrees to update the SASB XBRL Taxonomy to reflect the amended SASB standards accordingly, as suggested. EFRAG invites the ISSB to work with EFRAG on an harmonisation of the sector specific digital XBRL taxonomies of the ESRS and ISSB standards.

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Pedro Faria or myself.

Yours sincerely,

Patrick de Cambourg
EFRAG SRB Chair

Appendix - EFRAG's responses to the questions raised in the ED

Question 1 – Methodology objective

Notes to constituents – Summary of proposals in the ED

- 1 This exercise of the ISSB is to ensure that entities referring to the SASB Standards in applying IFRS S1 can use the relevant metrics in different jurisdictions, regardless of where a preparer operates. The objective of the methodology proposed in this Exposure Draft is to enhance the international applicability of the SASB Standards without substantially changing the structure or original intent of the content. The methodology also is designed to ensure the amendments preserve the decision-usefulness of the SASB Standards for users of general purpose financial reports and the amendments do not increase the costs of application for preparers. For example, an entity already using the SASB Standards could continue to provide the same disclosures irrespective of whether the SASB Standards are amended using this methodology. The proposed methodology is intended to make the SASB Standards metrics applicable in any jurisdiction; the methodology also will revise language in the SASB Standards that is specific to particular jurisdictions. Likewise, an entity using the amended SASB Standards would be able to do so whether it applies IFRS Accounting Standards or other generally accepted accounting principles (GAAP).

Question 1 – Methodology objective

This Exposure Draft describes the proposed methodology to amend non-climate-related SASB Standards metrics to enhance their international applicability when they contain a jurisdiction-specific reference.

- (a) Are the scope of the intended enhancements and the objective of the proposed methodology stated clearly in paragraph 9[sic]? If not, why not?
- (b) Are the constraints of the objective as listed in paragraph 9 [sic] (preserving structure and intent, decision-usefulness and cost-effectiveness) appropriate? Why or why not?
- (c) Should any other objective(s) or constraint(s) be included in the proposed methodology? If so, what alternative or additional objective(s) or constraint(s) would you suggest? How would these add value to the proposed methodology?

EFRAG's response

While the scope of the intended enhancements is clearly described in the Exposure Draft, EFRAG is of the view that there are improvements to be made in the methodology that, if not addressed, can stand in the way of fulfilling the objective of enhancing the international applicability of the SASB Standards

Question 1(a)

- 2 While the scope of the intended enhancements is clearly described in the Exposure Draft, EFRAG is of the view that there are improvements to be made to the methodology that, if not addressed, can stand in the way of fulfilling the objective. Those improvements relate to:
 - (a) The ratification status of internationally applicable references for standards; and
 - (b) The impact on comparability when integrating jurisdictional references.
3. For more detailed information on these issues, please refer to our answer to Question 3.

Question 1 (b)

- 3 EFRAG considers the proposed methodology a reasonable transition approach, pending a more extensive standard setting activity to enhance the SASB Standards, as done for S2 Climate.
- 4 EFRAG understands that the ISSB proposals are based upon the Recommendations of the Technical Readiness Working Group (TRWG) in building a cohesive sustainability reporting framework partly based on existing sources. EFRAG further notes that the ISSB framework will consist of thematical standards (to be developed over several years) and industry disclosures, besides generic requirements (S1 General Requirements for Disclosure of Sustainability-related Financial Information). Finally, EFRAG understands that thematical standards are to find inspiration from the white paper of the World Economic Forum report on Measuring Stakeholder Capitalism – Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, September 2020.
- 5 EFRAG understands that the SASB standards are one of several sources (for example the CDSB Framework application guidance for water- and biodiversity-related disclosures) an entity needs to consider identifying sustainability-related risks and opportunities.
- 6 Thematical standards such as S2 Climate also provide revisions of the existing industry-based metrics in order to enhance international applicability. EFRAG expects this to be similar with future thematical standards. In this regard having an overall view of the target universe of topical standards that will further change the SASB disclosures is absolutely necessary.
- 7 In this regard the future status of the industry-based disclosure requirements (related to S2 and other future topical standards) is to be specified more clearly. EFRAG understands that the ISSB has the intention to make these requirements mandatory in the future, subject to prior consultation.
9. EFRAG understands and agrees to the approach to publish a draft of proposed amendments to the SASB standards on the Foundation website for public review, instead of including all the proposed amendments in the ED for public comment, as per paragraph IN10 of the ED. This because we understand that future topical standards will still make amendments to the SASB disclosures as well as there will be further targeted changes to them.

Question 1 (c)

- 8 Please refer to our answer to Question 1(b).

Question 2 – Overall methodology

Notes to constituents – Summary of proposals in the ED

- 9 *The proposed methodology (see Appendix 2 for a visual representation) builds on the approaches used to improve the international applicability of the industry-based climate-related disclosures developed in Appendix B of Draft S2 and described in the associated Basis for Conclusions. That methodology has been refined based on feedback received on Draft S2. However, the methodology and associated ISSB deliberations described in this Exposure Draft are separate from the ISSB discussions regarding climate-specific disclosures in Draft S2. As agreed, when redeliberating Draft S2, the ISSB will continue to consider the international applicability of industry-specific disclosures in S2 as part of its future work.*

Question 2 – Overall methodology

This Exposure Draft explains the proposed methodology to amend the SASB Standards metrics to enhance their international applicability when they contain jurisdiction specific references.

(a) Do you agree that the proposed methodology would enhance the international applicability of the SASB Standards metrics? If not, what alternative approach do you suggest and why?

EFRAG's response

EFRAG generally agrees that the proposed methodology would improve the international applicability of the SASB standards but points to the following improvements that could be made: i) keeping an acceptable comparability level when working with national references and ii) the ratification status of international references.

Question 2 (a)

10 EFRAG generally agrees that the proposed methodology would improve the international applicability of the SASB standards but points to some improvements that can be made.

Comparability when working with national references

11 EFRAG notes that particular attention may be useful to maintain the comparability of SASB standards when adopting generalised jurisdictional references '(step 3). As jurisdictionally bound references can and do differ between jurisdictions, comparability between undertakings reporting will be affected. EFRAG understands that where this will be the case, priority is to be given to comparability at jurisdictional level instead of comparability at international level. EFRAG suggests, where possible, reliance on internationally applicable regulations as much as possible.

Ratification status of international references

12 A further complexity is the degree of national or regional ratification of international sources. The applicability of ISSB standards may not always be fully aligned with the references to international regulations or methodologies rendering the reference in ISSB standards rather theoretical.

13 When relying on internationally applicable references, one needs to consider whether these references have been ratified. International references do not become applicable automatically in all jurisdictions. In general, these are first to be ratified by national authorities before this is the case. This implies that international applicability may differ in geographical spread as well over time. EFRAG suggests the ISSB to make a mapping available on its website that demonstrates for all internationally applicable references used in their standards, in which countries these have been ratified.

14 A short description of the ratification process in the European Union can be found [here](#).

15 In case of important gaps between the applicability of ISSB standards and an international reference used, EFRAG suggests replacing that international reference with an ISSB developed metric or target. Important gaps may occur in two ways: i) by the number of countries that have not or not yet ratified an international agreement or ii) the absence of (or delay in) ratification by jurisdictions that could be considered vulnerable to environmental or social shortcomings.

16 For example, the UN Global Biodiversity Framework agreed upon in December 2022 in Montreal, Canada may, at the day of writing this comment letter, not yet be ratified by a lot of jurisdictions.

Question 3 – Revision approaches

Notes to constituents – Summary of proposals in the ED

- 17 In descending order of preference, amendments to the SASB Standards metrics would be made by:
- (a) substituting available internationally applicable references for standards, definitions or calculation methods to replace jurisdiction-specific references;
 - (b) providing more generalised definitions for standards, definitions or calculation processes to replace jurisdiction-specific references;
 - (c) adopting generalised jurisdictional references to enable preparers to use applicable jurisdictional laws, regulations, methodologies or guidance to replace jurisdiction-specific references;
 - (d) removing-in a limited number of cases-disclosure metrics that are ill-adapted for international application or have no identified international equivalents outside specific jurisdictions; and
 - (e) removing and replacing jurisdiction-specific metrics when a relevant replacement can be identified to preserve the disclosure topic's integrity, aligning with the intent of the original metric as much as possible based on research, to meet the needs of users of general purpose financial reports.

Question 3 – Revision approaches

This Exposure Draft explains five revision approaches to enhance the international applicability of non-climate-related SASB Standards metrics. Every disclosure topic, metric and technical protocol amended using the methodology will apply these five revision approaches, either individually or in combination. The methodology begins with Revision Approach 1, which uses internationally recognised frameworks and guidance to define relevant terms of reference.

- (a) Do you agree that replacing jurisdiction-specific references with internationally recognised frameworks and guidance—if identified—should be the first course of action? If not, why not?
- (b) If Revision Approach 1 is not feasible, do you agree that using the remaining four revision approaches would enhance the international applicability of the SASB Standards? Why or why not?
- (c) Could the revised metrics resulting from any specific revision approaches or combination of approaches pose problems for the preparers applying them? Why or why not?
- (d) Do you agree with the criteria for determining which of the proposed revision approaches applies in different circumstances? Why or why not? What changes to the criteria would you recommend and why?

EFRAG's response

Subject to our comments made to Question 2, EFRAG agrees that the revision approaches will improve the international applicability of the SASB standards.

EFRAG cautions that some metrics are only available behind a payment wall – such as the IEA datasets – and when being relied upon these increase the cost/benefit analysis of the future standards.

Question 3 (a)

- 18 EFRAG agrees with this first step in the methodology but notes that this step should be complemented with:
- (a) a mapping of the ratification status of international references used; and
 - (b) in the case of important gaps, a replacement metric or target developed by the ISSB itself.

Question 3 (b)

21. EFRAG generally agrees that the four other revision approaches can also improve international applicability of the SASB standards. As per our answer to Question 2, we urge the ISSB to take special care to address comparability issues when relying on jurisdictional references.

Question 3 (c)

- 19 EFRAG notes that some metrics are only available behind a payment wall. Relying on such metrics should be avoided as these increase the cost/benefit analysis of the future standards significantly in a negative way.
- 20 EFRAG suggests the ISSB to clarify the process supporting the selection of metrics coming from the revision approaches. A clear process would allow to clarify which metrics have been considered, which ones have been rejected and for which reasons and finally which ones have been retained.

Question 3 (d)

- 21 EFRAG agrees with the criteria determining which of the approaches are to be applied in different circumstances.

Question 4 – SASB Standards Taxonomy Update objective

Notes to constituents – Summary of proposals in the ED

- 22 *Reflecting the proposed methodology to improve the international applicability of the SASB Standard, the SASB Standards Taxonomy is proposed to be amended:*
- (a) *to change, as necessary, taxonomy concepts (digital tags) to align with proposed amendments to the SASB Standards using the methods outlined in paragraph 8 (a)-(c);*
 - (b) *to remove, as necessary, taxonomy concepts to align with proposed amendments to the SASB Standards using the method outlined in paragraph 8 (d); and*
 - (c) *to add, as necessary, taxonomy concepts to align with proposed amendments to the SASB Standards using the method outlined in paragraph 8 (e).*

Question 4 – SASB Standards Taxonomy Update objective

This Exposure Draft describes the proposed approach to updating the SASB Standards Taxonomy to reflect amendments to the SASB Standards.

- (a) Do you agree with the proposed methodology to update the SASB Standards Taxonomy to reflect changes to the SASB Standards? Why or why not? If you do not agree, what alternative approach would you recommend and why?

EFRAG's response

EFRAG agrees to update the SASB XBRL Taxonomy to reflect the amended SASB standards accordingly, as suggested. EFRAG invites the ISSB to work with EFRAG on an harmonisation of the sector specific digital XBRL taxonomies of ISSB and ESRS.

Question 4 (a)

- 23 EFRAG agrees to update the SASB XBRL Taxonomy to reflect the amended SASB standards accordingly, as suggested. We would like to emphasise that a sector specific XBRL taxonomy will progressively be developed by EFRAG. EFRAG expects to consult on the first Exposure Drafts of sector-specific ESRS in 2024. An ESRS XBRL taxonomy will follow after the issuance of the final drafts. EFRAG considers that the XBRL taxonomy has a role to play in facilitating and implementing interoperability. We would like to encourage the ISSB to implement a technical reference as part of the XBRL taxonomy as well, reflecting the interoperability status of each specific datapoint.

Question 5 – Future SASB Standards refinements

Notes to constituents – Summary of proposals in the ED

- 24 *The SASB Standards Taxonomy Updates describe how information included in the SASB Standards is captured or 'tagged' for digital reporting. Therefore, the digital tags used to label information reported when preparers apply the SASB Standards may have to be updated to reflect amendments to the SASB Standards.*
- 25 *Reflecting the proposed methodology to improve the international applicability of the SASB Standard, the SASB Standards Taxonomy is proposed to be amended:*
- (a) *to change, as necessary, taxonomy concepts (digital tags) to align with proposed amendments to the SASB Standards;*
 - (b) *to remove, as necessary, taxonomy concepts to align with proposed amendments to the SASB Standards; and*
 - (c) *to add, as necessary, taxonomy concepts to align with proposed amendments to the SASB Standards.*
- 26 *Until the SASB Standards Taxonomy is updated to reflect all amendments to the SASB Standards, the ISSB plans to provide an online blacklined version of the SASB Standards showing the original and amended wording. This blacklined version will enable an entity to map necessary adjustments to the SASB Standards Taxonomy to reflect the amended SASB Standards.*

Question 5 – Future SASB Standards refinements

This Exposure Draft focuses specifically on the first phase of narrow-scope work to amend the SASB Standards metrics in accordance with the proposed methodology to enhance their international applicability when they contain jurisdiction-specific references. In subsequent phases, the ISSB will consider further enhancements to the SASB Standards to improve their decision-usefulness, balance their cost-effectiveness for preparers and ensure their international relevance.

(a) What other methods, considerations or specific amendments would be useful to guide the ISSB's future work of refining the SASB Standards to support the application of IFRS S1? Why would they be useful?

(b) Do you have any specific comments or suggestions for the ISSB to consider in planning future enhancements to the SASB Standards?

EFRAG's response

EFRAG considers that there is room for further improvements of the SASB standards beyond the internationalisation. For example, by adding required contextual narrative disclosure. EFRAG provides several examples of where technical improvements are possible, such as the quantification of scope 3 and use of sold products emissions or information on assets at risk and stranded assets in the Oil and Gas industry.

Question 5 (a)

27 Please refer to our answer to Question 1(b).

Question 5 (b)

- 28 In our own experience with SASB standards EFRAG is of the view that SASB is too focused on quantitative metrics. EFRAG suggests that in addition to quantitative metrics, further work is done on developing required contextual narrative disclosure. This would allow to contextualise quantitative disclosures as well as to provide meaningful information to a variety of stakeholders on material topics that are not necessarily quantifiable.
- 29 Below we provide a number of areas where we see room for improvement of the SASB Standards, on the basis of our preparatory work performed to date. While these are largely climate-related we still are of the view these are relevant for the further development of the ISSB framework.

SASB O&G Upstream

- 30 SASB O&G Upstream focuses on Scope 1 emissions, but does not require the quantification of Scope 3, Use of Sold Products (USP) emission in the products. We believe this is an important omission, considering the size of Scope 3 emissions compared to Scope 1 and discussions on historical contributions to climate change as well as responsibility for climate change. The existing disclosure EM-EP-420a.2 related to "estimated carbon dioxide emissions embedded in proved hydrocarbon reserves" although very relevant, does not cover the aspect of yearly introduction of carbon fossil fuels into the world's economy. Likewise, aspects related to physical risk (assets at risk) as well as transition risk (stranded assets) are insufficiently characterised. Some of the evolutions of recent years, like scenario analysis, are absent and are in our view very important for this sector.
- 31 Disclosure EM-EP-110a.3 on "Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets" focuses too narrowly on Scope 1 emissions.
- 32 A full transition plan should address main emissions (Scope 1 + Scope 3, USP) deriving impacts, as well as issues related to investments and fundamental changes in the business model. Although there are other disclosures in SASB that address some of these issues, EM-EP-110a.3 should be more broadly framed. The low-carbon production of fossil fuels is not the end destination that is needed for this industry, rather a fundamental change to business models that are non-emissive at all steps of the value-chain. Disclosures related with GHG reduction targets are also notably absent and should cover at least S1 and S3, USP.
- 33 The set on indicators related to the Reserves Valuation & Capital Expenditures topic (EM-EP-42) is too narrowly defined. Disclosures on the full set of investment flows should be required namely:
- (a) disclosures on investment in fossil fuel exploration, as these investments are the ones that will exhaust the available carbon budget and make us move beyond the global agreed goals of 1.5-2C;

- (b) need to characterise alternative investments beyond renewable energy, as it assumes one single transition mode for oil and gas companies, which may be restrictive.

34 A significant absence of land impact indicators and impacts on biodiversity, with only one risk indicator present (EM-EP-160a.3) and one narrowly focused impact indicator (EM-EP-160a.2).

SASB O&G Midstream + Refining & Marketing

35 Indicator EM-MD-110a.2 + EM-RM-110a.2 has the same issues as indicator EM-EP-110a.3 for Upstream part above. Scope 3, USP (defined for the sector as per the SBTi guideline for oil and gas midstream transportation) should be required to be disclosed and framed also as a critical element (key performance indicator) for the transition plan. Aspects related to strategy and business model transition, are insufficiently characterised. Likewise, aspects related to scenario analysis, physical risk (assets at risk) as well as transition risk (stranded assets) are absent or insufficiently characterised.

36 Most of the issues identified to Upstream apply also to these two standards. For example, EM-RM-410a.2 is too technology specific and thus insufficient, to characterize a range of options where Refining and Marketing O&G companies can invest to transition their business models.

SASB O&G Services

37 Many issues are similar to the other O&G standards above. Total absence of GHG disclosure requirements, as at least Scope 1 & Scope 3, USP and S3, Leased assets should be characterised.

SASB Electric Utilities & Power Generators

38 IF-EU-140a.1 is insufficient to address issues related to hydro-power multiple impacts on the environment, namely on what concerns biodiversity impacts of new investments.

39 There is insufficient disclosure on exposure to physical and transition climate risks, as well as to issues related with CAPEX and OPEX plans in the context of transition.

40 In addition, some indicators may need to be made less US-specific, as examples: EM-MD-520a.1; EM-RM-150a.2; EM-RM-410a.1; EM-RM-520a.1; EM-SV-110a.3; IF-EU-110a.4; IF-EU-540a.1

Question to EFRAG SRB

- 41 Does EFRAG SRB agree with the drafting of the appendices of the [initial draft] comment letter?
- 42 Does EFRAG SRB agree with the drafting of the cover letter of the [initial draft] comment letter?