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# Exposure Draft

IFRS<sup>®</sup> Sustainability Disclosure Standard

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## **[Draft] IFRS S2 Climate-related Disclosures Appendix B Industry-based disclosure requirements**

Volume B1—Apparel, Accessories & Footwear

Comments to be received by 29 July 2022



This industry from Appendix B Industry-based disclosure requirements accompanies the Exposure Draft ED/2022/S2 *Climate-related Disclosures* (published March 2022; see separate booklet). It is published by the International Sustainability Standards Board (ISSB) for comment only. Comments need to be received by 29 July 2022 and should be submitted by email to [commentletters@ifrs.org](mailto:commentletters@ifrs.org) or online at <https://www.ifrs.org/projects/open-for-comment/>.

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## Introduction

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*This volume is part of Appendix B of [draft] IFRS S2 Climate-related Disclosures and is an integral part of that [draft] Standard. It has the same authority as the other parts of that [draft] Standard.*

This volume sets out the requirements for identifying, measuring and disclosing information related to an entity's significant climate-related risks and opportunities that are associated with specific business models, economic activities and other common features that characterise participation in this industry.

The industry-based disclosure requirements are derived from SASB Standards (see paragraphs B10–B12 of [Draft] IFRS S2 *Climate-related Disclosures*). Amendments to the SASB Standards, described in paragraph B11, are marked up for ease of reference. New text is underlined and deleted text is struck through. The metric codes used in SASB Standards have also been included, where applicable, for ease of reference. For additional context regarding the industry-based disclosure requirements contained in this volume, including structure and terminology, application and illustrative examples, refer to Appendix B paragraphs B3–B17.

## Apparel, Accessories & Footwear

### Industry Description

The Apparel, Accessories & Footwear industry includes companies involved in the design, manufacturing, wholesaling, and retailing of various products, including men's, women's, and children's clothing, handbags, jewelry, watches, and footwear. Products are largely manufactured by vendors in emerging markets, thereby allowing companies in the industry to primarily focus on design, wholesaling, marketing, supply chain management, and retail activities.

### Sustainability Disclosure Topics & Metrics

**Table 1. Sustainability Disclosure Topics & Metrics**

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Raw Materials Sourcing	Description of environmental and social risks associated with sourcing priority raw materials	Discussion and Analysis	n/a	CG-AA-440a.1
	Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard	Quantitative	Percentage (%) by weight	CG-AA-440a.2

**Table 2. Activity Metrics**

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1 <sup>1</sup>	Quantitative	Number	CG-AA-000.A

<sup>1</sup> Note to CG-AA-000.A – Tier 1 suppliers are defined as suppliers that transact directly with the entity, such as finished goods manufacturers (e.g., cut and sew facilities). Suppliers beyond Tier 1 are the key suppliers to the entity's Tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, and/or slaughter houses) The entity shall disclose whether any supplier data beyond Tier 1 is based on assumptions, estimates, or otherwise includes any uncertainty.

## Raw Materials Sourcing

### Topic Summary

The Apparel, Accessories & Footwear industry relies on numerous raw materials as key inputs for finished products, including cotton, leather, wool, rubber, and precious minerals and metals. Sustainability impacts related to climate change, land use, resource scarcity, and conflict in regions where the industry's supply chain operates are increasingly shaping the industry's ability to source materials. The ability of companies to manage potential materials shortages, supply disruptions, price volatility, and reputational risks is made more difficult by the fact that they source materials from geographically diverse regions through supply chains that often lack transparency. Failure to effectively manage this issue can lead to reduced margins, constrained revenue growth, and/or higher costs of capital. The types of risk associated with sourcing different materials can require different solutions, including engaging with suppliers, enhancing transparency, using certification standards, and/or using innovative alternative materials. Companies that are most proactive are likely to reduce their exposure to price volatility and potential supply disruptions, while improving their brand reputation and developing new market opportunities.

### Metrics

#### *CG-AA-440a.1. Description of environmental and social risks associated with sourcing priority raw materials*

- 1 The entity shall discuss its strategic approach to managing environmental and social risks that arise from sourcing priority raw materials (disclosure corresponds to the Sustainable Apparel Coalition's Higg Brand & Retail Module (BRM)).
  - 1.1 Priority raw materials are defined as those that are essential to the entity's principal products, where principal products are those that accounted for 10 percent or more of consolidated revenue in any of the last three fiscal years, ~~consistent with 17 CFR 229.101.~~
- 2 Disclosure shall include the methodology of how the entity identified priority raw materials.
- 3 Raw materials include synthetic fibers and fabrics, natural fibers and fabrics, cellulosic materials, materials derived from animals, and any other materials used directly to make apparel, accessories, or footwear products, including, but not limited to:
  - 3.1 Cotton, rayon, polyester, acrylic, spandex, nylon, rubber, leather, wool, flax, silk, hemp, and down
- 4 The entity shall disclose the priority raw materials that comprise its products regardless of whether the entity purchased the materials directly or its suppliers purchased the materials.
- 5 Environmental supply chain risks include, but are not limited to:
  - 5.1 Climate change impacts (e.g., changing temperatures and/or water stress) on natural fiber crop production that may affect their price and availability

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- 5.2 Legislation on greenhouse gases (GHG) affecting the price of petroleum which may affect the price of petroleum-derived raw materials
  - 5.3 Tightening environmental regulations for suppliers that could affect the cost or availability of raw materials they supply
  - 5.4 Lack of full traceability to the source of the raw materials, which may hinder the ability to identify compliance incidents that could lead to negative effects on brand reputation
  - 5.5 Improper land use practices within the supply chain that may affect the yield of natural fiber raw materials
  - 5.6 Other environmental factors that may have an impact on the entity's ability to source raw materials for its products
- 6 Social supply chain risks include, but are not limited to:
- 6.1 Suppliers' animal welfare, labor, and human rights practices that may affect the entity's reputation
  - 6.2 Sourcing materials from regions of conflict which may affect the price and availability of raw materials
- 7 If the entity identifies cotton as one of its priority raw materials, it shall discuss its vulnerability to cotton-growing regions with water stress and how it manages the risk of price variability due to sourcing cotton from these regions.
- 7.1 The entity may identify its known sources of cotton for High (40—80%) or Extremely High (>80%) Baseline Water Stress using the World Resources Institute's (WRI) Water Risk Atlas tool, Aqueduct.
- 8 The entity shall discuss its approach to managing risks associated with the use of raw materials in its products, including physical limits on availability, access, price, and reputational risks.
- 8.1 Relevant strategies to discuss include: due diligence practices, supply chain auditing, partnerships with industry groups or nongovernmental development organizations, using substitute materials, research and development into materials with less environmental or social risks, supplier diversification, implementing supply chain codes of conduct, training or engagement programs, supplier audits and/or certifications, and research into the full traceability of material sources, among other strategies.

*CG-AA-440a.2. Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard*

- 1 The entity shall disclose the percentage of raw materials that are third-party certified to an environmental or social sustainability standard.
  - 1.1 Environmental and social sustainability standards are defined as standards that address environmental and social impacts that result from the primary sourcing of raw materials, such as standards for organic or recycled content, animal welfare, and/or fair labor.

- 1.2 Environmental and social sustainability standards include, but are not limited to:
  - 1.2.1 Outdoor Industry Association’s Content Claim Standard (CCS)
  - 1.2.2 Textile Exchange’s Recycled Claim Standard, Global Recycled Standard, Organic Cotton Standard, and Responsible Down Standard
  - 1.2.3 Certified Organic
  - 1.2.4 Control Union Global Organic Textile Standard
  - 1.2.5 Better Cotton Initiative
  - 1.2.6 Forestry Stewardship Council certification (for lyocell and rubber)
  - 1.2.7 Rainforest Alliance leather products
  - 1.2.8 Global Organic Textile Standard
  - 1.2.9 STeP by OEKO-TEX®
  - 1.2.10 OEKO-TEX® Standard 100
  - 1.2.11 ECO PASSPORT
  - 1.2.12 Cradle to Cradle
  - 1.2.13 Bluesign
- 1.3 The entity shall calculate the percentage as the weight of raw materials third-party certified to an environmental and/or social standard divided by the total weight of raw materials that compose the entity’s finished products.
  - 1.3.1 The scope of raw materials third-party certified to an environmental and/or social standard includes raw materials derived using a process third-party certified to an environmental and/or social standard.
  - 1.3.2 The scope of disclosure includes third-party certifications that are based on environmental best practices, social best practices, or both.
- 2 The entity shall disclose the percentage of raw materials third-party certified to an environmental or social sustainability standard, by standard.
  - 2.1 The entity shall calculate the percentage as the weight of raw materials that are certified to each respective third-party environmental and/or social standard divided by the total weight of raw materials that compose the entity’s finished products.
- 3 The entity may discuss its use of other sustainable materials that may not be third-party certified, but may demonstrate an environmental lifecycle benefit, and fibers such as reclaimed cotton and wool, mechanically or chemically recycled polyester, nylon, and lyocell.