July 28, 2022

International Sustainability Standards Board (ISSB)
The International Financial Reporting Standards Foundation (IFRS Foundation)
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

RE: Comment on IFRS Sustainability Disclosure Standards, Climate Exposure Draft

Dear ISSB Board,

Boston Trust Walden Company is an independent, employee-owned investment management firm with approximately $12.7 billion in assets under management.[1] Our firm has been integrating environmental, social, and governance (ESG) factors, inclusive of climate risk, into investment decisions since 1975—one of the longest track records of any institutional investment manager.

At Boston Trust Walden we seek to invest in enterprises with strong financial underpinnings, sustainable business models, prudent management practices, and a governance structure that supports these objectives. Consideration of ESG factors is part of our fiduciary duty to ensure client assets are invested in a set of securities well situated to produce attractive risk-adjusted returns over the long term.

Since 2017, Boston Trust Walden has served as a member of the Sustainable Accounting Standards Board (SASB) Investor Advisory Group (soon to transition to the ISSB Investor Advisory Group) to support the development of a globally recognized framework for consistent, comparable, and reliable disclosure of financially material, decision-useful ESG information. To further this goal, we have led and facilitated numerous collaborative Investor Advisory Group engagements with companies to encourage adoption of the SASB Standards. Outside of the IAG, we regularly promote the uptake of the SASB Standards in conversations with portfolio companies.

We write to express our support for the ISSB's recently published exposure drafts *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Disclosure*[2] (IFRS S1) and *IFRS S2 Climate-related Disclosures*[3] (IFRS S2). We commend the ISSB and the IFRS Foundation for proposing these frameworks that appropriately recognize the need for a global set of baseline sustainability disclosure standards that provide consistent, comparable, and reliable sustainability

[1] Includes assets managed by Boston Trust Walden Company and its wholly owned investment adviser subsidiary, Boston Trust Walden Inc. as of June 30, 2022.
[2] "Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information." IFRS Foundation, March 2022. https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf
[3] "Exposure Draft IFRS S2 Climate-related Disclosures." IFRS Foundation, March 2022. https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf

Boston Trust Walden Company, a Massachusetts Bank and Trust Company
One Beacon Street Boston, Massachusetts 02108 (617) 726-7250 www.bostontrustwalden.com

information to ensure a modern, competitive, and healthy global financial marketplace. We also applaud the ISSB's "building block" approach in developing these Exposure Drafts, which serves to better facilitate additional jurisdiction- or stakeholder-specific requirements. This interoperability of sustainability standards is of paramount importance given the current sustainability-related financial information disclosure rules being considered at the US Securities & Exchange Commission (SEC) and the European Financial Reporting Advisory Group (EFRAG).

We appreciate the opportunity to comment on the Exposure Drafts, which we hope will gain international adoption to better serve investors and the broader market. In the sections that follow, we provide supportive comments and suggestions for enhancement on various elements of the Climate-related Disclosures Exposure Draft, as requested by the ISSB Chair and Vice-Chair, with specific questions from the Exposure Drafts cited parenthetically. Please note comments follow the order of the Exposure Draft and do not necessarily reflect order of importance.

Objective of the Exposure Draft

We support the objective established by IFRS S2 as it is responsive to our information needs for the integration of climate risk and opportunity management in securities analysis (Question 1[a]).

Currently, many companies provide anecdotal reporting on climate-related risks and opportunities, such as energy management and design for the circular economy, but disclosures generally lack consistency, comparability, and additional context necessary to render the information decision-useful for investors. The stated objective of IFRS S2 clearly seeks to address these gaps through a focus on enterprise value, an assessment of how resource use and activities affect management of climate-related risks and opportunities, and an evaluation of how companies are adapting to those climate-related risks and opportunities their planning, business models, and operations.

As previously noted, we seek to invest in enterprises with strong financial underpinnings, sustainable business models, prudent management practices, and a governance structure that supports these objectives. Consideration of ESG factors, such as climate risk, is part of our fiduciary duty to ensure client assets are invested in a set of securities well situated to minimize risk and produce attractive risk-adjusted returns over the long term.

Virtually every company has exposure to climate-related risks and/or opportunities. As an investment manager that examines company ESG performance to enhance our understanding of potential financial outcomes associated with issues ranging from risks (e.g., losing the license to operate) to opportunities (e.g., generating new sources of revenue), requiring reporters to demonstrate a comprehensive analysis of all material climate-related risks and opportunities – and how these affect business strategy and long-term viability – is essential to this work. We believe the stated objective of IFRS S2 meets these needs and widespread adoption would position investors to make more informed decisions for clients.

Identification of Climate-Related Risks and Opportunities

The clarity of the proposed requirements to identify and disclose a description of significant climate-related risks and opportunities would be enhanced by an explicit focus on materiality (Question 3[a]).

At Boston Trust Walden, we focus on investing client assets in securities we judge to be high financial quality. As active managers, we believe incorporation of financially material ESG factors, including climate risks and opportunities, in the investment decision-making process is consistent with this focus. To price risks adequately and allocate capital responsibly and efficiently, we require access to rigorous, comparable, and high quality corporate climate disclosures.

Our concern with the guidance provided within Paragraph 9 and B13 of the IFRS S2 is that a clear and formal definition of "significant" is not provided. Paragraph 9 of IFRS S2 requires disclosure of "significant climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term." The use of the term "significant" suggests an intent for reporters to employ a threshold above the inclusion of *all* climate-related risks and opportunities.

Paragraph B13 of IFRS S2 notes that "preparers are likely to find the industry-based requirements to be a useful starting point to identify risks and opportunities," but the Exposure Draft does not include additional guidance or definitions to help preparers identify additional climate-related risks and opportunities beyond this starting point. We note that Paragraph B7 of the IFRS S2 directs reporters to additionally consider "climate-related risks or opportunities that are emerging rapidly or associated with unique aspects of its business model or circumstances," but believe this guidance is inadequate to aid reporters in identifying the scope of necessary disclosures.

The intent of the term "significant" is further clouded by repeated references to "material information," often in the same sentence, within the Exposure Drafts. For example, Paragraph 2 of the IFRS S1 states that "A reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed." The use of the term "material" in reference to information alongside the term "significant" in reference to risks and opportunities suggests two different thresholds may be employed, yet a distinction of any difference between the two terms is lacking. While the IFRS S1 defines material information in alignment with the definition in IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1, a corresponding definition for "significant" is not provided.

- ***To enhance clarity for reporters and to ensure decision-useful output for investors, we encourage the ISSB to utilize a materiality approach when prompting disclosure for both climate-related risks and opportunities, as well as the underlying information that details how a reporter is managing those risks and opportunities.*** In practice, this would result in replacing all references to "significant" with "material." The concept of materiality is much more widely understood and accepted among both reporters and investors. Relying on this foundation, as opposed to introducing and constructing a framework for application around the term "significant," would better serve reporters and investors.
- ***We further encourage the ISSB to include requirements for a discussion regarding the process by which the company identifies climate-related risks and opportunities.*** The Exposure Draft currently lacks any requirement to this end, which we believe would be useful for investors in understanding *how* a company determines if a specific climate-related risk or opportunity is or is not material. The process by which companies determine materiality is fundamental for investors to understand business strategy and response, strengthening the ability to assess connectivity between management of climate-related impacts and financial information. Prompting this additional disclosure could also serve to enhance comparability within an industry, enabling companies to evaluate how peers consider a specific climate-related risk or opportunity to be material and then to bring that lens to their own reporting practices.

Concentrations of Climate-Related Risks and Opportunities in an Entity's Value Chain

We support the Exposure Draft's proposed requirement for disclosure of significant climate-related risks and opportunities on a company's value chain (Question 4[a]).

The requirement to discuss the effects of climate-related risks and opportunities on a company's value chain is critical to the overall objective of IFRS S2 because value chains are integral to the prospects of long-term value creation and a subsequent assessment of enterprise value. The activities, resources, and relationships that a company relies on to create its products and services are key to operational stability. Depending on the business model, climate-related risks or opportunities within the value chain can be more consequential than physical or transitional climate-related impacts to company operations, such as with companies in the food & beverage industry. Requiring an assessment of climate-related risks and opportunities within the value chain will give investors a more robust understanding of business model resiliency.

Industry-Based Requirements

We support the intention and approach to revise the SASB Standards to improve their international applicability, which may increase the likelihood of regulatory adoption of the IFRS Sustainability Disclosure Standards (Question 11[a]).

Boston Trust Walden has long supported and encouraged the use of SASB Standards as a core element of corporate sustainability-related disclosures given 1) the focus on financial materiality, 2) the connection between sustainability and enterprise value creation, 3) the rigorous and transparent due diligence process for Standards creation, and 4) the industry-based approach. That said, we recognize a common critique of the Standards has been that a subset of the metrics lack international applicability.

We applaud the intention of the ISSB to revise the SASB Standards to enhance their international applicability, as it will serve to strengthen the consistency, comparability, and decision-usefulness of the IFRS Sustainability Disclosure Standards across global jurisdictions. There are key differences across geographic regions in regulatory environments, voluntary standards, industry structures, and business models that warrant reforming the current metrics to enhance applicability while remaining decision-useful to investors.

The three proposed approaches within Paragraph BC133 to revise certain metrics that lack international applicability appear robust, and we appreciate that they are prioritized in the current sequence. While the third revision approach allows for jurisdictional variation in reporting format, we note this is already a common characteristic of sustainability-related financial information disclosures.

As noted in Paragraph BC131, the absolute number of metrics that require additional technical refinement to enhance international applicability is relatively small (approximately 10% of all metrics). This existing gap does not appear to be a meaningful barrier to adoption by international companies of reporting against the SASB Standards, as evidenced by the fact that 66% of SASB reporting companies were domiciled outside of the US in 2021.[4] Still, we believe these amendments are critical to removing a potential barrier to widespread regulatory adoption.

[4] Global Use of SASB Standards: Company Use, accessed July 2022 https://www.sasb.org/about/global-use/

We support the inclusion of industry-based disclosure requirements for financed and facilitated emissions, as opposed to relying on a cross-industry requirement for the disclosure of aggregate Scope 3 emissions (Question 11[d]).

To evaluate the climate risks and opportunities facing financial institutions, it is critical we have access to financed emissions data. Financed emissions for banks provide a valuable proxy to investors for understanding the potential transition risk inherent in their financing portfolios. In our evaluation of financial institutions, we examine changes to credit and market risk, including incorporation of climate factors, as this can materially influence our evaluation of future financial performance.

We acknowledge and appreciate the work of the Partnership for Climate Accounting Financials (PCAF) to develop standard methodologies across six different asset classes, as well as new methodologies for additional asset classes expected to be released in future versions of their Global Standard. As noted in the Basis for Conclusions, this work will better enable the measurement of financed and facilitated emissions for the entire financial sector, reducing the barriers to compliance.

Additionally, this proposal is generally in line with the recently published draft US SEC Climate Disclosure Rule that mandates the disclosure of financed emissions for financial institutions. This alignment will help create more consistency and comparability across jurisdictions and comparability across reporting frameworks.

We support the proposed requirement to disclose both absolute- and intensity-based financed emissions (Question 11[f]).

The inclusion of both absolute- and intensity-based financed emissions is warranted for the financial industries cited in the Basis for Conclusions as both pieces of information are relevant inputs in evaluating and managing transition risk. While absolute-based financed emissions data is useful from the perspective of measuring institutional carbon exposure in the context of a finite carbon budget and the goals of the Paris Climate Agreement, intensity-based financed emissions normalize the data and enhance comparability across an industry. Many financial institutions already measure financed emissions in absolute terms to develop baseline data for additional analyses (e.g., translating absolute financed emissions to a normalized intensity metric in order to understand the economic emissions intensity of a portfolio). We note this proposed requirement reflects recent guidance from the PCAF, which acknowledged the value of absolute- and intensity-based financed emissions disclosure.[5]

We support the use of the industry-based SASB Standards as a source of guidance for reporters to identify climate-related risks and opportunities (Question 11[j]).

The industry-based approach of the SASB Standards is important as it rightly reflects the fact that sustainability-related risks and opportunities vary between and within sectors. While this holds true for most sustainability-related topics, the systemic nature of the climate crisis requires a nuanced lens through which to assess how different physical and transition risks and opportunities manifest across the economy.

[5] "The Global GHG Accounting & Reporting Standard for the Financial Industry." Partnership for Carbon Accounting Financials. Page 22-23.
https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

For example, the climate-related risks for the Electric Utility industry can include increased operating and capital expenditures to mitigate GHG emissions to comply with increasingly stringent regulations affecting electricity generation. Decision-useful metrics that would enable investors to assess management of this risk would not apply to companies within the Hotels or Processed Foods industries, nor would they apply to other industries within the utilities sector such as Water Utilities & Services.

Moreover, an industry-based approach to reporting against climate-related risks and opportunities is consistent with the approach taken by traditional fundamental analysts when analyzing the quality and business model sustainability of issuers. Investment professionals look at companies within sectors, compared to peers, requiring different information sources. For example, the profitability and growth prospect indicators considered by a real estate sector analyst differ from those of an energy sector analyst. Recognizing that material climate risks and opportunities manifest differently between and within various sectors, an industry-based lens to devising decision-useful metrics is warranted.

By utilizing the SASB Standards as a starting point for reporters to identify climate-related risks and opportunities, the ISSB ensures that the core of corporate reporting is relevant and comparable among industry peers with ample flexibility for company-specific circumstances. In addition, using and building upon well-established and widely-accepted sustainability disclosure standards, such as the SASB Standards, allows for an effective and efficient response to market demands.

We recommend revising certain methane-related metrics within the ISSB Oil & Gas Industry-based disclosure requirements to enhance the ability of investors to assess risk management and the associated impacts on enterprise value (Question 11[k]).

Methane is a potent greenhouse gas over 80 times more powerful than carbon dioxide. It is estimated that human-caused methane emissions are responsible for over 30% of the global temperature rise we are experiencing today. For the first time, in 2021, the Intergovernmental Panel on Climate Change (IPCC) identified methane emissions as a key driver of climate change and stressed the urgent need to reduce these emissions to slow global temperature rise.[6]

- ***Given the evolving scientific understanding regarding the role of methane in exacerbating climate change, we encourage the ISSB to consider the recommendations provided in a joint comment letter submitted by Legal & General Investment Management during this comment period regarding methane reporting recommendations for four specific industries: Oil & Gas-Exploration & Production, Oil & Gas-Midstream, Electric Utilities & Power Generators, and Gas Utilities & Distributors***. As a signatory to the joint comment letter, we support each of the specific recommendations provided therein. Each of these industries face unique risks related to methane gas management, yet disclosure requirements related to methane generally seek high-level information such as the proportion of Scope 1 emissions attributed to methane or a qualitative discussion of initiatives to mitigate fugitive emissions from methane leaks. These proposed enhancements would provide investors the depth of information necessary to effectively assess company performance and enterprise value.

[6] https://www.ipcc.ch/report/ar6/wg1

Costs, Benefits, and Likely Effects

We believe the benefits of the Exposure Draft proposals appropriately balance the associated costs and benefits of implementation (Question 12[a]).

As an investment manager integrating sustainability-related information into our investment decision-making process, including climate risk exposure and management, we are encouraged by the wide range of benefits likely to come from the implementation of IFRS S2.

Implementation should drive efficiencies in climate-related risk and opportunity research and analysis for investors and lead to more efficient capital markets. As previously noted, our analysts examine quantitative and qualitative sustainability-related corporate disclosures to enhance our understanding of the existing and potential financial outcomes associated, ranging from risks (e.g., losing the license to operate) to opportunities (e.g., generating new sources of revenue). In the absence of mandated climate disclosure requirements, we rely in part on the data of third-party research providers, which includes a mix of issuer provided data and estimates. Our analysts then seek to fill data gaps through additional research and analysis, outreach via written requests, meetings, and shareholder resolutions seeking the expanded disclosure we require.

These processes for gathering necessary climate-related disclosures are inefficient and resource intensive. In May 2022, the SustainAbility Institute by ERM (ERM) released the results of a survey of corporate issuers and institutional investors regarding the costs of climate-related data measurement and management. The survey found that issuers reported an average annual cost of $533,000 for climate-related disclosure activities (closely in line with the US SEC's own estimate of $530,000). The survey also found that investors spend an average of $1,372,000 annually to collect, analyze, and report climate data to inform their investment decisions.[7]

Access to the quantitative and qualitative information prompted by IFRS S2 that is consistently reported and comparable among companies will importantly 1) reduce investor costs related to data collection and analysis, 2) improve evaluation of sustainability-related risk and opportunities across portfolios, and 3) properly inform engagement priorities with companies.

Enhancing the accessibility of consistent, comparable, and decision-useful sustainability-related financial information also serves to benefit smaller market participants, reducing the access bias provided to larger asset owners and managers. In our experience, when seeking information beyond that currently disclosed in corporate sustainability reporting, many companies prioritize requests and dialogues made by institutional investors and investment advisors that own large stakes in the company's equity or, based on their size, have the potential to make a sizable investment. These standards would serve to "level the playing field" and enhance access for all investors and investment managers.

We recognize that implementation of the IFRS S2 may result in additional costs on some reporters who are less familiar with tracking and publicly reporting on climate-related risks and opportunities. The prospects of additional costs are likely eased given the General Requirements' reliance on established frameworks and concepts, such as the structure of the TCFD and the topics and metrics

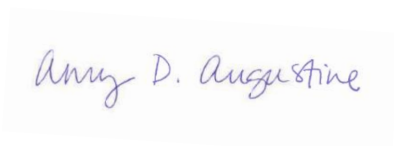
[7] Lee, Mark, Emily Brock, and Doug MacNair. "Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors." The SustainAbility Institute by ERM, 2022. https://www.sustainability.com/thinking/costs-and-benefits-of-climate-related-disclosure-activities-by-corporate-issuers-and-institutional-investors/.

of the SASB Standards, in guiding the format and content of the IFRS Sustainability Disclosure Standards.

Corporate reporting based on the recommendations of the TCFD and the SASB Standards has increased dramatically in recent years. In 2021, over 2,600 organizations across 89 countries and jurisdictions were supporters of the TCFD recommendations, **an increase of 410% from 2018.**[8] Similarly, over 1,300 unique companies reported sustainability-related information using the SASB Standards in 2021**, an increase of over 1,000% from the 117 SASB-aligned reporters in 2019**.[9] Just over half of all SASB-aligned reporting entities since 2019 are domiciled outside of the US, demonstrating the rapid uptake of the SASB Standards as a leading global sustainability reporting framework.

As an asset manager integrating sustainability-related information into investment decision-making since 1975, we are greatly encouraged by the prospects of the ISSB's proposal to improve the consistency, comparability, reliability, and decision-usefulness of sustainability-related risks and opportunities disclosure. The development of the IFRS Sustainability Disclosure Standards demonstrate a keen responsiveness to global investor demands and will be instrumental in facilitating a more robust assessment of corporate enterprise value. We commend the Board for its work to date and appreciate the opportunity to provide comment on the initial Exposure Drafts.

Sincerely,



Amy D. Augustine
Director of ESG Investing

---

[8] 2021 TCFD Status Report, October 2021
https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Status_Report.pdf
[9] Global Use of SASB Standards: Company Use, accessed July 2022
https://www.sasb.org/about/global-use/