First Nations **FINANCIAL MANAGEMENT BOARD** | **CONSEIL DE GESTION FINANCIÈRE** des Premières Nations

July 29, 2022

Mr. Emmanuel Faber, Chair
Ms. Sue Lloyd, Vice-Chair
International Sustainability Standards Board
Opernplatz 14
60313 Frankfurt am Main
Germany

VIA EMAIL: commentletters@ifrs.org

Dear Mr. Faber and Ms. Lloyd,

Re: Comments on Exposure Draft ED/2022/S2 *Climate-related Disclosures*.

The First Nations Financial Management Board ("the FMB") is pleased to provide you with comments on Exposure Draft ED/2022/S2 *Climate-related Disclosures*.

General Comments

The Exposure Draft is an important step in expanding disclosure requirements for climate-related matters. The FMB commends the work that has been done by the ISSB in this emerging reporting area. However, it has failed to consider the United Nations Declaration on the Rights of Indigenous People ("UNDRIP"). Consideration for a just transition should be included within the Exposure Draft, with an emphasis on how Indigenous people may be disproportionately impacted by the shift to a lower carbon economy.

There is a balance to be struck between immediately reducing greenhouse gas emissions along the value chain and ensuring that people and entire economies are not left behind. Considerations such as transitional provisions for Indigenous businesses and businesses operating in geographically remote and underserviced areas would help to enable a just transition. There is new but growing sentiment that ESG should be viewed as ESGI so that the views of Indigenous rights holders are fully reflected. UNDRIP must be a key component of any international sustainability standards if they are to be inclusive and relevant to stakeholders in Canada and other jurisdictions with Indigenous populations.

Indigenous peoples have been stewards of their land since time immemorial. Areas titled to Indigenous communities have been shown to **store 36 percent more carbon** per hectare than public conservation land. The importance and value of this traditional knowledge needs to be reflected in the disclosure requirements for climate-related matters.

Sincerely,

FIRST NATIONS FINANCIAL MANAGEMENT BOARD

Per: *"Harold Calla"*

Harold Calla, FCPA, FCGA, CAFM
Executive Chair

Responses to Specific Questions in Consultation Paper

Q1. Objective of the Exposure Draft

(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

Yes, we agree the objective of requiring disclosure about an entity's exposure to significant climate-related risks and opportunities is clear and concise.

(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?

The objective includes some information that would enable users to assess the effects of climate-related risks and opportunities on enterprise value. The S2 Climate-related Disclosures fails to consider the need for a just transition toward net-zero. Prioritising the reduction of greenhouse gas ("GHG") emissions along the value chain without consideration of how that transition will be managed means that there will be winners, and losers. It is important to recognise the barriers that businesses operating in geographically remote or northern locations and/or in Indigenous territories or reserves face in reducing their carbon footprint.

Barriers:

- Infrastructure gap or deficit
- Lack of access to capital
- Higher cost of financing
- Reliance on fossil fuel energy sources
- Legislative and regulatory considerations
- Higher construction costs
- Higher transportation costs

An unmanaged transition will also benefit large conglomerates with significant working capital which can leverage economies of scale to implement cleaner technologies more quickly. This will exclude small businesses from the value chain in favor of the large producers who can reduce their GHG emissions per unit more quickly. A further consideration is that biodiversity is generally strongest in territories occupied by Indigenous people. Additionally, Indigenous stewardship is essential to environmental sustainability. These factors should not be ignored in the pursuit of GHG reduction.

While the ultimate target of achieving net-zero and mitigating climate change is an urgent priority, ignoring all other considerations would have significant long-lasting implications for people, and the economy as a whole. To ensure a just transition away from GHG emissions, standard setters

should work in consultation and cooperation with Indigenous peoples by ensuring that Indigenous reporting is implemented simultaneously with GHG emission reporting.

(c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

Yes. It is clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards including the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

Q2. Governance

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?

The FMB does not have any specific comments to share at this time.

Q3. Identification of Climate-Related Risks and Opportunities

(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?

Yes. The proposed requirements are sufficiently clear.

(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?

Yes. We agree with the requirement to consider the applicability of disclosure topics in the identification and description of climate-related risks and opportunities. The shared nature of this requirement with the SASB Standards provides a basis of comparability.

Q4. Concentrations of Climate-Related Risks and Opportunities in an Entity's Value Chain

(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

Yes, partially. The disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain should also be expanded to consider factors relating to a just transition. This reporting could include:

- Nature of co-operation / partnerships with Indigenous businesses
- Initiatives to support Indigenous suppliers along the value chain move to lower GHG operations
- Initiatives in place that further economic reconciliation with Indigenous people

Requiring entities to disclose how they are furthering a just transition and Indigenous reconciliation together with their environmental risks and opportunities will provide a more complete reporting of sustainability considerations. This reporting will incentivise entities to collaborate with Indigenous people, and businesses.

(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

No. The disclosure required about an entity's concentration of climate-related risks and opportunities should aim to be both qualitative and quantitative. In cases where quantitative information cannot be reliably estimated, then qualitative information can appear unaccompanied. Additionally, if the entity is reporting quantitative metrics which are not as per industry standard, then that entity should disclose the methodology which was used to calculate the quantitative metrics in detail.

Q5. Transition plans and Carbon Offsets

(a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?

No, we do not agree with the proposed disclosure requirements for transition plans. We recommend that the proposed requirements specifically require an entity to also disclose how it considers impacts on Indigenous peoples when assessing the materiality and size and scope of an identified climate-related risk. Disclosures relating to an entity's assessment of transition risk should consider the harms which Indigenous peoples may face as a result of the transition to a low carbon economy. Accordingly, the disclosure of how an entity assesses Indigenous rights risk in relation to an identified climate and/or transition risk would provide useful information for investors.

(b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.

Additional disclosures necessary are described above.

(c) Do you think the proposed carbon offset disclosures will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

The FMB does not have any specific comments to share at this time.

(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

The FMB does not have any specific comments to share at this time.

Q6. Current and Anticipated Effects

(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?

Yes. We 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.

(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?

Yes. We 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.

(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?

The FMB does not have any specific comments to share at this time.

Q7. Climate Resilience

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

The FMB does not have any specific comments to share at this time.

(b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

(i) Do you agree with this proposal? Why or why not?

The FMB does not have any specific comments to share at this time.

(ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

The FMB does not have any specific comments to share at this time.

(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

The FMB does not have any specific comments to share at this time.

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

The FMB does not have any specific comments to share at this time.

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

The FMB does not have any specific comments to share at this time.

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

The FMB does not have any specific comments to share at this time.

Q8. Risk Management

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

Yes. We agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities. We also recommend that climate-related specific opportunities tie-in with a just-transition, including projects that support Indigenous businesses and communities.

Q9. Cross-Industry Metric Categories and Greenhouse Gas Emissions

(a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

In addition to the seven (a to g; Pg 41-42) proposed cross-industry metric categories we also strongly believe in the inclusion of an eighth metric that is Indigenous people's rights This category would include how a decision made or any actions taken by the entity would affect rights of Indigenous people and their lands and traditional territories, as well how the entity is working to promote a just transition.

(b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general-purpose financial reporting.

Yes, as described above.

(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

Yes. We agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions. However, these standards and metrics should be researched, revised and updated periodically.

Consideration should be given to exceptions or transitional provisions for Indigenous businesses as a result of the barriers discussed in the response to Q1. The following implications of climate-related disclosures should also be considered:

- **Canadian reporting issuers in the extractive, energy production and transmission, and agricultural sectors operate on land that is the traditional territory of Indigenous rights holders. These issuers must consult with and accommodate Indigenous rights-holders when seeking to develop in their traditional territory. Accommodation often includes benefits such as Indigenous equity ownership, employment and procurement contracting. GHG reporting that adversely impacts the business and financing of reporting issuers operating in traditional territories, or make projects untenable, will have a knock-on effect on the businesses and economies of Indigenous communities. Reporting on GHG may effectively strand resource assets and leave Indigenous communities with no pathway to economic development, despite them being the custodians or owners of counterbalancing "natural capital"**
- **A significant proportion of Indigenous communities and their businesses are in remote communities which currently require GHG-intensive electricity generation and transportation in order to operate. They have no real choice and little ability to find**

alternatives. GHG-reporting would have an adverse impact on the financing and operations of those Indigenous businesses, should they become reporting.

- Indigenous businesses that are suppliers in the value chain and whose GHG emissions may be reported on as part of Scope 3 emissions (or even Scope 2 emissions) of reporting issuers up the value chain may be refused contracts because of the higher GHG emissions, discussed in the previous paragraph.
- GHG reporting will also deter reporting issuers that finance Indigenous governments. Many of Canada's financial institutions, including banks and pension managers, have begun to measure and disclose the greenhouse gas emissions associated with their portfolio of loans and investments. This may deter these sources of capital from doing business with Indigenous governments, individual and businesses or would increase Indigenous cost of capital.
- GHG reporting will increase the cost of capital and drive up the costs of certain GHG-intensive goods and services used and needed in Indigenous communities. Many Indigenous communities will need to build infrastructure, including adequate housing, schools, health and wellness centres, and water treatment facilities. Bridging this $25 billion infrastructure gap will become more costly under GHG reporting. The cost of necessities in remote communities is also already expensive due to the cost of transportation, often by airplane. As the cost of capital and operations for airlines or trucking companies becomes higher, the cost of living in these remote communities will also become higher."

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3 - expressed in CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2)?

The FMB does not have any specific comments to share at this time.

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:

(i) the consolidated entity; and

Yes, we agree.

(ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

Yes, we agree. In order to present a full picture of the activity and impacts of the enterprise as well as individual components of the operation and their impacts emissions should be disclosed for any associates, joint ventures, unconsolidated subsidiaries and affiliates.

(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

The FMB does not have any specific comments to share at this time.

Q10. Targets

(a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?

Yes. We agree to with the proposed disclosures about climate-related targets. As they are clear and concise.

(b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

Yes. We agree that the proposed definition of 'latest international agreement on climate change' is sufficiently clear.

Q11. Industry-Based Requirements

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

Yes. We agree with the approach to improve the international applicability of the Standards.

(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

Yes, we agree.

(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

The Yes, we agree.

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

The FMB does not have any specific comments to share at this time.

(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

The FMB does not have any specific comments to share at this time.

(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

The FMB does not have any specific comments to share at this time.

(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

The FMB does not have any specific comments to share at this time.

(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

The FMB does not have any specific comments to share at this time.

(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

The FMB does not have any specific comments to share at this time.

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

The FMB does not have any specific comments to share at this time.

(k) Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

The FMB does not have any specific comments to share at this time.

(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

The FMB does not have any specific comments to share at this time.

Q12. Costs, Benefits and Likely Effects

(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?

The FMB does not have any specific comments to share at this time.

(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

The FMB does not have any specific comments to share at this time.

(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?

The FMB does not have any specific comments to share at this time.

Q13. Verifiability and Enforceability

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.?

The FMB does not have any specific comments to share at this time.

Q14. Effective Date

(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?

The FMB does not have any specific comments to share at this time.

(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.

The FMB does not have any specific comments to share at this time.

(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?

The FMB does not have any specific comments to share at this time.

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Q15. Digital Reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

The FMB does not have any specific comments to share at this time.

Q16. Global Baseline

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?

Principles of reconciliation in Canada should create space for Indigenous People and Indigenous businesses to thrive. Additionally, as the global economy moves towards reduced GHG, and eventually net zero, Indigenous businesses will need support and consideration of the barriers they face in making this transition.

Q17. Other Comments

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

We recommend that S2 Climate-related Disclosures enhances the proposed rule by explicitly referencing Indigenous Peoples and local communities; and to explicitly reference the UN Declaration on the Rights of Indigenous Peoples as has been done in the SASB and GRI reporting frameworks.

We recommend that S2 policy considers climate-related disclosures through the lens of a just-transition that supports Indigenous businesses facing barriers to a lower carbon economy.

We recommend that S2 policy specifically references the need to assess impacts to Indigenous Peoples and local communities within disclosures of sources of Scope 1, 2, and 3 emissions.

We recommend that S2 policy specifically requires an entity to disclose how it assesses Indigenous knowledge, cultures, and traditional practices when assessing the materiality and size and scope of an identified climate-related risk.