July 28, 2022

International Sustainability Standards Board (ISSB)
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard-setting body in Mexico, welcomes the opportunity to submit its comments on the Exposure Draft of IFRS Sustainability Disclosure Standard IFRS S2, *Climate-related Disclosures*, issued in March 2022 (the ED). Set forth below you will find our comments on the ED, as well as a specific section for questions included in the ED.

**Overall comments**

During the month of June 2022, as part of the activities carried out by CINIF for the study and analysis of the ED, we conducted extensive local outreach via virtual conferences with several selected groups of stakeholders that provided us with relevant feedback, thereby enabling us to issue a response to the ISSB that represents the Mexican consensus regarding suggestions of modifications to the ED. It is worth mentioning that we reached close to 700 participants in our outreach.

In general, in our outreach, we observed strong support, agreement and understanding of the proposals in the ED, and therefore, as the Mexican financial reporting standards body, we express our support for the proposals in the ED.

The main suggestions we would like to highlight in this document are:

- Modify the definition of "enterprise value" to refer to an amount determined based on the future cash flows of the entity and not on its market value, in such a way that assessments of the materiality of sustainability-related risks and opportunities are based on the potential impact on such cash flows, instead of limiting it to the impact on an entity's market value, which would appear to be more complicated. This would allow any entity that is not a public entity (e.g., public-interest entities) and whose market value cannot easily be determined, to voluntarily, or at the request of an authority, have a general basis for its application of IFRS S2.
- Emphasize that climate-related disclosures, specifically those related to cross-industry metric categories, should be made **as long as they are material**.

**Answers to specific questions**

This document only includes those questions of the ED and our related responses where we have some suggestions that could have a relevant impact on the objective, scope and an overall better understanding of the standard. For those questions of the ED not included in our letter, we fully agree with the proposals.

| **Question 1— Objective of the Exposure Draft** |
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| Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:<br><br>• to assess the effects of climate-related risks and opportunities on the entity's enterprise value;<br><br>• to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and<br><br>• to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.<br><br>Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.<br><br>(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?<br><br>(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?<br><br>(c) . . . |

Regarding questions (a) and (b), we would like to comment that we understand that IFRS S2 is aimed at public entities; however, by mentioning in the objective that significant sustainability-related risks and opportunities that could affect the enterprise value, which is defined as its market value, should be disclosed, we believe that the application of the standard could be complex since it is not easy to determine how the materialization of a risk or an opportunity directly affects such market value; we believe it is easier to determine the impact of such materializations on the entity's cash flows. Therefore, we suggest that the definition of enterprise value include that it is based on the entity's cash flows. We believe that the impact on the entity's cash flows, and not the implications on the entity's market value, should be the focus of the objective of IFRS S2.

| **Question 9— Cross-industry metric categories and greenhouse gas emissions** |
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| The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:<br><br>• indicative of basic aspects and drivers of climate-related risks and opportunities;<br><br>• useful for understanding how an entity is managing its climate-related risks and opportunities;<br><br>• widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and |

- important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- separately Scope 1 and Scope 2 emissions, for:
  - the consolidated accounting group (the parent and its subsidiaries);
  - the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
- the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes nonmandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) . . .

(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?

(f) . . .

Regarding the question posed in (e) above, we agree it appropriate that entities separately disclose Scope 1 and Scope 2 emissions of associates and joint ventures if they are part of their value chain and represent material risks for the entity.

**Question 12—Costs, benefits and likely effects**

Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits.

(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?

(b) . . .

(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?

Regarding (a) above, we consider it important to point out that our outreach indicated that 75% of the participants consider that it is likely that for some entities the benefits from the standard's application will not outweigh the costs associated with preparing the information.

This consideration is because the entity, to generate sustainability-related disclosures, must establish internal policies, methodologies and internal processes that will probably lead it to increase its organizational structure and, perhaps, to expand its infrastructure, which entails an increase in its fixed costs.

Concerning (c) above, we believe it will be complicated and perhaps costly to obtain the information necessary to disclose Scope 3 emissions; nevertheless, we believe it is important that this information be disclosed.

| **Question 14—Effective date** |
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| Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.<br><br>Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.<br><br>[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information requires entities to disclose all material information about sustainability-related risks and opportunities. It is intended that [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information could take longer to implement.<br><br>Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.<br><br>(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?<br><br>(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.<br><br>(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? |

Consistent with our response to the IFRS S1 ED, we consider it reasonable to have a period of two years for the standard to become effective once it is issued. We also suggest that the effective date coincide with that of IFRS S1.

| **Question 16—Global baseline** |
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| IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value.<br>Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.<br><br>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? |

As we noted in our response to IFRS S1, in our understanding, IFRS S2 is only applicable to public entities and does not apply to other entities, such as Small and Medium-sized Entities (SMEs)[1], regardless of their size, nor to public interest entities (e.g., entities that are part of the financial system: banks, insurance institutions, investment funds, among others).

Based on the above, we believe that IFRS S2 will allow information to be comparable among public entities by having a single basis for its determination, which is an important step forward. Undoubtedly, it would be particularly good if this standard could also be used by public interest entities and those entities that are not public but are receiving investments and financing from private funds who would be interested in knowing sustainability-related financial information. However, we believe that it would be complicated to apply IFRS S2 as it is proposed, given that the proposed objective and the measurement of the materiality of climate-related risks and opportunities are based on the market value of the entity, which is difficult to determine for nonpublic companies and, probably in this circumstance, it would not even make sense; therefore, we believe that this approach would limit the application of IFRS S2.

| **Question 17—Other comments** |
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| Do you have any other comments on the proposals set out in the Exposure Draft? |

For a better understanding, we suggest including in IFRS 2 Appendix A the definition of the "Greenhouse Gas Protocol" (GHG Protocol).

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Should you require additional information on our comments listed above, please contact Jessica Magaña at (52) 55 2699 6112 or me at (52) 55 5403 8309 or by e-mail at jmagana@cinif.org.mx or egarcia@cinif.org.mx, respectively.

Sincerely,

C.P.C. Elsa Beatriz García Bojorges
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

[1] Pursuant to the *IFRS for SMEs*, regardless of size, SMEs are entities that: (a) do not have public accountability; and (b) publish general purpose financial statements for external users.