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REPRESENTATION 56/22

CLIMATE-RELATED DISCLOSURES

Issued 28 July 2022

ICAEW welcomes the opportunity to comment on exposure draft ED/2022/S2 Climate-related Disclosures, published by the ISSB on 31 March 2022, a copy of which is available from this link.

For questions on this response contact our Financial Reporting Faculty at frf@icaew.com quoting REP 56/22.

We are very supportive of the development of a comprehensive global baseline of high-quality sustainability disclosure standards to meet the information needs of investors. We therefore welcome the publication of this exposure draft on climate-related disclosures and the related ISSB proposals on general requirements for disclosure of sustainability-related financial information. We explain in our response the refinement of the proposals needed if the Board is to achieve its aim of creating a high quality, widely applied, global sustainability reporting framework.

This response of 28 July 2022 has been prepared by ICAEW's Reputation & Influence department, led by its Financial Reporting Faculty. Recognised internationally as a leading authority on corporate reporting, the faculty, through its Financial Reporting and Non-Financial Reporting committees, is responsible for formulating ICAEW policy on corporate reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common corporate reporting problems.

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KEY POINTS

SUSTAINABILITY AT ICAEW

1. ICAEW has a strong record in sustainability, having been active in this space for over 17 years, and is known as an authoritative voice on the subject. Our activity can be illustrated as follows:
    a. **We advocate for action on sustainability** - ICAEW advocates for the accountancy profession to play its part in tackling the threefold crisis of loss of nature, climate collapse and rapidly growing inequalities. The article by ICAEW's CEO, Crisis with a legacy: can we build something better? was later used by the World Economic Forum for the launch of the 'Build Back Better' campaign. As part of the Accounting Bodies Network of Accounting for Sustainability, ICAEW signed the 2020 call to action on climate change and in March 2022, as a member of the Global Accounting Alliance, ICAEW signed the call to action on loss of biodiversity.
    b. **We develop sustainability resources** – ICAEW develops resources for our members and the wider business community. A Sustainability & Climate Change community was launched in 2020, now with a membership of over 16,000. Further know-how and insight into sustainability topics can be found on a variety of ICAEW sustainability hubs: ESG assurance, Climate, Modern slavery and Diversity and inclusion.
    c. **We provide insight on sustainability matters** – ICAEW runs thought provoking insight campaigns on sustainability topics, ranging from interviews with leading figures such as Sir Patha Dasgupta on his landmark study for the UK Treasury, to debates about key issues such as Paris-aligned accounts and the role chartered accountants have in sustainability.
    d. **We support the Transition Plan Taskforce** – ICAEW is represented on both the steering group and delivery group of the recently established Transition Plan Taskforce (TPT), set up by government to develop a 'gold standard for transition plans' in the UK.
    e. **We are a member of a number of key sustainability groups** – ICAEW has Special Consultative Status at the Economic and Social Council of the United Nations and is also a member of the United Nations Global Compact UK network. ICAEW is also a signatory to the Green Finance Education Charter developed as part of the UK government's Green Finance Strategy. The charter commits us to ensure that our members are professionally competent on green finance and to promote best practice and the adoption of relevant standards and frameworks.
    f. **We boldly embrace sustainability** – ICAEW's 2020-2030 strategy demonstrates our commitment to delivering Sustainable Development Goals. In 2020, we believe ICAEW became the first professional body to become carbon neutral and in 2021 we published our first carbon neutral report. Since then, along with the other professional bodies in the Accounting for Sustainability Accounting Bodies Network, we have committed to become net zero.
2. The urgent need to develop a global framework for the reporting of climate-related and other sustainability matters, and the infrastructure required for its effective implementation, is a major focus of ICAEW's wide-ranging programme of work in support of the Paris Agreement and the United Nations' Sustainable Development Goals. We are longstanding supporters of widely applied, high quality international reporting standards and believe that global alignment is critical to efforts to meet the increasing demand from investors and other users of company reports for consistent, comparable and reliable information on sustainability matters.

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OUR GUIDING PRINCIPLES

3. To assist in our assessment of global and jurisdictional proposals for new requirements for the reporting of sustainability matters in mainstream financial reporting, we make reference to a number of broad, inter-related principles, as follows:
   a. Due process is transparent and of sufficient quality; proposals are preceded by effective outreach, are clear and accessible, and constituents have sufficient opportunity to provide effective input.
   b. The proposals are likely to enhance significantly the availability to investors of high quality and consistent information on sustainability matters.
   c. The new or enhanced information will be published at the same time as the financial statements, to encourage connectivity and investor understanding.
   d. Implementation dates have due regard to the degree of preparedness of reporting entities within scope and the practical challenges of implementation.
   e. The new or enhanced information proposed will be capable of being subjected to a third-party assurance regime to enhance investor confidence in the reliability of the reported information.
   f. The proposals contribute to the global alignment of sustainability reporting requirements, including definitions and language, to minimise in particular the challenges of compliance for reporting entities subject to more than one regulatory regime.
4. It is in this context that we have undertaken our review of the Board's proposals, drawing on our experience of similar reporting innovations and following conversations with a broad range of stakeholders about the proposals.

SUPPORT FOR THE ISSB INITIATIVE

5. We congratulate the ISSB Board and its staff on producing a high-quality exposure draft in a short space of time. We commend the efforts made in getting to this stage and believe that these proposals represent a strong start on the journey towards a full suite of high calibre sustainability disclosure standards. We have studied the draft closely and consulted our members very widely during this process.
6. We support prioritising climate over other thematic standards given the urgency of this issue and encourage the Board to finalise the draft standard as soon as practicable, subject to certain important changes, as set out in this letter, and allowing for appropriate due process. Although we have set out what we think needs to change in some detail, we think that resolving these matters will not represent a substantial hurdle to completion of the final standard in the coming months. We stand ready to assist in this process and with steps needed to ensure the effective implementation of the Board's standards.

GOING BEYOND TCFD

7. We are particularly supportive of the decision of the Board to build on the work of the Task Force on Climate-related Financial Disclosures (TCFD) and its recommendations, and we welcome the use of the four-pillar structure that many entities and stakeholders are familiar with – governance, strategy, risk management and metrics and targets.
8. In this regard, there are some instances within the exposure draft where requirements go above and beyond those that are set out within the TCFD recommendations, and we encourage the Board to exercise caution here. Sometimes these 'top ups' to TCFD may, in our view, lead to boilerplate, unhelpful disclosures. An example of this is provided in our answer to Question 2 below, which discusses concerns over the additional governance disclosure requirements.

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9. In other cases, we feel that the additions to TCFD recommendations in the exposure draft may go too far and require entities to disclose information beyond what is possible and reasonable. An example of this is provided in our answer to Question 9 below, where we note that the exposure draft requires disclosure of Scope 3 GHG emissions, excluding the term 'if appropriate' used within the TCFD recommendations.
10. Additionally, the exposure draft requires entities to disclose how each of their targets compare with those created by the latest international agreement on climate change – something that is not part of the TCFD recommendations. We recognise the value of entities being asked to make a statement of their ambitions concerning their contribution to the latest international agreement, but are concerned that a comparison is not appropriate, as explained further in our answer to Question 10.

ISOLATING CLIMATE

11. We understand and support the draft standard's requirement for reporting entities to disclose information about their exposure to significant climate-related risks and opportunities. However, the exposure draft, in places, appears to focus on isolating climate-related risks from other sustainability and business risks in order to identify the effects on an entity's business model, value chain, decision making, and financial position and performance, for example in paragraphs 12 and 14.
12. If the Board do, indeed, intend that the effects of identified climate-related risks should be isolated from the effects of any other business risk, we believe this to be a fundamental problem, because climate-related risks do not affect businesses in a siloed way. Consequently, we do not believe their effects can be isolated, and we are concerned that, in practice, many entities will be unable to disclose meaningful financial information under these requirements.
13. This concern is explained further in our answer to Question 6 below, which sets out why we believe the requirement to disclose quantitatively the future anticipated financial effects of climate-related risks and opportunities may pose an unreasonable challenge to many reporting entities. These requirements ask entities to make disclosures that may give the appearance of certainty to information that is inherently uncertain. We are concerned that the level of detail required by the draft standard is not commensurate with the level of certainty inherent in the underlying data, particularly as there is no requirement within the future anticipated effects section of the draft standard to make any disclosures regarding the assumptions used by the entity.
14. Additionally, asking entities to perform an analysis that isolates and calculates the financial impact of a risk/opportunity, represents a shift away from providing investors with the information they need to perform their own assessment of the business, to making the assessment for them. In our view, this is not appropriate in situations where methodologies and acceptable assumptions are still evolving and not well established, and where it is difficult for primary users to assess whether the assumptions and estimates used by management are reasonable.
15. There is little information given within the draft standard about how investors and other primary users are expected to use the information provided as part of the disclosure requirements. Before quantitative requirements are in place, we strongly encourage further and thorough field testing and research into user needs, in order to reach the point whereby methodologies and appropriate assumptions are agreed widely and common approaches are established.

APPLYING ASSESSMENTS OF 'SIGNIFICANT'

16. In addition to the comments made in our response to IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* about the need for 'significant' to be defined, we also believe that further clarity is required within the IFRS S2 draft standard

about which (if any) of its elements are mandatory and which elements are subject to management's assessment of significance.

17. We believe that it needs to be clear within the draft standard that it only applies to 'significant' climate-related risks and opportunities (the word 'significant' is not included in paragraph 3 on scope), along with a clear identification of any requirements that apply regardless of the assessment of 'significant'. It is not sufficiently clear that all disclosure requirements are subject to materiality.
18. We understand that for the majority of entities, the topic of climate will be viewed as significant, but this is unlikely to be the case for all future sustainability-related topics. Entities will need to understand what they need to do in situations where they do not have any significant risks or opportunities in relation to a given topic, and the final standard needs to lay the foundations for all future standards in this regard. In this situation, we believe that the topic specific standard would not apply; this needs to be made very clear.

CLARITY AND STRUCTURE

19. We appreciate the speed at which the draft standard was produced and therefore understand that time may not have been available to ensure that all of its aspects were as clear as they could be. We have raised a number of points regarding clarity of terms throughout this response which we consider would help entities to implement the standard.
20. If not addressed, the overall lack of clarity over terms - but also over the process which entities need to follow when applying the standard - will not only impact an entity's ability to apply it effectively but also the ability of assurance providers and regulators to enforce the standard well.
21. There are certain disclosure requirements within the draft standard that are entirely duplicative of the requirements set out in IFRS S1. We understand from paragraphs 6 and 18 of IFRS S2, that an entity should avoid unnecessary duplication. However, we believe that in designing this suite of sustainability disclosure standards, further thought is required regarding the overall architecture and interaction between standards.
22. For example, we believe that it could be possible to keep all of the disclosure requirements related to governance and risk management within the General Requirements Standard only, as these are overarching elements that are likely to affect all of the different types of sustainability risks and opportunities. Each thematic standard could usefully refer to IFRS S1 as part of an introductory paragraph to explain the relationship with IFRS S1 and go on to layer any additional requirements that are specific to the topic of the standard. This option could enable entities to focus on specific additional requirements beyond the requirements set out in IFRS S1. It would also allow a significant reduction in the length of the final standard, as well as future thematic standards.

INDUSTRY-BASED REQUIREMENTS

23. We understand and acknowledge the importance of industry-based metrics to investors and other primary users of sustainability-related information. As such, we are supportive of the ambition to include specific industry-based requirements in the standard. We believe that many entities recognise the investor demand for an industry-based approach and that there is a genuine desire to improve climate-related reporting.
24. However, we strongly believe that the industry-based requirements in Appendix B are not of sufficient quality to form an integral part of the standard. Our main concern centres around the lack of adequate time which has been given to respondents to consider the detail of the industry-based requirements developed by the Sustainability Accounting Standards Board (SASB). We do not believe this consultation period represents adequate IFRS Foundation due process considering the quantity of material within Appendix B.
25. While we believe that there is significant value in much of the content of Appendix B, and recognise the rigour and thoroughness that the SASB standards have been subject to prior

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to their inclusion in the exposure draft, our recommendation is that, after some substantial improvements (as suggested in our response to Question 11), it serves as non-mandatory guidance until sufficient field-testing and adequate due process have been performed.

SMALLER ENTITIES

26. While the proposals as drafted may be suitable for larger corporates, their implementation is likely to be more challenging for mid-market and smaller listed companies, which may not have sufficient resources or experience to apply them as intended.
27. Introducing a phased approach, as described in our response to the IFRS S1 exposure draft, would ease some of these concerns. Similar issues are likely to arise where individual jurisdictions decide to extend the application of the standards to unlisted and not-for-profit entities. Ideally with this in mind, the standards should be written in a way that facilitates wider application, as discussed in our response to Question 17 below.

ANSWERS TO SPECIFIC QUESTIONS

<u>Question 1 – Objective of the Exposure Draft</u>

Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:

- ***to assess the effects of climate-related risks and opportunities on the entity's enterprise value;***
- ***to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and***
- ***to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.***

Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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

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?

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?

28. We strongly support the proposed objective as set out in paragraph 1 of the exposure draft. We believe that the focus of the objective meets the urgent need to develop a global framework for the reporting of climate-related information.
29. We also support the emphasis of an investor audience, with a view to creating a global baseline, in particular, the decision to use enterprise value as a way to focus disclosures on information that is most meaningful to investors. However, we have a number of concerns, principally around a lack of clarity and definition of fundamental terms.

Defined terms

30. As explained in our response to the IFRS S1 exposure draft, we believe that the term 'significant', in the context of risks and opportunities, should be clearly defined within the standard. Additionally, we do not support the definition of 'enterprise value' included in the defined terms (the sum of the value of the entity's market capitalisation and the value of the entity's net debt), for reasons set out in our response to Question 2 of IFRS S1.

31. Having said this, we think that resolving these matters is not a substantial hurdle to completion of the final standard by any means. For example, the term 'significant' is explained in more detail in the Basis for Conclusions for IFRS S1 (BC40); by using and further developing this existing wording and including it within the defined terms in Appendix A, understanding of the term will immediately be improved.
32. It may be that the term 'significant' does not even need to be considered at the point of meeting the requirements of the standard, because the assessment of significance has been performed at a topic level. The standard is therefore only to be applied by entities that have significant climate-related risks and opportunities. It would be helpful for the process an entity needs to go through to understand which requirements are applicable to be clearly explained either within IFRS S1 or some additional guidance.
33. We agree with the objective of enabling users to assess the effects on an entity's enterprise value, provided that the definition of enterprise value in Appendix A is amended to be consistent with the way in which it is explained in the body of the IFRS S1 exposure draft, paragraph 5. This explanation says that enterprise value reflects expectations about the amount, timing and certainty of future cash flows over the short, medium and long-term and the value of those cashflows in the light of the entity's risk profile and its access to finance and cost of capital. This explanation provides a clear link between the disclosure requirements and how primary users can assess the output.

Requirements subject to assessment of 'significant'

34. We have identified apparently contradicting requirements within the draft standard between requirements that encourage entities to report the entity's view and those requirements that appear to be mandatory, even if this is not intended.
35. For example, we understand from the overall objective that an entity is required to disclose information about its exposure to <u>significant</u> climate-related risks and opportunities. This is reiterated in the individual section disclosure objectives. The objectives in each of the core pillars also focus on the entity view. In addition, we understand that 'significant' in this context (although not defined within the draft standard) relates to risks that are seen as priorities for management and that could disrupt the entity's business model or strategy.
36. However, in paragraph 21 for example, it is stated that 'An entity shall disclose information relevant to the cross-industry metric categories of…'. BC31 explains that this is proposed to enable comparisons to be made by users of general purpose financial reporting. In the draft standard itself it is not clear whether all entities shall disclose this information regardless of whether the entity has assessed this to be a 'significant' area of climate-related risk, or is monitoring these metrics as part of its existing business processes. Some may interpret the existing requirements as mandatory irrespective of management's risk assessments. This needs to be clarified to avoid any doubt.

<u>Question 2 – Governance</u>

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.

The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the

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entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.

Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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?

37. We are pleased to see a very similar set of disclosure requirements for governance processes, controls and procedures to those set out in the TCFD recommendations.

Duplication

38. Our primary concern in response to this question is that the disclosure requirements under the governance heading appear entirely duplicative of the requirements set out in IFRS S1, paragraphs 12-13. We understand from paragraph 6 (and also paragraph 18 for risk management) in IFRS S2, that an entity should avoid unnecessary duplication. However, we believe that in designing this suite of sustainability disclosure standards, further thought is required regarding the overall architecture and interaction between standards.
39. For example, we believe that it could be possible to keep all of the disclosure requirements related to governance and risk management and some of the generic requirements under strategy and metrics and targets within the General Requirements standard only, as these are overarching elements that are likely to affect all of the different types of sustainability risks and opportunities.
40. Each thematic standard could usefully refer to IFRS S1 as part of an introductory paragraph to explain the relationship with IFRS S1 and go on to layer any additional requirements that are specific to the theme of the standard. This option could enable entities to focus on the specific additional requirements within the standard beyond the requirements set out in IFRS S1. It would also enable a significant reduction in the length of the final standard, as well as future thematic standards.
41. In our view, the topic specific standards should add additional specific requirements not covered within IFRS S1. If the Board decide to keep the current structure, then we would suggest it should be made clearer where requirements are simply duplicated between the standards and where IFRS S2 is requiring more specific additional disclosures. This would be helpful, especially to preparers trying to produce integrated disclosures across different sustainability risks and opportunities.

TCFD plus

42. We believe that the additional governance disclosure requirements set out in the draft standard that are over and above TCFD recommendations, such as the entity's terms of reference, board mandates and other policies, may result in boilerplate disclosures of little value to primary users, that will be unchanged from one period to the next.
43. We suggest that a useful alternative disclosure requirement under the 'governance' heading could seek to summarise some of the actions and activities that governance bodies have undertaken during the period to demonstrate applied governance in respect of each significant climate-related risk or opportunity. This could be a useful disclosure requirement to demonstrate changes year on year.
44. Paragraph 5(a) requires entities to disclose the 'identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities'. In paragraphs 5(b)-(g), only the body is mentioned and not the individual, which is inconsistent. Additionally, it would be useful to clarify whether the intention of this disclosure is that entities disclose individuals by name or by position.

Question 3 – Identification of climate-related risks and opportunities

Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).

Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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?

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?

45. Paragraph 7 of the draft standard states that the objective of climate-related financial disclosures on strategy is to enable users to understand an entity's strategy for addressing significant climate-related risks and opportunities. We question why the objective is not wider, such that it captures the identification and impact of these risks and opportunities, as well as the strategy for addressing them. This might be implied in the objective but is not explicit and moves away from the wording of the TCFD recommendations.

Isolating climate-related risks

46. Paragraph 8(d) requires disclosure of the effects of significant climate-related risks and opportunities on an entity's financial position, performance and cash flows for the reporting period. We believe that the requirement to identify and then isolate the effects of climate-related risks from any other business risk is a fundamental problem, because climate-related risks do not affect businesses in a siloed way and, consequently, cannot be isolated. We are concerned that, in practice, many entities will be unable to disclose any meaningful financial information under this requirement.
47. We have considered this requirement in more detail as part of our response to Question 6 below.

Time horizons

48. We understand from the Basis for Conclusions, paragraphs BC69-70, that the Board made a deliberate decision not to define short, medium and long term in the context of an entity's time horizons, allowing for differences in investment cycles. However, we have a concern that without defining these time horizons, comparability between entities is likely to be difficult. There may be merit in providing additional guidance for identifying appropriate time horizons that uses similar wording used within the TCFD recommendations: 'taking into consideration the useful life of an entity's assets and infrastructure'.
49. We believe that it would be helpful for the disclosure requirement in paragraph 9(b) to clearly state that an entity's short-, medium- and long-term time horizons should take account of jurisdictional net-zero commitments as well as the existing requirement to link it to the entity's strategic planning and capital allocation plans.

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Identifying significant risks and opportunities

50. As discussed in our response to the IFRS S1 exposure draft, we believe that the term 'significant' needs to be very clearly defined and explained within the definitions section of the standard.
51. If, as we understand, significant risks are those risks that are seen as priorities for management that could disrupt the entity's business model or strategy, then this conflicts with the wording in paragraph 10 that states that in identifying significant risks and opportunities, an entity shall refer to the disclosure topics defined in Appendix B. We suggest that paragraph 10 is amended to reference the disclosure topics set out in Appendix B as guidance only, as entities should only be reporting on risks and opportunities that are seen as priorities for management. Further comments relating to Appendix B are raised within our answer to Question 11.
52. As drafted, we believe that this part of the draft standard moves away from a principles-based approach and towards a prescriptive, rules-based approach, which is undesirable and inconsistent with existing IFRS Standards. We also believe that by asking preparers to refer to a list of disclosure topics, compliance with the Standard is likely to turn into a checklist exercise rather than represent a true reflection of an entity's processes.

Question 4 – Concentrations of climate-related risks and opportunities in an entity's value chain

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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?

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?

53. Notwithstanding the practical challenges described below, we support the intentions behind these proposed disclosure requirements and see value in enabling users to understand the effects of significant climate-related risks and opportunities on an entity's business model and value chain.

Value chain

54. As set out in our response to the exposure draft IFRS S1, we are concerned that there may be inconsistent application of the value chain concept due to the broad definition of the term and the difficulty in collecting relevant data and information.
55. The requirements of paragraph 12(b) of the draft standard in relation to an entity's value chain are particularly open to wide interpretation. Examples given in the paragraph are wide ranging, from geographical areas to types of assets as well as inputs and outputs and so on.

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It is not clear from this paragraph what level of disclosure primary users would find most useful. This requirement would benefit from additional guidance or illustrative examples to demonstrate more clearly the Board's expectation.

Qualitative vs. quantitative disclosures

56. We believe that in some circumstances quantitative disclosures about an entity's concentration of climate-related risks and opportunities could be useful to users. This very much depends on an entity's data quality, as quantitative disclosures will not necessarily paint an accurate picture if the data quality varies, for example, from one geography to another. We would support encouraging entities to be transparent in their reporting to explain where they currently have accurate quantitative information and where improvements are being undertaken to enhance the quality of data in other parts of the value chain.
57. We understand that it will not always be practical or appropriate for entities to provide quantitative disclosures. We suggest the requirement in paragraph 12(b) encourages quantitative disclosures unless the entity is unable to do so, in which case qualitative disclosure should be permitted. We believe that this would better help users to assess the impact of climate-related risks and opportunities on the entity's enterprise value.
58. Additionally, we believe that as part of the disclosure requirement, an entity should be required to explain their process for identifying where in its value chain, risks and opportunities are concentrated.

Question 5 – Transition plans and carbon offsets

Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.

The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.

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Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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

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.

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?

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?

59. We agree that disclosures describing an entity's transition plans are useful for primary users to help assess an entity's response to significant climate-related risks and opportunities, and we support the requirements set out in paragraph 13. Some suggested improvements that may help the effectiveness of these requirements are set out below.

Terminology

60. We believe that some of the terminology used in paragraph 13(a) would benefit from further clarification:

    a. **'resource allocations'** - this term is wide in scope and potentially covers human as well as financial resources. Further clarification would be useful. We believe that this term should cover human, PP&E, financial and non-financial resources.

    b. **'legacy assets'** - further guidance or common examples of legacy assets would be helpful to ensure that this term is understood in the context of the requirement. It is currently unclear whether this encompasses items not recognised on the balance sheet.

    c. **'indirect' and 'direct adaptation and mitigation efforts'** - while examples are provided within the draft standard, these terms are not defined. Clearer definitions may be useful to help preparers identify and distinguish between indirect and direct efforts.

Alignment with jurisdictional targets

61. An additional disclosure requirement that requires entities to explain whether the entity's transition plan align to current jurisdictional targets may help users to understand the specific context in which the plans fit. This would need to be worded to require entities to only disclose those that are significant or material to the entity, as they may be wide ranging and multi-jurisdictional.

Transition plan – journey and progress

62. We support the requirement in paragraph 13(c) to provide quantitative and qualitative information about the progress of plans disclosed in prior reporting periods. However, we suggest that the requirement asks for a 'base case' as well as an explanation of where entities are on their transition plan journey. It is possible that disclosures about progress may become confusing where the entity has made changes to the transition plan from one period to the next.

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Carbon emissions and offsets

63. We observe that this section currently focuses heavily on carbon emissions and asks entities to disclose information on emissions targets whether or not an entity has determined carbon emissions to be a significant risk. While we support disclosure requirements in this area, we are concerned that this focus is not a particularly balanced approach and suggest inclusion of other climate-related targets in paragraph 13(b), such as energy or water reduction targets.
64. We support the proposed disclosure requirements in paragraph 13 (b)(iii) relating to carbon offsets and believe that these requirements are helpful for investors to understand an entity's approach to reducing emissions. We particularly commend the requirements addressing the credibility and integrity of offset schemes, although we note that the draft standard is not clear on what (if any) disclosure is needed for uncertified/unverified offset schemes.
65. Additional disclosures giving further context and detail to the entity's approach to carbon offsetting may be useful for investors to understand how this impacts strategy and decision-making. Providing information on, for example, the financial impact of intended commitments, whether carbon offsetting is administered at a group or entity level, and any implications for entities operating across different jurisdictions, may be helpful to support the requirements in paragraph 13(b)(iii).

<u>Question 6 – Current and anticipated effects</u>

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential

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measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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?

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?

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?

66. We understand the motivation for the requirements that ask for more granular quantitative information compared with those set out in the TCFD recommendations when it comes to financial information. We support an ambition of disclosure of quantitative information on financial impacts, however, we do not fully agree with the proposals in paragraph 14, for the reasons set out below.

Isolating climate

67. We believe that there will be a wide range of interpretations of how great an impact a risk/opportunity has had on numbers already reported in the financial statements, due to the difficulty of separating individual climate-related risks and opportunities from all other business risks and opportunities. We believe that this issue will be amplified when looking forward at how the financial statements are affected over time as business planning time horizons are far shorter than the time horizons used to assess potential climate-related risks and opportunities.
68. Nowhere in paragraph 14 does the draft standard require an entity to consider or reflect a holistic picture of the interactions and interdependencies with other business and sustainability risks and opportunities – something we believe to be very important, and also included within the TCFD recommendations.
69. In our view, climate-related risks and opportunities do not affect businesses in a siloed way and, consequently, cannot be isolated. Therefore, we are concerned that, in practice, many entities will be unable to disclose any meaningful financial information under this requirement.
70. We understand from the Basis for Conclusions, paragraphs BC98 to BC100, that the issue of isolating the effects of climate-related risks and opportunities from other risks and opportunities was acknowledged and considered by the Board. As a result, the proposals seek to address the issue by allowing monetary effects to be disclosed as a range or a single point estimate. The proposals also allow qualitative disclosure if quantitative disclosure is not possible.
71. In our view, these solutions to potential measurement challenges are not adequate. It is not clear to us how an entity would be able to disclose a meaningful range of monetary effects more easily than a single point estimate because the underlying difficulty remains – how to isolate climate-related risks from other risks.

Investor needs

72. There is little information given within the draft standard about how investors and other primary users are expected to use the information provided as part of the disclosure

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requirements. If entities are able to better understand the needs of investors, this understanding may help to improve the quality of disclosure.

73. The requirements in paragraph 14 ask entities to disclose information that may give the appearance of certainty to information that is inherently uncertain. We believe, at this stage, that climate-related disclosures should provide the relevant information for investors to analyse and interpret, not provide that analysis for them. In our view, this analysis is not appropriate in situations where methodologies are still evolving and not well established, and where it is difficult for users to assess whether the assumptions and estimates used by management are reasonable.

74. Sustainability reporting (in contrast with financial reporting) is an area of corporate reporting still in its infancy. Over time, the requirements set out in paragraph 14 may be more appropriate, after thorough field testing and research into user needs has been conducted to reach a point that methodologies and appropriate assumptions are agreed widely and common approaches are established. We do not believe the quantitative disclosure requirements in paragraph 14 reflect the maturity of existing practice.

75. The Board may wish to consider an important and relevant section of the IASB's conceptual framework, which describes a fundamental qualitative characteristic of useful financial information (paragraph 2.8): "Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions."

76. If the Board accepts that reporting under its framework should be seen as a journey, as suggested within our response to IFRS S1, we believe that quantitative disclosure of the financial effects of climate-related risks and opportunities should be categorised as an 'additional or supplementary disclosure' that should be added over time.

Additional clarity and guidance

77. The requirement in paragraph 14 asks that entities disclose quantitative information unless unable to do so. We agree that this expedient is required, but suggest that further explanation is provided in order to allow entities to understand what 'unable to do so' means in this context. It may be possible for many entities to produce a model that provides this quantitative information, but we would question whether the information produced is useful enough to justify the cost and effort incurred.

78. Paragraph 14(a) asks how significant climate-related risks and opportunities have affected an entity's most recently reported financial position, performance and cash flows. It is not clear if 'most recent' refers to the financial statements presented at the same time or presented previously, as we understood that the sustainability information is to be presented at the same time as the financial information.

79. We encourage the Board to consider producing application guidance similar to the TCFD Tables 1 and 2, which have examples of climate-related risks and opportunities and potential financial impacts. This may help preparers to better understand the expectation of the requirements within paragraph 14.

Overlap with accounting standards

80. We are concerned that paragraph 14(b) is a duplication of the requirement in the IFRS Accounting Standard IAS 1 *Presentation of Financial Statements*, paragraph 125, which asks an entity to disclose information about the assumptions it makes about the future and other major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Duplicating this requirement within the standard may lead entities to believe that this requirement is somehow different. We are concerned that the requirement in this paragraph strays too far into the remit of financial statement disclosures.

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<u>Question 7 – Climate resilience</u>

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

- ***what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and***
- ***whether the analysis has been conducted using:***
- ***climate-related scenario analysis; or***
- ***an alternative technique.***

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller

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entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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

81. We support the inclusion of a scenario analysis requirement within the draft standard and believe that this is a useful way of producing valuable information to investors.

Alternatives to scenario analysis

82. We understand that entities are being asked to use scenario analysis unless unable to do so. Notwithstanding our earlier comment about the need to explain what 'unable to do so' means in this context, we would also suggest that in circumstances where an entity may be able to conduct a scenario analysis but feel that an alternative method, such as sensitivity analysis or qualitative analysis, is more suitable and appropriate for them, they should be permitted to use that alternative method.

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83. We are concerned that the level of granularity required as part of the requirements in paragraph 15(b)(ii) may be excessive given that the entities applying this requirement will already be unable to perform quantitative climate-related scenario analysis.

Ensuring requirements are reasonable and useful

84. Paragraph 15(a)(iii) asks for disclosures to enable users to understand the availability of, and flexibility in, existing financial resources, including capital to address climate-related risks and opportunities. We believe that this is an unreasonable requirement because many entities will be unable to predict reliably the availability and flexibility of such resources, particularly over medium- and long-term time horizons. This, in turn may result in disclosures of little meaning.
85. We were unable to identify any explanation within the exposure draft about how climate-related scenario analysis is to interact with other sustainability-related scenario analysis. Will entities be expected to perform and disclose the results from multiple scenario analysis exercises under each sustainability topic? If this is the case, we challenge the usefulness to investors, as in reality scenarios are not independent from one another.

Further guidance

86. We believe that scenario analysis is an area that will need extensive guidance and illustrative examples to help entities understand the expectation in more detail, particularly when combined with requirements of later ISSB standards.
87. We would welcome an indication from the Board about whether scenario analysis will be required to assess an entity's resilience to other sustainability-related risks and opportunities and if so, how the resulting scenarios are to be integrated or rationalised across the different standards.

Question 8 – Risk management

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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?

88. We support the proposed disclosure requirements on risk management and welcome the fact that there are very few differences from the TCFD recommendations. However, as discussed above in our response to Question 2 on governance, we believe that the duplication seen between paragraphs 16-17 on risk management and IFRS S1 paragraphs 25-26 will cause confusion for preparers and needs to be streamlined in some way.

Minor differences with TCFD

89. We believe that paragraph 17(b)(iii) is not clear and entities will not understand the meaning behind ‘the input parameters it uses’ in the context of the processes it uses to identify climate-related risks.
90. While we understand the logic of including ‘opportunities’ in this section, we question whether it is in fact appropriate to include disclosures about climate-related opportunities in a risk management section. There may be particular competitive sensitivities for entities in disclosing the processes it uses to identify opportunities. It may be more beneficial and appropriate to require higher-level disclosures on the entity’s overall approach to identifying such opportunities as part of the governance or strategy pillars.

Question 9 – Cross-industry metric categories and greenhouse gas emissions

The Exposure Draft proposes incorporating the TCFD’s concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD’s criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- ***indicative of basic aspects and drivers of climate-related risks and opportunities;***
- ***useful for understanding how an entity is managing its climate-related risks and opportunities;***
- ***widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and***
- ***important for estimating the financial effects of climate change on entities.***

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity’s investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- ***separately Scope 1 and Scope 2 emissions, for:***
  - ***the consolidated accounting group (the parent and its subsidiaries);***
  - ***the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and***
  - ***• the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).***

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

- ***an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;***
- ***an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;***
- ***if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and***
- ***if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.***

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes non-mandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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?

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.

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?

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 CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and

Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?

e) ***Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?***

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?***

91. We understand that there is a need for users to be able to compare climate-related disclosures between entities and believe that the concept of cross-industry metrics provides a useful structure for entities to follow. We appreciate that by setting out the seven metric categories to be applied by all entities, comparability can be achieved to a certain extent. We do however, have some concerns about this.

92. Additionally, the interaction between the cross-industry metrics and the industry-specific metrics is not sufficiently clear in the proposals. We expand further on this in our answer to Question 11.

Balancing comparability with practicality

93. The metrics section (paragraph 21) of the exposure draft states that all entities are required to disclose against the seven cross-industry metric categories. This seems to contradict:

    a. the overarching objective of the draft standard set out in paragraph 1, which is to require an entity to disclose information about its exposure to <u>significant</u> climate-related risks and opportunities, and

    b. the metrics and targets section objective in paragraph 19 that states that the objective is to enable users to understand how an entity measures, monitors and manages its significant climate-related risks and opportunities.

94. It is not clear whether the disclosures in paragraph 21 are mandatory if an entity does not use these metric categories to measure, monitor and manage significant climate-related risks and opportunities.

95. We notice that the Basis for Conclusions paragraph BC105 explains that these requirements are ‘subject to materiality’, but it is not explained within the Basis for Conclusions or the draft standard how materiality is to be applied in this context. The IFRS S1 exposure draft explains that disclosure is not required if a requirement results in information that is not material, but this is not sufficiently clear in the IFRS S2 draft standard. Entities may assume that, if the information is not material, they are required to provide negative statements to confirm this fact.

96. We appreciate that investors and other users are likely to be interested in the seven metric categories even if they are not used by management as part of managing the business. It would be helpful if entities were required to clearly distinguish between those metrics that are used by management and those that are provided to meet disclosure requirements or for other reasons.

97. Paragraphs 21(f) and (g) ask entities to disclose information on internal carbon prices and remuneration linked to climate-related considerations respectively. We believe that it would be appropriate to tweak the wording in this requirement such that an entity only needs to disclose this information if it actually has internal carbon prices and remuneration linked to climate; it is entirely possible (particularly for smaller entities) that many entities will not have these metrics in place.

98. Specifically in relation to remuneration metrics, it might not always be possible to express climate-related components as a proportion of remuneration (as required in 21(g)(i)) because the climate-related component may underpin group targets to be achieved in aggregate. A better approach may be to ask entities to describe an explicit element of climate dependency in the remuneration schemes and the proportion or element of remuneration it affects.

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GHG Protocol

99. We acknowledge that the GHG Protocol is a widely used framework that provides standardised approaches and principles to enable transparent emissions disclosures and so support use of the framework. However, we are concerned that the Protocol is dated and is outside of the Board's control and due process.
100. As it is inevitable that the GHG Protocol will be periodically updated for developments in practice, we would like to understand how the Board will monitor such changes, and if there will be a process for exposing updates for consultation. We would encourage the Board to work closely with the GHG Protocol in this regard.
101. We suggest that the wording in the draft standard is softened from a requirement to use the GHG Protocol Corporate Standard to a requirement to use a generally accepted framework such as the GHG Protocol.

Scope 3 emissions

102. We recognise that Scope 3 emissions represent the largest portion of an entity's carbon footprint and as such are an important element of climate-related reporting. However, we believe that the challenge for entities reporting on Scope 3 emissions should not be underestimated. This challenge is likely to be of greater significance to smaller entities who may not have the means of collecting this data throughout their value chain. Therefore, in order to encourage uptake of these standards, we strongly urge the Board to consider adding wording to allow those that are 'unable to' report their Scope 3 emissions to explain why and when they will be able to, rather than mandate this requirement in paragraph 21(a). We believe a phased approach is critical in this respect.
103. We note that the TCFD recommendations ask for entities to disclose Scope 3 GHG emissions <u>if appropriate</u>. This wording (if defined and explained) could help smaller entities to achieve the Board's requirements.
104. We think that the definition in Appendix A for Scope 3 emissions requires more detail to be sufficient for entities to understand what is and is not included. For example, it is not clear if emissions from upstream and downstream leased assets are supposed to represent current period measures, capital measures or another measure.

Additional clarity

105. There are a number of further concerns about clarity of the requirements within paragraph 21 of the draft standard, set out below:
    a. Paragraph 21(a)(iii)(2) refers to 'unconsolidated entities': does this mean investment entities? If so, it would be worth making this clear.
    b. We challenge the appropriateness of asking entities to report emissions for associates and joint ventures as this is inconsistent with the reporting boundary set in IFRS accounting standards. Associates and joint ventures are beyond the control of the reporting entity, and therefore there could be difficulty collecting the data in a timely manner.
    c. The wording within paragraph 21(b) does not feel specific enough, as there is no definition of 'business activities' and it is not clear what 'amount' or 'vulnerable' means in this context.
    d. The requirement in paragraph 21(e) asks entities to disclose the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities. In reality, capital expenditure may be undertaken for more than one purpose; for example, it may help towards combating biodiversity and social equality risks as well as climate-related risks. The requirement does not specify whether this disclosure would need to be split between these risks, allocated or even duplicated.
    e. The term 'remuneration' in paragraph 21(g) is not defined within the draft standard and it is not clear what would and would not be included (Long-term incentive plans,

bonus, pension, etc). We believe that paragraph 21(g)(i) may lead to diverse interpretations and therefore disclosures between entities, and recommend that the requirement is either clarified adequately or removed for this reason.

f. It is not clear within the draft standard how business acquisitions and disposals are to be reported in the context of all the requirements set out in paragraph 21.

Question 10 – Targets

Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change.

The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement.

Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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

(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?

106. We agree that entities should be asked to disclose their climate-related targets, if an entity has set such targets. This supports transparency and accountability for climate-related commitments. We broadly support the proposed requirements set out in paragraph 23, but have a few specific thoughts below.

107. We would like the wording in paragraph 23(a) to be clearer that the 'metrics used to assess progress…' are referring to the entity metrics and not other, external metrics.

108. The term 'sectoral decarbonisation' in paragraph 23(f) is not defined within the draft standard and we do not believe it is a generally well understood term, so would suggest using alternative wording or making an addition to the defined terms in Appendix A.

Achievability of targets

109. We observe that there are not currently any proposed requirements to disclose or describe how realistic or achievable an entity's targets are. We believe that investors may find it useful to understand how an entity intends to achieve its targets and that the targets are not just aspirational.

110. We note that within the strategy section of the draft standard (paragraph 13), there are some disclosure requirements that ask entities to disclose how they plan to achieve any climate-related targets they have set. However, this appears to be in relation to transition plans and is not mentioned or cross-referenced in the metrics and targets section of the exposure draft.

Comparison with the latest international agreement on climate change

111. We recognise the value of entities being asked to make a statement of their ambitions concerning their contribution to the latest international agreement on climate change, and

would support the requirement in paragraph 23(e) subject to a slight shift in the language used.

112. We have concerns that the requirement in paragraph 23(e) asks entities to compare a company target with a global target. It is not clear to us how a comparison between company targets and global targets is possible, as the unit of account is not the same, so comparison would lack meaning. Instead, we suggest requiring entities to explain how the company targets connect to or contribute towards the latest international agreement on climate change.

113. The second part of this requirement states that an entity shall disclose whether it has been validated by a third party. If entities disclose this, we believe they should also be asked to explain who the third party is and what credentials they have.

Question 11 – Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the 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?

(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?

(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 second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions.

(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?

(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?

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

(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?

(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?

(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?

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity's business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity's performance on the topic.

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

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

(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.

(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?

114. We understand and acknowledge the importance of industry-based metrics to investors and other primary users of sustainability-related information. As such, we are supportive of the

ambition to include industry-based requirements in the standard. We believe that many entities recognise the investor demand for an industry-based approach and that there is a genuine desire to improve climate-related reporting.

115. However, we strongly believe that the industry-based requirements in Appendix B, as drafted, should not be considered an integral part of the standard and should not stand with the same level of authority, for the reasons explained in paragraphs 118-121 below. Additionally, we believe there are a number of improvements required to Appendix B in order to aid application; these are set out in paragraphs 122-133.

116. Our recommendation is that, after necessary improvements and amendments are made to Appendix B (as suggested below), it serves as non-mandatory guidance until sufficient field-testing and adequate IFRS Foundation due process has been performed. We believe that as entities and assurance providers become more experienced in sustainability-reporting best practice, and when there is a more complete set of topic-specific standards, there will be a natural point in time for these requirements to become mandatory.

117. If the appendix continues to be a mandatory part of the first iteration of the standard, it is crucial that a materiality filter is applied and that this is made very clear in the standard. We note that paragraph 60 of the IFRS S1 exposure draft, states that: “An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material”, however we do not believe this is sufficiently clear given the language used in the draft IFRS S2 standard.

Due process

118. We recognise that the SASB standards have been through extensive and rigorous due process over a number of years and that they are of high quality. However, in our view, this does not negate the need for them to be properly exposed to the IFRS Foundation’s due process if they are to be considered a mandatory element of the final standard.

119. The previous due process was not conducted in the context of applying the industry-based requirements on an international basis, nor as part of the wider sustainability-related disclosure framework that the ISSB is seeking to establish. Therefore, it should not be assumed that the previous formal proceedings regarding the SASB standards are sufficient for the purposes of an ISSB standard.

120. If the Board consider this consultation to serve as the ISSB’s due process over the content of Appendix B, we would like to make clear that in our view, this is not acceptable given the volume of material proposed and the consultation period provided.

Appropriateness for legislation

121. We are not convinced that the structure of the draft standard, with the majority of its requirements contained within an appendix, will be appropriate for jurisdictional governments to bring into legislation. This may even prove impossible. There are extensive links throughout Appendix B to external sources, which mean the document is not remotely self-contained. We believe that this leads to a significant risk that the standard is regarded as unsuitable for the purposes of legislation.

International applicability

122. We welcome the approach taken by the Board to improve the international applicability of the SASB standards in Appendix B. However, we believe that there is further work needed in this area. There are still extensive references to industry association standards, for example the Sustainable Apparel Coalition’s Higg Brand & Retail Module in B1 CG-AA-440a.1, paragraph 1.

123. While significant efforts have clearly been made to remove references to frameworks and regulations that are not internationally applicable, we are concerned that the underlying research and development conducted when producing the SASB standards has a US focus

and does not necessarily address disclosure topics that might be of greater importance outside of the US environment.

124. Additionally, not all jurisdictions will already be familiar with the SASB standards, therefore we suggest that additional educational material be produced to support application.

Consistency and duplication

125. We believe that it would be more appropriate to arrange the individual industry-based disclosure requirements under the same four pillars under which the main body of the draft standard is structured. Currently it is difficult to reconcile the individual industry-based requirements with the requirements in the main standard, to understand what the 'top-ups' are to existing governance or strategy disclosure requirements for example.

126. We observe that there are some areas of duplication between Appendix B and the main body of the draft standard, such as where entities are required to provide discussion of long-term and short-term strategy to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets (eg, B20, FB-AG-110a.2). This is already required as part of paragraph 13 in the main draft standard. There are other examples of duplicative requirements. For instance, it is difficult to understand the interaction between the cross-industry metrics and the industry specific metrics.

127. We understand from reading the Basis for Conclusions (BC143-148) that some of the duplication has been included in the exposure draft by design, however, we find this to be confusing and believe it adds unnecessary length and complexity to the overall draft standard.

More than just climate

128. There are a number of occasions within Appendix B where the requirements address risks other than climate-related risks. Further work is required to ensure that the appendix covers climate-related risks only to ensure that there is no overlap or duplication with future thematic standards. For example, the requirement in B7, EM-CO-140a.2 asks an entity to disclose the number of incidents of non-compliance associated with water quality permits, standards and regulations. Another example is in B26, FB-RN-430a.2 which asks entities to disclose the percentage of eggs purchased that originated from a cage-free environment. We are unable to link these examples to a climate risk.

129. We understand that SASB standards were developed more holistically, rather than topic by topic, so it is understandable that there may be difficulty in separating out the climate specific requirements. This serves to support the suggestion that mandatory application should only be enforced once there is a more complete set of sustainability disclosure standards.

Additional points

130. Paragraph B8 states that an entity shall identify the industry or industries it has selected in preparing disclosures, however, there does not seem to be requirement to actually disclose their selected industry/industries. If the intention is that entities do disclose this selection, then we suggest this is made more explicit here.

131. We suggest that there is some specific guidance for entities that find themselves in multiple industries on how they are to approach the task of disclosing all of the relevant industry metrics, which could be considerable in quantity.

132. Paragraph B9 refers to climate-related disclosure topics *reasonably likely* to make an impact on an entity's ability to create enterprise value. We suggest aligning the terminology here to refer to *significant* climate-related disclosure topics to avoid questions being raised about the differences between the definition of 'significant' vs. 'reasonably likely' in this context.

133. In response to Question (h), we suggest that entities are asked to use a methodology that is in line with GHG Protocol rather than requiring an entity to use it. As discussed as part of our answer to Question 9 above, we have concerns that the GHG Protocol sits outside of the

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ISSB's due process and that reporting on emissions is an evolving space where new guidance might emerge in the future.

Question 12 – Costs, benefits and likely effects

Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits.

(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?

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

(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?

134. We are longstanding supporters of widely applied, high quality international reporting standards and believe the likely benefits of implementing the proposals in the exposure draft will be considerable and wide-reaching given the importance of consistent, comparable and reliable information on sustainability matters.

135. However, we believe the benefits will very much depend upon the success of measures to achieve global alignment, which we believe is critical to the overall success of efforts to meet the demand from investors.

136. It is important for the ISSB to continue to prioritise global agreement of fundamental definitions and terms such as 'net zero', 'material' and 'enterprise value' to allow for consistency and comparability on a worldwide scale. Many entities will fall within the scope of two or more sets of climate-related disclosure rules. If a high degree of alignment is not achieved, compliance for such entities could be unduly costly and result in unnecessarily lengthy reports of questionable value to investors.

137. Costs could also be managed to a certain extent if reporting requirements are phased appropriately – we expand on this in our answer to Question 14. The need for speed in addressing the challenges of climate change should be carefully weighed against the importance of achieving a true and enduring step-change in the quality of reporting in this critical area.

138. It is also important for the Board to be cognisant of the fact that costs will vary from jurisdiction to jurisdiction, particularly when comparing entities that are already required to report under the TCFD framework due to existing legislation with other entities that have never been exposed to it at all.

139. Another factor to consider is the wider global context that entities are already having to manage. Global recovery is ongoing from the devastating effects of the pandemic, many economies are dealing with a high inflationary environment, and geopolitical tensions are impacting the way in which businesses are managed. The benefits of implementing the Board's proposals are likely to be great but the rising costs companies already face should not be ignored.

Question 13 – Verifiability and enforceability

Paragraphs C21–24 of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information describes verifiability as one of the enhancing qualitative characteristics of sustainability-related financial information. Verifiability helps give investors and creditors confidence that information is complete, neutral and accurate. Verifiable information is more useful to investors and creditors than information that is not verifiable.

Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent

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observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

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.

140. We believe that the information required as part of the standard should be subject to a third-party assurance regime to enhance investor confidence in the reliability of the reported information. Our understanding from ongoing engagement with investors and other stakeholders, is that investors would welcome enhanced requirements for the provision of external assurance over sustainability information, and we believe that the accountancy profession is generally well placed to provide that assurance. We urge the ISSB to work closely with auditing and assurance standard-setters to help finalise the draft standard in such a way that enables robust assurance to be undertaken.
141. As already discussed in our answer to Question 1 above, certain terms need to be better defined to enable organisations to reach a common view on the application of the requirements. For example, without a full and present definition of the term 'significant', the entity, an auditor and a regulator could potentially all reach different conclusions as to whether a particular climate-related risk is or is not significant. The lack of sufficient clarity will have serious enforcement implications if not addressed.
142. Even if definitions were to be enhanced and improved, many of the requirements within the draft standard remain highly subjective and are also subject to significant uncertainty, which may well lead to challenges when it comes to the provision of assurance opinions (whether that be 'limited' or 'reasonable'). For example, providing assurance over anticipated effects of climate-related risks and opportunities will be hugely challenging. To mitigate this challenge, we believe there needs to be additional disclosure requirements throughout the draft standard regarding the estimates, judgements and assumptions used by the entity.
143. Assurance over the value chain and Scope 3 emissions has the potential to be problematic as it is likely that obtaining sufficient evidence from a wide variety of sources - and potentially across multiple jurisdictions - could be difficult, or not possible. In some instances, management may not have access to the required information or may not be in a position to take responsibility for its accuracy – this problem will exist for assurance providers too.

Question 14 – Effective date

Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information requires entities to disclose all material information about sustainability-related risks and opportunities. It is intended that [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information could take longer to implement.

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

(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.

(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?

144. While individual jurisdictions will make their own decisions regarding effective dates, we recognise that the dates assigned by the ISSB may influence these decisions. We believe that the effective date for the final standard should be the same as the effective date for IFRS S1 due to the linkage between the two standards, particularly on general principles.

145. In our response to the IFRS S1 exposure draft, we discuss the challenge that implementing these proposals will present challenges to many entities, particularly for mid-market and smaller listed companies which may not have sufficient resources or experience to apply them as intended. Similar challenges are likely to arise where individual jurisdictions decide to extend the application of the standards to unlisted or not-for-profit entities. In this regard, we discuss ways in which the standards could be structured to allow for a journey towards full compliance over a reasonable period of time. We believe investors and regulators are likely to support such an approach, particularly if companies are required to be transparent and clear about where they are on this journey.

146. If the Board accepts that reporting under its framework should be seen as a journey, we recommend that it categorises its proposed disclosures into three groups, namely:

    a. Core disclosures: disclosures that are considered urgent and should be made by all companies when the standards first become effective;

    b. Additional disclosures: disclosures that should be added over time, with all companies required to disclose them by a later date; and

    c. Supplementary disclosures: any disclosures that are considered desirable but not mandatory.

147. Requiring all companies to disclose certain core items would ensure a degree of consistency by requiring all companies to disclose a minimum amount of information in year one. Companies should also be encouraged to provide the disclosures categorised as additional or supplementary as soon as it is possible for them to do so.

148. Whether or not such an approach is taken, we believe full adoption of the standard should be allowed on a voluntary basis, enabling jurisdictions and entities to move faster if they choose and believe it to be appropriate.

<u>Question 15 – Digital reporting</u>

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption of sustainability-related financial information, as compared to paper-based consumption, is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

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)?

149. We agree that it would be useful for the Board to publish a taxonomy to facilitate digital consumption of information provided by its standards. The development of a taxonomy should not, however, be seen as a high priority at this stage. In our view, it may be better to wait until the proposed standards are finalised before beginning to develop such a taxonomy.

<u>Question 16 – Global baseline</u>

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

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?

150. Overall, we are confident that the Board's proposals have the potential to provide a global baseline that can be built on by others, once the drafting issues and other matters that we have identified elsewhere in this letter have been adequately addressed.
151. In particular, the issues discussed in our response to Question 11 regarding Appendix B need to be addressed. Ensuring that Appendix B is considered non-mandatory guidance for the time being would be a significant step towards achieving a global baseline.
152. There is a risk that the possibility of setting a global baseline may be reduced by the ongoing work by regulators in other jurisdictions – most notably the US and EU - who are developing their own sustainability disclosure requirements.
153. It is important that the Board and other relevant bodies continue to prioritise global agreement to allow for consistency and comparability on a worldwide scale. Many entities will fall within the scope of two or more sets of climate-related disclosure rules. If a high degree of alignment is not achieved, compliance for such entities could be unduly costly, the risk of errors may increase, and the end result may prove to be unnecessarily lengthy reports of questionable value to investors. We therefore strongly support the recent establishment by the Board of a working party of key standard setters to consider these issues, and strongly encourage on-going collaboration.
154. In addition, we understand the term 'global baseline' used by the Board is intended to mean a comprehensive set of sustainability disclosure requirements that meet the needs of primary users (ie, investors, rather than the needs of wider stakeholders), that can be applied globally. We are concerned that some interpret the term to mean, a set of 'bare minimum' disclosure requirements that all jurisdictions (including those with very limited sustainability reporting experience), are capable of complying with. This confusion may not help to unite the approach taken by the Board with the approach taken by other standard-setters. This interpretation of 'global baseline' is also not conducive to an ambition to drive forward improvements to sustainability reporting.

<u>Question 17 – Other comments</u>

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

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155. Two further comments are set out below.

Practicalities of wider application

156. In due course we encourage the Board to consider, where possible, the scalability of its standards. While the proposals as drafted may be suitable for larger corporates, their implementation is likely to be more challenging for mid-market and smaller listed companies which may not have sufficient resources or experience to apply them as intended. Introducing a phased approach, as described in our response to the IFRS S1 exposure draft, would ease some of these concerns. Similar issues are likely to arise where individual jurisdictions decide to extend the application of the standards to unlisted and not-for-profit entities. Ideally, the standards should be written in a way that facilitates wider application.

157. We understand that both exposure drafts are focussed on profit-oriented entities, and that amendments may be needed if they are to be applied by not-for-profit entities. Additional and specific guidance on how and where the proposals could be applied outside of the profit-oriented entities would be of helpful in due course.

Ongoing support

158. We would like to re-iterate our congratulations to the Board for producing an excellent draft standard that addresses the obvious need for consistent and comparable climate-related information. We wholeheartedly support the success of this draft standard as well as the IFRS S1 exposure draft and wish to offer our continued assistance to help finalise them and ensure their effective implementation.

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