

20 July 2022

Emmanuel Faber
Chair
International Sustainability Standards Board
Columbus Building
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Canary Wharf
London
E14 4HD

Dear Mr Faber

ED/2022/S2 Climate-related Disclosures

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Sustainability Standards Board's ('the ISSB') Exposure Draft (ED) Climate-related Disclosures ('Climate').

We strongly support the proposals in the ED. In particular, we welcome that they build on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. This builds on the success of the TCFD, leverages the SASB Standards to incorporate industry-specific disclosure requirements and responds to the investors' call for standards that facilitate consistent and comparable information on climate-related risks and opportunities.

We welcome the ISSB prioritising a climate standard given the urgency of this issue and recommend that the ISSB moves towards finalising the standard as soon as possible, whilst respecting its due process.

Our overarching comments are provided below with detailed responses to the consultation questions set out in the Appendix to this letter. This response should also be read in conjunction with our response to ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ('General Requirements').

Approach to the Climate standard

We agree with the approach taken to the development of the standard which builds on the TCFD recommendations, including the organising approach to core content of governance, strategy, risk management, and metrics and targets. This approach is well understood by entities and users globally: the TCFD recommendations have been adopted by many organisations voluntarily and it is mandated in some jurisdictions.

We also welcome the ED's proposals to promote consistent and comparable reporting on climate-related matters, while making accommodations that respond to the degree of uncertainty inherent in measuring and reporting on them. In particular, we welcome the proposals for providing quantitative information while allowing for qualitative information to be provided when quantitative is not practicable.

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We support the ED's ambition for scenario analysis to become mainstream since users have emphasised the importance of understanding the resilience of the entity under different scenarios. As an interim step, we agree with the proposal that alternative techniques may be used when an entity is unable to use climate-related scenario analysis. This provides preparers, including those in smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, necessitate an iterative learning process, and may take multiple planning cycles to achieve. However, we disagree with the level of detail that is proposed for the disclosure of alternative techniques. In particular, disclosing 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 will require significant resources that smaller entities (which would likely apply an alternative approach) may not have. This also goes beyond the disclosures that would be required for financial reporting.

Metrics

We support the proposed cross-sector metric categories. We note that these categories have already been found to be relevant by many users of climate-related reporting, as evidenced by responses to the TCFD's 2021 consultation¹.

We support the disclosure of Scope 3 greenhouse gas (GHG) emissions, recognising that they often form the largest part of an entity's carbon footprint. We also note that a number of jurisdictions have proposed or already require partial or full disclosure of Scope 3 GHG emissions. We acknowledge the many challenges of measuring Scope 3 GHG emissions, including the difficulties in obtaining the data, the methodology for calculating these emissions being based on estimates which are inherently uncertain and applying materiality. We welcome the helpful provisions in the proposals that support preparers, for example, guidance on estimation uncertainty. However, we encourage the ISSB to take account of the readiness of entities to provide this information, including availability and quality of data, the complexities of accounting, and available resources and processes, including technology solutions, and consider the need for further support for companies, such as transition arrangements. We also encourage the ISSB to work with the GHG Protocol to better align GHG Protocol concepts with the requirements in IFRS such as establishing the reporting boundary for associates, joint ventures and investments.

We also support the approach taken by the ISSB to include industry-specific metrics as a core part of the standard. Industry-specific metrics have been found to be important to users of sustainability information. However, we believe that the guidance currently included in the proposals on how cross-sector standards are intended to work together with industry-specific metrics is not sufficient and a better explanation should be provided on the relationship between cross-sector and industry-specific metrics, including in relation to presentation of the metrics.

In our view, more guidance is needed to assist entities to help them navigate the industry-specific topics in Appendix B, including how entities with activities that span more than one industry could readily identify the industries or disclosures that are relevant to their business. In addition, the industry-specific requirements should be supplemented with educational material that would be particularly useful for those entities and jurisdictions that may not be familiar with the SASB Standards. Furthermore, we recommend a detailed review of Appendix B before the ISSB finalises its standard to ensure that the metrics included therein are relevant.

¹ [TCFD: Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans: Summary of Responses](#) (October 2021) [TCFD: Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans: Summary of Responses](#) (October 2021)

Current and anticipated financial effects

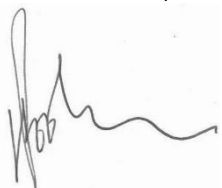
We recommend that the ISSB clarify what it means by the terms 'current and anticipated' financial effects. We note that disclosing current and anticipated effects may be difficult to achieve in practice. There is no commonly used methodology for measurement in this area, and, in our experience, it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (for example, what proportion of a flooding risk could be attributed to climate change, and therefore to assess the precise financial effects). We therefore welcome that the ED allows for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information.

Global alignment

We welcome the establishment of the Jurisdictional Working Group and encourage the ISSB to intensify its collaboration with jurisdictions, most notably the European Commission, the European Financial Reporting Advisory Group (EFRAG) and the U.S. Securities and Exchange Commission (SEC). We believe that the interoperability of the climate standards is essential and recommend that the ISSB together with the Jurisdictional Working Group consider how compatibility between the different climate standards can be enhanced. As the ISSB, EFRAG and SEC proposals have yet to be finalised, we consider that there is a window of opportunity to achieve a global baseline of sustainability reporting standards, including on climate-related matters.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS and Corporate Reporting Leader

Appendix 1—ED/2022/S2 *Climate-related Disclosures*

Question 1—Objective of the Exposure Draft

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?

- (a) We agree with the objective that is set out in paragraph 1 of the ED with one exception. The objective uses the words “significant climate related risks and opportunities”. [Draft] IFRS S1 requires the specification of significant sustainability-related risks and opportunities. [Draft] IFRS S2 then requires the specification of significant climate-related risks and opportunities. This implies that those specific risks identified by thematic standards are by default significant risks.

We recommend that the ISSB deletes the word ‘significant’ in the Climate ED. In our view, if an entity determines that climate is a significant risk or opportunity then it should assess what information about climate is material.

- (b) We agree that the objective focuses 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) We agree that the disclosure requirements set out in the ED meet the objectives described in paragraph 1.

Question 2—Governance

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 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?

We broadly agree with the proposed requirements related to governance as we believe that these would provide users of general purpose financial reporting with an understanding of the entity's internal structures and processes for the identification, assessment and oversight of climate-related risks and opportunities.

The drafting in paragraph 5 could be improved. Paragraph 5(a) refers to both governance bodies or individuals responsible for the oversight of climate-related risks and opportunities. However, 5(b)-(g) only refer to bodies. Smaller entities may not have complex governance structures, and these matters may therefore be subject to the oversight of particular individuals. Therefore, we recommend referring to both bodies and individuals throughout the requirements.

We welcome the flexibility that is provided in paragraph 6 of the ED for governance disclosures to be provided on an integrated basis when an entity's oversight of sustainability-related risks and opportunities is managed in this way. In practice, a board is likely to manage its principal risks and uncertainties in the round taking into consideration both financial and sustainability matters. In this regard, we also support the flexibility provided in the General Requirements ED of being able to provide disclosures as part of general purpose financial reporting without specifying the exact location. In the context of governance disclosure, a number of jurisdictions have corporate governance codes which contain provisions for governance reporting so the approach that is proposed would avoid duplication.

As an overall comment, we note that paragraphs 4 and 5 of the Climate ED replicate the requirements in paragraphs 12-13 of [draft] IFRS S1. We suggest that [draft] IFRS S2 could be simplified by including a reference to the relevant paragraphs in [draft] IFRS S1. In addition, we believe that paragraph 5 in [draft] IFRS S2 should be re-written to state that an entity must disclose the information required by paragraphs 25 and 26 in [draft] IFRS S1 as it relates to the governance of climate-related risks and opportunities. We also recommend moving paragraph 6 in [draft] IFRS S2 after paragraph 13 in [draft] IFRS S1 and moving paragraph 6 in [draft] IFRS S2 to after paragraph 26 in [draft] IFRS S1 in the section on risk management.

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?

- (a) Whilst we believe that the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities are sufficiently clear, we recommend that the word 'significant' is removed from paragraph 9 as noted in our response to question 1(a) above.

We welcome the inclusion of time horizons as determined by the entity; and the differentiation between transition and physical risks.

- (b) We agree with the disclosure topics identified in the industry-based requirements as they are a useful starting point for an entity to consider the specific risks and opportunities it may need to address. We note that an entity could fall into more than one industry through its breadth of activities and some guidance on how an entity navigates this would be helpful.

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?

- (a) Overall, we agree with the proposed disclosure requirements about the effects of climate-related risks and opportunities on an entity’s business model and value chain. However, we consider that the value chain is a complex concept and further guidance may be needed to help entities determine what to include. See our response to the General Requirements ED for further information.
- (b) We agree that the starting point for disclosure about an entity’s concentration of climate-related risks and opportunities should be qualitative rather than quantitative as this approach balances the measurement challenges with the information that users of general purpose financial reporting need. We also note that it is difficult for entities to determine the exact proportion of a risk that can be attributed to climate (for example, the proportion of flooding risk, and resulting financial impacts).

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.

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?

- (a) We agree with the proposed disclosure requirements: the disclosure of an entity's transition plan towards a lower-carbon economy is important to enable users of general purpose financial reporting to assess the entity's current and planned responses to the risks and opportunities related to decarbonisation that can reasonably be expected to affect its enterprise value. In our view, the disclosures address the concerns of users to understand specific plans and commitments.

However, we have some specific comments on areas where we consider Paragraph 13 could be strengthened.

- The focus of the information regarding climate-related targets for transition plans in paragraphs 13(b)(ii)-(iii) only discusses emissions. We recommend including other climate measures (e.g., use of energy, water, etc.) but only to the extent that these have a clear link to the entity's response to climate-related risks and opportunities. Examples from the industry-specific metrics could usefully be included here; and
- There is further scope for linking 'legacy assets' in Paragraph 13(a)(i)(1) with financial reporting disclosures including those on property, plant and equipment and decommissioning obligations. We also note that the proposed definition of legacy assets currently includes "or has lost nearly all of its initial value" and could be read as including all heavily depreciated long-lived assets near the end of their useful economic life which we do not believe was the intention.

- (b) We do not consider that any additional disclosures related to transition plans are necessary.

- (c) In our view, the proposed carbon offset disclosures are sufficient to enable users of general purpose financial reporting to gain insight into an entity's approach to reducing emissions, including the role played by carbon offsets and the quality of those offsets. The proposals promote greater transparency. Offsets are a complex area and therefore it is important that disclosures are clear on the reliance placed on offsets and arrangements used. That said, we consider that there are few areas which could be strengthened.
- We think a further requirement could be added to specify that the disclosures should not mask gross emissions. To achieve this, we suggest there is a requirement to provide separate disclosures on carbon credits, carbon offsets or avoided emissions;
 - To enhance connectivity, we recommend the ISSB work closely with the IASB on its project on carbon credits; and
 - In paragraph 13 (b)(iii)(3), we encourage the ISSB to consider including some wording for carbon offsets that are not yet known.
- (d) We consider that the proposed carbon offset requirements appropriately balance the cost for preparers with the need to disclose enough information to enable users of general purpose financial reporting to gain insight into the entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets. This is a good example of where jurisdictional requirements could be added to allow for more specific disclosures relating to carbon schemes and refer to other regulations that are in force.

Question 6—Current and anticipated effects

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 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?

- (a) We agree with the principle 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. However, for clarity, we suggest that the phrase “unless it is unable to do so” is replaced with wording similar to paragraph 18 in IFRS 8 *Operating Segments* “unless the necessary information is not available and the cost to develop it would be excessive”, in order to provide more clarity as to the circumstances when an entity may state it is unable to make the required quantitative disclosures.

We support the ISSB's ambition in moving towards more quantitative disclosure but recognise that modelling techniques for quantitative disclosures are still developing and data systems within entities need to evolve further. For example, quantitative information may be easier to provide over the short or medium term whereas qualitative information may be appropriate for the longer term. We consider that the ED is consistent with this position but believe it would be helpful to clarify this point further.

- (b) We 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.

We recommend that the ISSB clarify what it means by the terms ‘current and anticipated’ financial effects. We note that disclosing current and anticipated effects may be difficult to achieve in practice. There is no commonly used methodology for measurement in this area, and, in our experience, it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (for example, what proportion of a flooding risk could be attributed to climate change, and therefore to assess the precise financial effects). We therefore welcome that the ED allows for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information.

- (c) We welcome the reference to ‘short, medium and long term’ in respect of current and anticipated effects. These timeframes will be different depending on the type of entity and its industry. Therefore, we recommend that paragraph 14(c) and (d), which refer to how an entity's financial position and performance will ‘change over time’, are amended to require entities to disclose the timeframes that they are using. In our view, this will enhance comparability of the information.

Question 7—Climate resilience

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 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?

(a) The likelihood, magnitude and timing of climate-related risks affecting an entity are often complex and uncertain and, therefore, users of general purpose financial reporting seek to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. We welcome the emphasis on resilience in the ED and agree that the items listed in paragraph 15(a) should help meet users' needs to understand the climate resilience of an entity's strategy. As this is a developing area, it may be helpful for the ISSB to provide further guidance by way of practical examples.

(b)

- i. We support the proposal, which reflects an appropriate ambition for scenario analysis to become mainstream. As an interim step, we agree with the proposal that alternative techniques may be used when an entity is unable to use climate-related scenario analysis. This provides preparers, including those in smaller 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.

Paragraph 15 states that "the entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so". As outlined in our response to question 6(a), we recommend alternative wording for the phrase "unable to do so".

- ii. We agree with the 'comply or explain' approach as we believe that entities should be encouraged to use scenario analysis.

- iii. N/a, see our response to Question 7(b)(i).

(c) We agree with the proposed disclosures about an entity's climate-related scenario analysis.

(d) We disagree with the level of detail that is proposed for the disclosure of alternative techniques. In particular, disclosing 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 will require significant resources that smaller entities (which would likely apply an alternative approach) may not have. This also goes beyond the disclosures that would be required for financial reporting.

- (e) We agree that the proposals appropriately balance the need for better information on climate resilience with the need to allow entities to select approaches appropriate to their facts and circumstances.

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?

We agree with the proposed disclosure requirements as their application should provide information that enables users to understand the process, or processes, that an entity uses to identify, assess and manage climate-related risks and opportunities. The inclusion of opportunities in this requirement acknowledges that both risks and opportunities can relate to or result from the same source of uncertainty. It also reflects an increasingly common practice to include opportunities in risk management techniques and processes.

As noted in our response to Question 2, we consider that there is an opportunity to simplify [draft] IFRS S2 where requirements replicate those in [draft] IFRS S1. In respect of the risk management disclosures, paragraph 17 of the climate ED replicates the requirement in paragraph 26 of [draft] IFRS S1.

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 nonmandatory 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?

- (a) We agree with the seven proposed cross-industry metric categories and note that these categories were already found to be relevant by many users of climate-related reporting in the consultation by TCFD in 2021.

However, we believe that the interaction between cross-industry metrics and industry-specific metrics is not sufficiently clear in the proposals. Paragraph IG1 of the Illustrative Guidance could be incorporated into the main body of the standard to provide this clarity. We are concerned that entities may see Appendix B as a requirement to provide a significant number of metrics. We would welcome further guidance on how industry-specific metrics could satisfy cross-industry requirements.

We observe that metrics categories addressing financial impacts currently lack detailed methodologies to enable fully consistent and comparable disclosures, although we recognise that industry-specific requirements may help entities to measure these categories with more precision. We note the complexity of measuring financial impacts and that there are no commonly-used approaches that can be readily adopted within global sustainability standards today. We therefore believe that, whilst greater comparability may be desirable in respect of metrics addressing financial impacts, further evolution and field-testing of methodologies will be needed before further standard-setting can be possible.

- (b) We do not propose any additional disclosures.
- (c) We agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 GHG emissions as it is a well-established and internationally-recognised framework. However, we encourage the ISSB to work with the GHG Protocol to better align GHG Protocol concepts with the requirements in IFRS such as establishing the reporting boundary for associates, joint ventures and investments. We also recommend including a specific reference to the Greenhouse Gas Protocol Corporate Value Chain Accounting and Reporting Standard for guidance on measuring Scope 3 GHG emissions. As a general observation, we consider that there is an inherent risk associated with the ISSB’s approach of referring to third-party documents in its standards as these could be changed and result in inconsistencies with the standard. This practice could also lead to complications in adoption by jurisdictions who may not be able, through legal considerations, to bring into laws or regulations third party content by reference.
- (d) We 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.
- (e) We agree that entities should be required to disclose Scope 1 and Scope 2 GHG emissions separately for the consolidated entity; and for any associates, joint ventures, unconsolidated subsidiaries and affiliates. However, we note that there are a couple of areas of paragraph 21(a)(iii)(2) that would benefit from further clarity, for example: the meaning of unconsolidated subsidiaries or affiliates and whether this should instead be a reference to investments (noting

that 'affiliates' is not a commonly used term in IFRS literature); and whether equity investments should be included.

As we noted in our response to question 5 of the General Requirements ED, the approach set out in this requirement is inconsistent with the way reporting entity is defined in [draft] IFRS S1. However, we think that a flexible approach is helpful to preparers at this stage, when their current practice is to use the definitions of reporting boundary as set out in the GHG Protocol. The requirements at paragraph 21(a)(iii)-(iv) go some way to enhance transparency and consistency. However, they do not offer a solution for the long term. We therefore encourage the ISSB to work with the GHG Protocol organisation to better align GHG Protocol concepts with the requirements in IFRS, such as establishing the reporting boundary for associates, joint ventures and investments.

- (f) We support the inclusion of Scope 3 GHG emissions. They are an important component of investment risk analysis because, for many entities, they represent by far the largest portion of their carbon footprint. Scope 3 emissions data can help users of general purpose financial reporting to evaluate the degree to which an entity is making a transition to lower-carbon business models and products and services. Thus, the measurement and disclosure of Scope 3 GHG emissions enables an entity and its investors to identify the most significant GHG reduction opportunities across the entire value chain, thereby informing strategic and operational decisions as well as an entity's risk assessment.

We also note that a number of jurisdictions already require disclosure on aspects of Scope 3 GHG emissions or are proposing full disclosure in this area. We acknowledge the challenges of measuring Scope 3, which include difficulties in obtaining the data, and the methodology for calculating these emissions being based on estimates which are inherently uncertain. These challenges, combined with the uncertainty around the nature and timing of climate-related impacts on a company's business, may make materiality assessments much more difficult than materiality assessments that have traditionally been made in the context of a company's financial disclosures.

We welcome the helpful provisions in the proposals that support preparers, for example, guidance on estimation uncertainty. However, we encourage the ISSB to take account of the readiness of entities to provide this information, including availability and quality of data, the complexities of accounting, and available resources and processes, including technology solutions, and consider the need for further support for companies, such as transition arrangements.

We propose some detailed drafting points on aspects of paragraph 21:

- Paragraph 21(a)(vi)(1) mandates downstream and upstream emissions which seems arbitrary. We suggest mandating material categories of Scope 3 instead as some entities at either end of a value chain do not have significant upstream or downstream emissions; and
- Paragraph 21(b): We encourage the ISSB to clarify what is meant by 'amount' – is this cash value or revenue? We also consider that this requirement may be challenging to quantify and therefore suggest adding the words 'where practicable' to alleviate this.

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?

- (a) We agree with the proposed disclosure about climate-related targets. We agree that the ED should not define 'science-based' targets in a manner that locks in current approaches or initiatives that could be subject to change.
- (b) The definition of the latest international agreement on climate change is clear (and that currently this references the Paris Agreement). We agree that an entity should be required to reference the targets set out in the latest such agreement (here, the Paris Agreement) when disclosing whether or to what extent its own targets compare to the targets in that agreement.

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?

- (a) We agree with the approach but consider that there is scope for this to be further refined in time. Not all jurisdictions are familiar with the SASB Standards, therefore more educational material will be needed to support application.

As noted in our response to 9(a) above, the interaction between cross-industry metrics and industry-specific metrics would benefit from further clarification.

In addition, in paragraph 20(b), we recommend that there is a cross reference to paragraph B9 and the Illustrative Guidance to assist entities with the approach they should take if operating in multiple industries.

We also recommend a review of the metrics in Appendix B to remove any requirements that duplicate cross-sector metric category requirements (e.g., Scope 1) as well as cross-industry metrics that have been included within a sector; and for matters that are not relevant to climate but may be relevant to other IFRS Sustainability Disclosure Standards (SDS). In our view, there needs to be a review to verify that certain metrics are genuinely climate-related, for example, the percentage of eggs that originated from a cage-free environment, pork that was produced without the use of gestation crates and antibiotics in meat proteins. We are also concerned that for some industries there are apparently no requirements on climate-related metrics. It should be clarified that in the absence of a particular set of industry-specific requirements that address the activities of an entity, the cross-industry metrics still apply.

- (b) We agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements as these are based on metrics that are already being used by some entities.
- (c) We 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 as most of the industry-based requirements included in the ED are unchanged from those in the SASB Standards. Therefore, entities that are using the SASB Standards voluntarily can continue to provide information that would be consistent with prior periods.
- (d) We agree with the proposed industry-based disclosure requirements for financed and facilitated emissions as this is consistent with the emphasis placed on these disclosures by TCFD and responds to investor calls for transparency on this area. However, we note that entities may need more guidance on facilitated emissions as there is no explicit reference to a framework in the ED. The Partnership for Carbon Accounting Financials has undertaken some work in this area which could be incorporated into the GHG Protocol and referenced in application guidance.
- (e) We agree with the industries classified as 'carbon-related' in the proposals.
- (f) We agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions. In our view, a 'total assets under management' approach to disclosure provides a useful indicator of the emissions and therefore the environmental impact associated with client portfolios. It may also serve as a broad indicator of potential risks to the asset manager.
- (g) We agree with the proposals to require disclosure of the methodology used to calculate financed emissions.
- (h) We agree that the measurement of financed emissions should build on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).
- (i) We agree that a 'total assets under management' approach to disclosure provides a useful indicator of the emissions and therefore the environmental impact associated with client

portfolios. This may also serve as a broad indicator of potential risks to the asset manager and consequently, we support the requirement for entities participating in this industry to disclose the percentage of their assets under management for which financed emissions are calculated.

- (j) We agree with the proposed industry-based requirements.
- (k) We consider that the industry-based requirements, whilst comprehensive, will need to be reviewed as the ISSB standard is finalised, as what is relevant for a particular industry will change over time. For example, one omission we have identified is environmental matters for entities with activities in biotech and pharmaceuticals.
- (l) We do not have any additional comments.

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?

- (a) We consider that the benefits, which may be difficult to quantify, should significantly outweigh the costs of the proposals. There is an urgent demand from investors for consistent, comparable sustainability-related financial information and a need for entities to have clarity over which standards they should apply for reporting this information. This clarity should enable entities to invest with certainty in appropriate systems and controls, as they do today in respect of financial reporting.

When considering the costs of implementing the proposals, it is important for the ISSB to consider that there will be a different journey for different jurisdictions and entities. Some jurisdictions are already requiring TCFD reporting which are aligned to the Climate ED and some entities are also applying TCFD on a voluntary basis, and therefore, the costs of transition for those entities should be lower.

As with the introduction of any new standard, we would expect costs to be higher in the first year as entities put in place the necessary systems and familiarise themselves with the standards.

We also consider that there are considerable benefits for all stakeholders in increased transparency and greater insight into the risk and value drivers of an entity.

- (b) There will be costs to maintain the information as well as ensuring that climate-related risks and opportunities are embedded in the management process and appropriately measured.
- (c) None identified.

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 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.

Overall, we consider that the proposals provide a suitable basis for verification and enforcement. However, assurance of forward-looking and narrative information, which, by its nature, is more subjective than information in the financial statements, would not necessarily be straightforward. We encourage the ISSB to continue working with the International Auditing and Assurance Standards Board (IAASB) and the audit profession to ensure assurability of the standards. There may also be an opportunity to learn from those jurisdictions that already require reporting in line with TCFD which auditors and regulators are familiar with.

Specific areas that we have identified in this ED which would be challenging for auditors include the boundaries used for the GHG Protocol as these are different from those used for financial reporting; as well as providing assurance over anticipated effects of climate-related risks and opportunities which are akin to forecasts. As noted in our response to question 6(c), we request further clarity from the ISSB on the expectations for reporting on anticipated effects.

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?

- (a) In our view, the effective date of this ED should be the same as [draft] IFRS S1 as tackling climate change is an urgent issue and there is a need for consistent, comparable climate-related information to be available on a timely basis.

- (b) When determining the effective date, we encourage the ISSB to consider the practical implications of these proposals, the different degrees of readiness across jurisdictions and allow for regulators to decide appropriate timescales to mandate standards through local regulations. However, we believe that the standard should be made available without delay and early application should be permitted.
- (c) Although we consider that some disclosure requirements could be applied earlier than others, we encourage the ISSB to balance considerations around phasing in against the need for ensuring that the information provided by companies is comparable - which could be compromised by patchy application of the standard with a phased approach. As the proposals in the ED are consistent with TCFD, this should facilitate effective adoption of the standard as a whole for those entities that are already applying TCFD. We consider that further outreach will be needed by the ISSB to build consensus on areas where phasing may be appropriate.

Question 15—Digital reporting

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)?

We welcome that the ISSB is considering digital consumption alongside the development of its standards. We note that the ISSB has recently published a Staff Request for Feedback on the Staff Draft of the IFRS Sustainability Disclosure Taxonomy and that an ED will follow.

Question 16—Global baseline

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?

We do not consider there any particular aspects of the ED that would limit the ability of IFRSSDS to be used as a global baseline for sustainability reporting on matters relevant to enterprise value to capital markets. We welcome the principles-based and neutral approach to standard setting that is being taken by the ISSB. We expect this will support the ability of jurisdictions to strive for global consistency and add requirements or further specificity where needed.

We welcome the various working groups and consultative bodies being established by the ISSB to promote dialogue between other sustainability standard-setters and encourage the ISSB to use those to achieve the closest possible global alignment on the baseline. In particular, we encourage the ISSB to intensify its collaboration with jurisdictions, most notably the European Commission, the European Financial Reporting Advisory Group and the U.S. Securities and Exchange Commission. We believe that the interoperability of the climate standards is essential and recommend that the ISSB together with the Jurisdictional Working Group consider how compatibility between the different climate standards can be enhanced.

Question 17—Other comments

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

We have no further comments.