



PHILIP MORRIS PRODUCTS S.A.

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

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IFRS Sustainability Standards Exposure Draft

Dear Mr Faber,

Philip Morris International (PMI) welcomes the ISSB's objective of setting clear and harmonized principles and standards to set a global baseline for financially material sustainability-related disclosures and appreciates the opportunity to provide constructive feedback on the Exposure Drafts. We are a leading international tobacco company working to deliver a smoke-free future and evolving our portfolio for the long-term to include products outside of the tobacco and nicotine sector.

Consistent, reliable, and comparable disclosures can provide investors with the tools to assess the effectiveness of our strategy and the progress we are making on our targets, goals, and plans. It also allows all our employees, including management, as well as the company's Board, shareholders, and other stakeholders to understand how our financial and non-financial performance are interrelated and do not follow separate paths.

To this end, our annual integrated report already considers and seeks alignment with requirements and guidelines of reputable international voluntary frameworks and standards. These include the Global Reporting Initiative (GRI), the UN Global Compact (UNGC), the UN Sustainable Development Goals (SDGs), the Value Reporting Foundation (VRF) -- including use of its Sustainability Accounting Standards (SASB), Integrated Thinking Principles and the International Integrated Reporting Framework -- and the Task Force on Climate-related Financial Disclosures (TCFD). We feel that this track record in sustainability reporting leaves us well positioned to provide constructive feedback to the proposed ISSB standards.

PMI supports harmonization efforts that can enhance the robustness and comparability of sustainability information. We expect to be an early adopter of the standards to be issued by the International Sustainability Standards Board (ISSB) recently convened by the IFRS Foundation Trustees and other pending regulations from the US and EU, when possible. For this reason, PMI has provided company-specific survey responses to the general sustainability and climate-related disclosure proposals. We have also been involved in WBCSD's CFO Network Financial System Architecture response to the U.S. SEC. and BSR Europe's Focus Reporting response to EFRAG.

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We would like to use this public letter to first take the opportunity to commend the ISSB, as there are a number of areas in which we broadly support the draft proposals:

- The proposals draw heavily on existing standards focused on value creation, reducing the burden for organizations that already report against such standards. It extends the four pillars of the TCFD recommendations to a broader range of topics to ensure consistency in approach and terminology to a large extent. It seeks to internationalize and then adopt SASB Standards to a large extent.
- The approach of an ecosystem of standards is coherent and intuitive, with general disclosure requirements being complemented by other topic-specific standards (including the proposed climate standard) and industry-specific standards.
- The goal to be GAAP-agnostic, meaning it should be interoperable with both IASB IFRS and U.S. GAAP, and for information in both exposure drafts to be verifiable is crucial. The work being done to build a relationship with IAASB to ensure requirements are assurance ready is commendable.

PMI is a U.S. company listed on the New York Stock Exchange. In this vein, there are key elements of the ISSB proposals that would benefit from further clarification and consideration. There are aspects of the current proposals that may not be feasible for U.S.-listed companies, such as PMI, for a number of reasons:

- The current U.S. SEC proposal is limited to climate-related financial disclosure and likely will not expand to the full range of topics the ISSB aspires to. The threshold for inclusion in the ISSB proposals (“material information on significant sustainability-related risks and opportunities”) is not clear enough. In the U.S. context, financial materiality is defined by the U.S. SEC (which would control regulatory requirements for U.S.-listed companies). If information responding to ISSB requirements is meant to be included in regulated filings or linked from regulated filings, the definition of the threshold for inclusion (significant risks and opportunities) is confusing and likely at odds with the SEC standard for inclusion. Even in instances where this type of disclosure is not explicitly prohibited by local regulation, litigation concerns prompt the common practice of not including this information in formal filing documents.
- As such, it may not be feasible for U.S.-listed companies to include these disclosures in regulated filings. The ISSB should consider developing guidance for voluntary application of the standards for companies that are either (a) listed or headquartered in jurisdictions that have not yet adopted the ISSB proposals or (b) listed in jurisdictions in which inclusion of this information in the management report (i.e., MD&A in the U.S.) is infeasible or impractical. The standards should propose alternatives, such as stand-alone sustainability reports published at the same time as the 10-K and made available alongside it but without cross-referencing requirements that may hinder adoption of the current proposals.

Beyond concerns as a U.S.-listed company, a few additional areas we feel deserve attention include:

- It may be difficult for companies to determine the completeness of disclosure (and adherence to the standard) when using “material information on significant risks and opportunities” as a threshold. The ISSB should provide more standardization and clarification of the process for determining that all significant risks have been identified and reported against. Unless the standards are very clear with the boundaries and definitions of the threshold for inclusion of



information, it will be very difficult for companies to follow or to obtain global consistency, regardless of jurisdiction.

- It may also be difficult for auditors to make these determinations in the absence of more standardization and clarity as noted above. The standards should specify any important similarities and differences compared to IFRS and other GAAP for auditors and regulators, particularly if statutory auditors are being tasked with this completeness determination. Beyond the difficulty auditors may face in determining completeness, there are also questions around the verification of sustainability information included in these reports that will likely vary on a jurisdictional basis. Will statutory auditors be required to, prohibited from, or allowed to perform sustainability verification services? If not, which other organizations will have the capability to provide this verification? Is there enough verification capacity in the market to meet the aggregate demand? What is the timeline for ISSB and IAASB to refine existing assurance standards such as ISAE 3000?
- Registrants should aim to align sustainability-related disclosures with organizational boundaries using the principle of operational control as defined by the GHG Protocol because financial control boundaries used in broader financial statements are not always feasible for sustainability-related topics due to a number of reasons we detail in our survey response. It should therefore allow registrants to report based on slightly different scope and boundaries so long as any discrepancies between the scope and boundaries of sustainability-related disclosures and consolidated financial statements are explained.
- Particular attention should be paid to the level of interoperability with the proposed European sustainability reporting standards (ESRS) that are currently under public consultation. The ISSB and EFRAG should ensure alignment on the inward impact focus on value creation of the EFRAG proposals and the ISSB to avoid additional reporting burden and confusion for both reporters and investors.

We would like to again congratulate the IFRS Foundation for creating the ISSB and thank your organization for the opportunity to comment on the Exposure Drafts. We continue to express our strong support for the harmonization and consolidation of a broad range of voluntary frameworks and standards. We look forward to being an early adopter, if possible, and offer our full support in helping provide feedback on this process.

Kind regards,

Emmanuel Babeau
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Philip Morris International, Inc.

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