



August 8<sup>th</sup> 2022.

To: European Financial Reporting Advisory Group – EFRAG

Re: Draft Europeans Sustainability Reporting Standards – public consultation

We welcome the opportunity to comment on the mentioned Exposure Draft and present general comments to the draft standards, in a very summarized and objective way, hoping they are carefully analysed and considered.

The Association Soluções Inclusivas Sustentáveis (SIS – Sustainable Inclusive Solutions, in English) is a Brazilian-based non-profit organisation focused on the connections between Sustainability and Finance, with a deep expertise on ESG financial regulations and voluntary standards at global-level. Since 2017, its seed-organisation, a small consultancy founded also by me, has been contributing to public consultations of financial regulators, including in the European Union, USA, Brazil, China, Chile and India. We have also been delivering training to financial regulators and financial institutions and providing consulting services to organisations such as the Taskforce on Nature-related Financial Disclosures (TNFD), the IFC-hosted Sustainable Banking and Finance Network, the German international cooperation agency GIZ, the World Wildlife Fund (WWF), Principles for Responsible Investment (PRI), the Chain Reaction Research, and others. Previous to that, I have developed a broad and deep research on ESG finance including financial regulations and market best practices at global level from 2014 to 2016, and have worked as Legal Counsel at the Brazilian Central Bank, who is also the national banking regulator, from 2007 to 2016. My PhD research (mostly developed in the USA) was focused on consensus-building on public policies disputes and I have also delivered dozens of trainings and acted in real conflicts on the field in Brazil. I have several scientific publications on both knowledge fields and have been talking in many relevant multistakeholder Sustainable Finance forums.

As a result of this background and professional experience, I have learned that the **main missing essential pieces of information in corporate sustainability disclosures** are two: 1) the

location of the companies' operations (especially beyond administrative offices and commercial points), 2) the volume of the production of goods and services.

I see the TCFD framework has a strong influence in the draft standard and TCFD really has a very relevant approach, but it is basically focused in the **company strategy** (policies, governance, targets, metrics and action plans) to deal with climate risks and opportunities.

However, as a facilitator to consensus-building process involving complex issues, one of the first things I have learned is that, before you start to solve a problem, you need to agree about what the problem is. And there is no possible way for investors to assess if the climate (or sustainability) strategy of a company is appropriate if they are not informed about minimum objective data that set a baseline for the definition of the strategy. The location of operations is essential to understand climate physical risks, specially the acute ones, arising from extreme weather events/disasters, but, depending on the industry, also the chronic ones, such as draughts or relevant changes in rainfall patterns, that might affect the productivity of agriculture crops, for example. It is also essential to understand biodiversity risks, either linked to water availability, soil, deforestation risks, risks to marine biodiversity and so on. Furthermore, it is critical to understand if there are any relevant risks to vulnerable local communities, especially tribal people, who are still found all over Latin America, Africa, Asia, Oceania and even in certain locations in USA, Canada and Europe.

But, thus far, companies only disclose their sustainability information the same way they do with their financial information: consolidated in a global way, without clarifying not even the countries where they operate, and even less their specific location, which is very relevant in many large countries, such as the USA, Brazil, China, etc – countries that have different biomes, with very different environmental traits and risks, which affects both their climate and biodiversity vulnerability. And location information is essential to understand: a) climate physical (acute and chronic) risks; b) the existence (or not) of freshwater and/or ocean risks; c) impacts on soil (whose characteristics vary according to location); d) impacts on biodiversity; e) impacts on local communities (some of which might be even tribal people and therefore extremely location-sensitive, due to sacred links to specific lands); f) environmental and social boundaries of the location (including atmospheric emissions), due to previous or simultaneous economic activities in the same area(s); g) climate transition risks, at least regarding country location, but in many countries also at subnational level, once in Federations (like USA, Brazil, etc), subnational governments might have environmental and/or energy jurisdiction, along with national government; h) climate resiliency, as mangroves, coral reefs, forests and other natural assets provide protection against several extreme weather events, such as floods, hurricanes and others, being their protection or restoration essential to any climate change adaptation strategy, so it is also important to understand if they are somehow impacted by the reporting company's activities.

Moreover, many companies do not disclose the **exact quantitative data of their production** (of goods or services) either, making it impossible to assess basic environmental performance indicators such as energy efficiency, water efficiency, waste management efficiency, materials use efficiency, etc. The disclosure of revenues/sales, data on workforce, etc, ever present in corporations reports, is obviously not sufficient for sustainability purposes, not even if accompanied by information on a sustainability strategy whose grounds (the baseline point) it is impossible to understand and therefore assess.

Only by having the **precise and complete data on location (including value-chain)** will investors be able to **understand the magnitude of the climate and other environmental and social risks that any organisation has to face and then evaluate if their strategy is appropriate or not**. By the way, it is important to highlight that there are already many available (mostly free) online global tools that help organisations to understand and manage the specific environmental and social risks in each geography: a few examples are Think Hazard (<https://thinkhazard.org/en/>), for climate and other hazard risks, Climate Central (<https://coastal.climatecentral.org> and <https://sealevel.climatecentral.org> (for risks of sea-level rise), the Integrated Biodiversity Assessment Tool (<https://www.ibat-alliance.org/>), Global Forest Watch ([www.globalforestwatch.org](http://www.globalforestwatch.org)), Water Risk Filter (<https://waterriskfilter.org/>), etc. At national level, there are even more, such as, in Brazil, MapBiomass (<https://mapbiomas.org/>), now available also in Indonesia, a platform that also include information on the exact location of tribal people (indigenous communities and such). And all that companies need to do in order to help investors to understand their environmental risks is to disclose their addresses or, even better, the **georeferenced location of their operations**. And the quantitative data on production of goods or services, energy consumption, water consumption and waste volume and destination (at least), separated per each location, should also be disclosed. Nothing could be more simple to disclose than that. Regarding value-chain, in case there is any sensitive commercial information, disclosure of basic location information and of actions to manage environmental, social and climate risks per location should be enough. By the way, the draft standards make an amazing work with regards to the inclusion of the entire value-chain, in a way that is very much aligned with the double materiality approach.

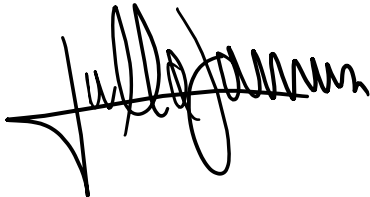
And, unfortunately, we don't see that these very simple, but at the same time very relevant (or material) items are required in these draft standards. That is why we are proposing they are duly included.

Regarding climate change, we suggest that the standards focus more comprehensively and deeply on adaptation strategies and actions. Currently, most disclosures related to climate change made by corporations are related to mitigation aiming at net-zero, emissions management, or carbon market. Against this background, the lack of corporate policies associated with the adaptation of their activities to climate change, considering the risks they are exposed to in the entire value-chain, are usually neglected. However, actions to adapt to climate change associated with the risks inherent to the companies' activities must be incorporated into

their policies and actions, in order to build climate resilience, both regarding acute risks (increase in the intensity and frequency of extreme weather events, such as floods, hurricanes and fires) and chronic risks (changes in climate patterns, causing draughts due to reduced rainfall and increases in average temperature).

Should you have any queries concerning the matters pointed out in this comment letter, or wish to discuss them in further detail, please contact me via e-mail at: [lumoessa@hotmail.com](mailto:lumoessa@hotmail.com) (in the near future, also [luciane.moessa@sis.org.br](mailto:luciane.moessa@sis.org.br)).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Luciane Moessa', with a large, stylized flourish extending to the left.

**Luciane Moessa**

Founder, Executive and Technical Director of Sustainable Inclusive Solutions (SIS)

Website available by the end of August: [www.sis.org.br](http://www.sis.org.br)

Current website: [www.sisctm.com.br](http://www.sisctm.com.br) (from the previous seed-organisation)