Mr. Emmanuel Faber, Chair
Ms. Sue Lloyd, Vice-Chair
International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

July 18, 2022

Re: [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS 2 Climate-related Disclosures

Submitted via electronic mail to commentletters@ifrs.org

Dear Chair Faber and Vice-Chair Lloyd:

The Equipment Leasing and Finance Association (ELFA) is the trade association that represents companies in the nearly $1 trillion equipment finance sector in the U.S., which includes financial services companies and manufacturers engaged in financing capital goods. ELFA members are the driving force behind the growth in the commercial equipment finance market and contribute to capital formation in the U.S. and abroad. Its 575 members include independent and captive leasing and finance companies, banks, financial services corporations, broker/packagers and investment banks, as well as manufacturers and service providers. For more information, please visit www.elfaonline.org.

We appreciate the opportunity to comment on both *[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* [S1 or General Requirements] and *[Draft] IFRS 2 Climate-related Disclosures* [S2 or the Climate-related Disclosures]. Sustainability reporting is an important topic that impacts preparers and users of financial statements around the globe. It is also a rapidly evolving area of reporting. While ELFA members generally provide lease- and finance-based capital to domestic entities, many of our members also have global operations and, therefore, are directly affected by any standards the ISSB may ultimately adopt.

The members of the ELFA are at various points in the continuum of the sustainability reporting journey, with many being in its beginning stages. While we have read the exposure drafts, we are still absorbing their meaning and implications. Given the vastly different profiles of entities within the equipment finance industry, envisioning all the reporting challenges that may arise is a difficult task. As a result, our comments on the proposals are generally global in nature, and they are as follows:

- *The standard should clearly and unambiguously state the intended users of the sustainability and climate-related information.*

  General purpose financial statements are prepared for the benefit of existing and potential investors, lenders and other creditors and are not intended for other user groups. Both the General Requirements and the Climate-related Disclosures have been written with this objective in mind. This connection is established through statements in the Objective portions of the documents that refer back to Definitions in Appendix A. While this structure is a coherent whole, this critically important objective may not be clear to other readers of the financial statements. We, therefore, suggest that this purpose be stated directly at the beginning of the documents. The intended scope of the standard should be explicitly stated.

- *Sustainability should be defined in the General Requirements*

  The most important element of any disclosure standard is the scope of the standard and the definitions that guide the standard's implementation. S1 does not include a definition of "sustainability", and it does not detail what is within or outside the scope of sustainability-related financial information. For example, the definition of sustainability in a dictionary will likely focus on environmental sustainability, while other parties may use sustainability as a catch-all phrase encompassing societal objectives that extend to other topics. Without an explicit definition of 'sustainability', preparers will not have a clear direction as to what information they need to disclose, and the disclosures will not be consistently applied across companies.

  We know from experience that 'sustainability' will mean different things to different constituencies. In the absence of a clear definition, other market participants such as auditing firms and financial regulators will provide or develop their own definition. It is, therefore, critical for a consistent application of the ISSB's standards for a formal definition of 'sustainability' to be developed.

- *A framework for the proper handling of secondary risks or risks that coincide with climate-related risk is required*

  Paragraph 9 of the Climate-related Disclosures ED proposes that entities identify and disclose significant climate-related risks and opportunities. A risk that is directly related to climate may be readily identified, but risks that develop because a climate-related risk has manifested itself may not be clear. For example, if a significant market is experiencing adverse conditions and those adverse conditions are amplified by or simply coincident with climate change, whether that matter is or is not a climate risk, is not clear. A framework for approaching these questions is necessary; otherwise, climate-related matters risk becoming a catch-all category for any number of issues. The historical experience of our members when new reporting requirements have emerged tells us that in the absence of clear guidance the default position of auditing firms and regulators will be towards greater disclosures about asserted climate risks even when that is not necessarily the actual situation.

- *The Climate-related Disclosures should not be overly prescriptive*

  Climate change is a controversial subject and it would be easy – and, in fact, it would be politically expedient -- for the Board to err on the side of more disclosure. Given the nature of climate-related matters it would be easy to unintentionally obscure truly material information. It is important for preparers to have the ability to consider the significance or materiality of an item when determining the breadth and depth of a disclosure. The Climate-related Disclosures appear, at times, to deviate from this approach. S2 states -- for example in the summary Questions 6 and 7, and again in paragraphs 4, 5, 8, 9, 10, 11, 12, 13, 14, 15, 17, 20, 21, 22, 23 and 24 -- the reporting entity "shall" disclose certain items. This approach may lead to "boiler plate" disclosures of information that is not relevant to an investor's assessment of value.

  When considering this matter, the Board should refer back to the 2014 materiality-related revisions to IAS 1 which, among other amended content, stated that materiality is always assessed in the context of the financial statements as a whole and that the concept of materiality always overrides prescriptive language such as 'an entity shall disclose…'. The approach taken in the body of S2 is not necessarily in line with the approach to Industry-based disclosures in Appendix B of S2, which includes explicit statements regarding material information. The proposed standard would benefit from a clear statement that material information is the objective S2, in total, and not just in Appendix B.

- *A clearer picture of business opportunities is necessary*

  The proposal in S1, summarized in Question 5 – Reporting Entity, would require an entity to disclose material information about all its significant sustainability-related risks and opportunities to which it is exposed 'along its value chain'. S1 provides examples of significant risks, but it does not provide examples of opportunities. It would be helpful if S1 were to provide examples of relevant opportunities.

- *Climate-related disclosures may require use of standard values*

  The industry-based requirements set out in Appendix B, Volume B64 to Climate-related Disclosures, include requirements for car rental and leasing activities. These include rental day-weighted fuel economy, fleet utilization, average vehicle age, available rental days and rental fleet size. It would be useful to clarify the measures dealing with fuel economy may be based on manufacturer statistical data on the vehicles, rather than requiring lessors to capture data based on actual usage by customers. We ask the Board to strongly consider costs to comply versus benefits obtained and likewise challenge yourselves with respect to the degree of precision that is necessary to adequately inform the primary users of this reporting.

- *S1 and S2 should allow for further developments or refinements in sustainability reporting*

  S1 and S2 both represent the current view of what information may be relevant to investors, lenders and creditors. As we learn more about sustainability and climate change, some of the disclosures may fade in importance and new information that we have not yet identified may become significant. How this evolution will occur within this disclosure framework is not clear. We strongly encourage the Board to encourage such evolution and not to inadvertently discourage it by, for example, requiring any changes in data presented and how it is measured to be analogous to changes in accounting policies and accounting estimates a la IAS 8.

We appreciate your taking our views into consideration and, as always, stand ready to assist you and the Board on matters of mutual interest. Please direct any questions to either myself or John Bober at ixl.lease.advisory@gmail.com or Gary Kabureck at gkabureck@gmail.com.

Sincerely,

Ralph Petta

Ralph Petta

President and CEO
Equipment Leasing and Finance Association