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ED/2022/IFRS S2 Climate-related Disclosures

Grant Thornton International Ltd is pleased to comment on the International Sustainability Standards Board's (the Board) Exposure Draft ED/2022/IFRS S2' Climate-related Disclosures' (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

We commend the efforts of the Board to have produced such a comprehensive ED in a relatively short space of time. We support the prioritisation of climate over any other sustainability topic. Furthermore, after allowing for due process, we encourage the Board to finalise this ED as soon as possible, so that investors and other stakeholders across the world can efficiently and effectively assess the economic impact of climate change on reporting entities that at a jurisdictional level will be included within the scope of this proposed standard.

We strongly support the Board using the TCFD framework as a structure for this proposed standard and using the four pillars that many stakeholders and reporting entities are already familiar with. We encourage the Board to work very closely with other standard setters (eg EFRAG) to ensure the widely supported building block approach is efficiently and effectively implemented.

However, we believe there is a serious flaw in this ED, and it stems from using the same words that also appear in the General Requirements ED. It asks the entity to disclose information about its 'significant' climate-related risks and opportunities. The General Requirements ED also asks for 'significant' sustainability risks and opportunities and for many entities it's likely one of those will be climate. Our view is the proposed standard should then set out, having identified climate as a significant sustainability risk and opportunity (from the IFRS S1 requirements), what information about climate is relevant to the primary users, and what is material to the entity. Our current reading of IFRS S1 and IFRS S2, is that entities will need to do two climate-related risk and opportunity assessments (one for each standard), which presumably is not the intention of the Board.

Our view is there is no need to repeat the governance and risk management disclosures in the ED. Instead, we would prefer to see a statement that says they must include climate-related information for governance and risk management as set out in the general requirements Standard. If this is not done, any taxonomy that is created to support this ED will have

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multiple elements that are duplicated which is likely to cause a significant amount of frustration for entities.

The detailed responses we have provided in the Appendix have extensively taken into consideration our experience of providing advisory and assurance services to mid-market entities around the world, both privately and publicly owned.

We have observed across our client base a high level of anxiety surrounding the implementation of this proposed standard. Some of the more significant questions we have been asked since the ED and our responses are:

Questions that have been put to us	Our responses and matters for further consideration by the ISSB
• Will further illustrative examples address how to apply the requirements set out in this proposed standard be issued by the Board, and if so, what form might they take?	In a number of areas, we believe the proposed standard could be improved through the inclusion of further illustrative examples, particularly in distinguishing whether a matter is material, significant, or both.
• Will further plain English definitions and explanations be included in this proposed standard, particularly when it comes to determining what is material as compared to what is significant?	We agree that in some parts of the ED, jargon has been used extensively. While the appendix helps to remediate some of this criticism, we still believe there is room for further improvement. The real issue is not the use of the term significant but understanding the disclosure objectives of the standard. We think the Board needs to decide whether this proposed standard and IFRS S1 is intended to require entities to: 1. Disclose information about the sustainability-related risks and opportunities which are managed by the those charged with governance, or 2. Identify and disclose the sustainability-related risks and opportunities it considers are **significant** to the entity (even if it is not managing them), or 3. Identify and disclose all the sustainability-related risks and opportunities that are relevant and applicable to the entity (even if it is not managing them). We think many are concluding the third option is the requirement, and this may not be what the Board was intending. In other words, we are not sure if the Board is requiring a complete listing of an entity's significant sustainability-related risks and opportunities, or something else? We believe the Board needs to decide which of the three interpretations it wants and then rewrite the

Questions that have been put to us	**Our responses and matters for further consideration by the ISSB**
	requirements to achieve this which may or may not result in retaining the word 'significant' in the proposed standard.
• What facts and circumstances would support an assertion being made by an entity that a disclosure requirement set out in this ED is not practically possible?	While some may say this is not a reporting matter, but an assurance one, our concern is this provision as currently drafted may provide preparers of sustainability reports with an easy way to circumvent certain required disclosures. Our view is this ED could provide more guidance of this to manage any expectation gap that might result from entities preparing sustainability reports and their auditor. As an example, the standard may include discussion of whether a lack of process to provide the requisite information to prepare disclosures exists, versus an alternative of information that is not attainable despite the implementation of adequate process.
• When climate related disclosures set out in this ED are being made in relation to a group, should data from joint ventures and associates be included, and if so, on what basis?	We agree that further guidance on what constitutes the 'group', particularly when associates and joint venture arrangements are present, would be helpful to reporting entities.
• Given this is a completely new standard, would the Board have any appetite for gradually phasing in the disclosure requirements set out in this proposed standard or are they going to require everything at once, and then leave it to jurisdictions to separately consider the option of phasing in these requirements over time?	We believe there should be a phased in approach in order for reporting entities to maximise compliance with the standard and produce the most useful disclosures, particularly in areas which are complex (eg scope 3 emissions). We believe the timetable for adoption should be left to individual jurisdictions as it's apparent that some jurisdictions are much better prepared to adopt the requirements set out in the ED sooner than others.
• Because the Board incorporated the Sustainability Accounting Standards Board (SASB) material found in Appendix B, in reality how closely do these need to be followed?	We have some concerns if the SASB requirements are to be considered mandatory and worry about the burden this would put on entities, especially those working across multiple industries. We think the ED should be made clearer as to the intention of the Board when considering these standards. Furthermore, we believe reference to these standards should always be dependent on an entity's own materiality assessments and on metrics they are already reporting on internally.

Questions that have been put to us	Our responses and matters for further consideration by the ISSB
	Similar to IFRS, we encourage the ISSB to include words to the effect that if no disclosure is made, then by implication it is neither material nor significant.
• Given the 'building block' approach has been extensively endorsed, would the Board work with other sustainability standard setters (eg EFRAG) to provide a table of concordance indicating where the requirements and disclosures set out in this ED are considered by the ISSB to be the same as that required that required by EFRAG?	We indicated that having something like this would be very useful to both entities and auditors. If not part of the ED, our view is making a document like this publicly available would be extremely helpful.
• Would it be acceptable to include all the disclosures required by the ED in set of IFRS or local GAAP financial statements?	As currently drafted, and in the absence of any specific national guidance (via legislation or regulation) our understanding is there is nothing to prevent this unfortunate outcome from occurring. We do understand the Board's logic to leave this aspect of sustainability reporting solely to local jurisdictions, however, as an international auditing firm this outcome creates a great concern for us. We believe clear boundaries between financial information that has been subject to audit, and non-financial information that has been subject to audit must exist, particularly when in some jurisdictions the audit of non-financial information might be undertaken by someone else other than the auditor of the financial statements. Our clear and strong preference is that all climate-related information required by this ED that is not otherwise required by IFRS, be included in a separate report that does not form part of the financial statements. While we accept the arguments set out in the ED as to why the ISSB should not provide more detailed guidance on this, we urge the Board to carefully reconsider this position as we believe it will have a direct impact on the future development of taxonomies and digital reporting.

Our responses to the ED's Invitation to Comment are set out in the Appendix.

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If you have any questions on our response, or wish us to amplify the comments we have submitted, please contact either of us by email (sarah.carroll@gti.gt.com and/or mark.hucklesby@gti.gt.com).

Yours sincerely,

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Appendix: Responses to the Invitation to Comment questions

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?**

Overall, we believe the proposed Standard is doing broadly achieving its stated objectives. However, we believe additional definitions could be provided to add clarity. These are as follows:

- Similar to IFRS S1, we believe there should be a definition of what is meant by 'significant', and it should be applied consistently throughout the ED. Alternatively, the term significant could be replaced with a comprehensive definition that addresses the following situation. The real issue here is not the use of the term significant, but rather understanding the disclosure objectives of the standard. We think the Board needs to decide whether this proposed standard and IFRS S1 is intended to require entities to:

  1. Disclose information about the sustainability-related risks and opportunities which are managed by the those charged with governance, or

  2. Identify and disclose the sustainability-related risks and opportunities it considers are **significant** to the entity (even if it is not managing them). or

  3. Identify and disclose all the sustainability-related risks and opportunities that are relevant and applicable to the entity (even if it is not managing them).

  We understand many are concluding the third option is the requirement, and this may not be what the Board was intending. In other words, we are not sure if the Board is requiring a complete listing of an entity's significant sustainability-related risks and opportunities, or something else? We believe the Board needs to decide

which of the three interpretations it wants and then rewrite the requirements to achieve this which may or may not result involved retaining the word 'significant' in the proposed standard.

- General purpose financial reporting can mean different things in different jurisdictions and if the Board is to use this term in the proposed Standard it should be clearly defined and aligned with the objectives set out in the IASB's Conceptual Framework. We like the fact the Board has chosen for the time being to closely align its key concepts with those found in the IASB's Conceptual Framework because it should facilitate greater connectivity and consistency between sustainability disclosures and financial statements.
- For enterprise value, there should be a consistent use of the meaning and how it is calculated, our preference would be to use 'future cash flows' as 'debt plus equity' is more judgemental and more likely to generate differences between jurisdictions.
- The definition of 'climate-related opportunities' should be expanded and more weight should be given to reporting on this aspect of an entity's activity because 'climate-related opportunities' in our view equally as important as the 'climate-related risks.

Another aspect of reading this ED is that it is not always clear which are compulsory disclosure requirements and which are optional (because they are based on assessments made by the entity). It would be unfortunate if this results in a conflict between these two. The proposed Standard does not provide clear direction on what is actually required (ie a minimum set of disclosures that is required by all reporting entities). Our concern is that an entity may take a position that disclosure is always required when the word 'shall' is used which is not what we think the Board always intended.

However, we were very pleased to see that this ED (and IFRS S1) was closely based on the prototypes developed by the Technical Readiness Working Group, which built on the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD framework has been proven to work in practice, and generate the disclosures that decision makers and investors in most global capital markets want to see.

We believe this ED will provide a global baseline which can be supplemented with jurisdictional requirements. Our view is that it is critical that this proposed standard can work alongside the EU's proposed Corporate Sustainability Reporting Directive (CSRD) and soon to be issued European Sustainability Reporting Standards (ESRS) to be issued by the European Financial Reporting Advisory Group (EFRAG) and climate related disclosure requirements set out by the US Securities and Exchange Commission (US SEC). We therefore encourage the Board to be continuously mindful of decisions they are making and to reflect on whether any subsequent changes to ISSB standards are required to eliminate unnecessary disclosure differences. Ultimately, we encourage and the Board to continue its pursuit (via working with other Standard setters) of a single source of global sustainability standards, which we would fully support.

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?

Most of the requirements seem to be a duplication of what is set out in IFRS S1. We question whether there is a need to have these requirements in both Standards. It is likely to make it more confusing in the longer term for reporting entities and has the potential to create a huge 'maintenance problem' for the Board. While we can see paragraph 6 addresses the issue of duplication, we encourage the Board to avoid duplication as much as possible.

Some of the requirements, for example on 'terms of reference', could lead to boiler plate disclosures. We understand that the requirement is for entities to provide transparency on how they arrive at certain positions, however we need to ensure it does not add clutter to the disclosures. Therefore, we propose that the Board require disclosure of achievements as a board (ie those charged with governance) and changes from the disclosures set out in the prior period financial report.

In paragraphs 5(a) and 5(c) we question whether the intention is for individuals to be named or purely the role to be disclosed, or something else. We recommend tightening the wording in this area because in our view, what the readers of sustainability reports want to know is the level of experience, particularly current experience, and knowledge that those involved in governance are bringing to entity.

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?**

As noted above, if the word 'significant' is to remain in the proposed standard, we would like to see it be more clearly defined. As explained above, our preference would be to have some alignment with the materiality concept in the IASB's Conceptual Framework.

We believe including the adapted SASB material (found in Appendix B) will help to generate consistent and comparable disclosures on climate related matters. We have some concerns if the SASB requirements are to be considered mandatory and worry about the burden this would put on entities, especially those working across multiple industries. We think the ED should be made clearer as to the intention of the Board when considering these standards. Furthermore, we believe reference to these standards should always be dependent on an entity's own materiality assessments and on metrics they are already reporting on internally.

However, our concern is making sure what is set out in Appendix B is applied correctly, as many reporting entities will be considering this information for the first time. Currently, very few entities in our primarily mid-market client base have an awareness of the SASB standards and what they are designed to do, so when releasing the proposed Standard we encourage the Board to explain why Appendix B was included and how it should be applied.

We would like to see more guidance added for the terms short, medium and long-term so there is some consistency when entities in similar industries are describing their climate-related ambitions. In addition, paragraph 8(a) refers to the term 'reasonably expects', we believe for there to be consistent application of this term, what is set out in this paragraph should be expanded so it is appropriately interpreted by the reporting entity.

Regarding paragraph 8(d), we had mixed views as to whether the reference to 'effects on financial position, performance and cash flows' means the actual impact in the period as required to be treated under IFRS or local GAAP or the current exposure to the risks and opportunities (eg amount of revenue attributed to a declining sector due to transition risks). It is not clear to us whether it is referring to the treatment under IFRS or local GAAP so including some guidance and illustration addressing this matter would be helpful. If it is referring to significant effects of climate on financial position, performance and cash flows, then this would not be new requirements for IFRS preparers because it has always been in place, it would be a case of climate risk rarely being considered and disclosed in this way. We recognise that any assessments made will always be very judgemental, and in many instances the historical elements will have to be ignored. We recommend the proposed standard always encourages entities to benchmark its disclosures to the industry that it operates in to avoid boiler plate disclosures and to achieve the required level of detail sought by investors in capital markets.

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?**

As with IFRS S1, we would like to see the term 'value chain' be clearly defined and some guidance included around how far you go when assessing the value chain. Illustrative examples might be helpful here for entities when preparing these disclosures. If the entity is in a group that is vertically integrated it would be easier to provide this information. However, it would be difficult to obtain this information if the entity didn't have control over the information.

We agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative. We believe it would be extremely difficult to provide high-quality quantitative analysis if data sits outside the organisation. However, a quantitative context may be useful where it is available. For example, being able to state the percentage of revenue generated from the oil and gas sector or comments that recognise that the carbon load embodied within the manufacture of steel beams differs from country to country depending on whether renewable energy sources to manufacture the steel were used or not.

We also recommend there is specific guidance in relation to 'supply chain' versus 'value chain' to ensure there is no confusion.

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?**

Overall, we agree with the proposed disclosure requirements for transition plans. We support the decision to apply this proposed standard prospectively with no requirement for comparative information in the period of initial application. However, we have a few detailed comments as follows:

- Paragraph 13(a) requires disclosures of transition plans and our recommendation is that this is extended to include guidance and require disclosures on when an organisation is in the process of developing plans or has changed plans from the prior period.
  Paragraph 13(a) also requires disclosures on targets that have been set and we think this should also include targets the entity is required to meet under local legislation where it has a material impact on the organisation. Including some specific guidance on what international groups should do when they are subject to multiple requirements would be helpful. Finally, it would be useful for users to understand whether any of the transition plans in place will be impacted by these specific (local legislation) targets.
- Paragraph 13(a)(i)(2) and (3) refers to direct and indirect adaptation and mitigation efforts, we would like to see these terms being defined, as this terminology is likely to be new to many readers of this proposed standard.
- Paragraph 13(a)(ii) requires disclosure of how plans will be resourced. We think it would be helpful to include guidance as to the relevant form of resource (eg financial, human etc)
- Paragraph 13(b) discusses carbon offsets. We think the proposed carbon offset disclosures will enable users to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets. However, we would like to see the following additional disclosures in relation to carbon offsets:
  - the financial impact of the carbon offset
  - whether the entity has committed to a scheme that will guarantee access to carbon offsets in the future, and
  - a differentiation between offsets relating to the value chain and other offsets.

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?**

Paragraph 14(a) refers to 'most recently reported financial statements'. We are currently interpreting the requirements as asking for the sustainability report and financial statements to be published at the same time. However, as currently drafted, this reference could be interpreted as the prior period financial information rather than the financial information that will sit alongside the sustainability report.

Paragraph 14(b) requires an entity to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period. In our view this is already required under IFRS, and we question whether this would be better left in IFRS or local GAAP standards.

We would like to see some clarity on what is meant by impact, eg the portion of assets (or number of people) associated with the risk or how this has impacted the measurement. Potentially this should be set out in IFRS and the requirement should be to cross reference from the sustainability report to where these disclosures have been made in accordance with IFRS or other local GAAP.

Paragraph 14(e) refers to 'unless it is unable to do so' but our concern with this wording as it currently stands is that it could be used by entities as a justification to their auditor for not

making certain required disclosures. We support the expedient should be there but disclosure of why would be helpful to prevent this clause being used in a way that was not intended.

We would like to see some guidance on expected disclosures as we believe this would be helpful for entities to see what they could potentially look like. We appreciate the counter argument to this is that it will generate boiler-plate disclosures, but to help mid-market entities reporting on climate related disclosures for the first time, providing examples of 'what good looks like' would be very helpful.

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?**

We are pleased to see scenario analysis being included in this proposed standard as it will help entities and their investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. However, as recognised by the Board, climate related scenario analysis is still being developed by many entities (and many mid-market entities have not started developing it yet), the proposed requirement to tell the story of climate resilience is helpful. When the proposed standard is approved we urge the Board to actively promote the benefits of providing comprehensive disclosures on likely scenarios because the value associated with making disclosures like this should not be underestimated.

We agree that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques, but we suggest a requirement to disclose why this is the case be included, or this will end up being the default position.

We believe some additional guidance would be helpful on when it is considered reasonable to say the entity is unable to comply. For example, could entities conclude that they don't consider it to be useful to investors – and use this as a reason to not comply?

We agree with the proposed disclosures about an entity's climate-related scenario analysis however we would appreciate some guidance on quantitative analysis in terms of what entities should expect to disclose as this will be a new area for many entities. We also challenge whether this will be helpful outside the financial services sector, and question what this aims to achieve outside of an investor understanding. For example, X% of revenue is at risk due to being a high-carbon product, and whether modelling will produce anything meaningful. We also question whether these requirements would work for not-for-profit entities.

For the time horizons noted in paragraphs 15(b)(i)(6) and 15(b)(ii)(4), it would be helpful for entities to explain why certain time horizons have been used rather than just stating they have used them.

Paragraphs 15(b)(i)(7) and 15(b)(i)(8) it would again be helpful to include narrative on whether assumptions are consistent with those used in the preparation of the financial statements. Same for paragraphs 15(b)(ii)(2) and 15(b)(ii)(5) and 15(b)(ii)(6).

In addition, we question whether the requirements of disclosure on availability of financing is a useful disclosure, rather it should be considered as part of going concern.

Overall, we believe this will be technically challenging for entities, so more illustrative guidance and illustrative example disclosures would benefit them.

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 for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities. However, we believe the drafting of paragraph 17(b)(iii) could be made clearer for entities.

In addition, rather than having paragraph 18, which clarifies entities aren't expected to duplicate information as a result of the requirements in IFRS S1 and IFRS S2, we would prefer to see the requirements only stated once.

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?**

In response to part (a) of the question, we agree that the proposed standard should include some industry guidance, and we broadly agree with the seven proposed cross-industry metric categories, however they appear quite prescriptive.

We believe this could conflict with the objective of IFRS S2 and might become rules-based rather than principles-based. We appreciate there is a need for consistency, but we think entities using these may not challenge themselves on what is material and important for their users, and instead use these as a checklist.

We recommend that the Board puts more emphasis on management determining which categories impact enterprise value. The building block approach will result in jurisdictions adding more requirements, and we are concerned entities will end up having too many potential disclosures.

Paragraph 21(f) and (g) discusses disclosure of internal carbon prices and remuneration, we recommend guidance be provided for what entities need to disclose if that information is not available.

In paragraph 21(a)(ii) we would like to see some illustrative examples and guidance for entities on what is meant by physical or economic output.

Paragraph 21(a)(vi)(1) we would like to see some guidance on what upstream and downstream means and some clarity on how far the Board expects entities to go, especially for scope 3.

Paragraph 21(a)(vi)(4) we recommend a requirement for entities to disclose how they plan to address this gap in their footprint so that entities are not tempted to avoid compliance in this area.

It is our view that paragraph 21(g)(i) is unlikely to provide any meaningful disclosure, and therefore the Board should consider whether it should be removed.

We agree that entities should be required to separately present scope 1,2 and 3 emissions, however we think there should be allowances for the practical challenges which prohibit disclosure in certain countries. We would like to see an expedient and an explanation of boundaries given.

We would like to see the reference to 'unconsolidated subsidiaries' re-worded to 'investments', if that is what is meant by this term. We are also concerned that there may be a risk if information about associates and investments cannot be obtained, and it would be helpful if guidance is included on what an entity should do in these circumstances. In particular, we have concerns about how to account for data being provided by associates and joint ventures because it may not always be on the same basis as other entities within the group. It may also not be possible to obtain the requisite assurance over this information where an assurance opinion is required.

We believe the Board should be very careful when referring to the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard because this is a reporting standard that it does not 'control'. It is also a standard that is more twenty years old and it could be argued that it needs updating and is no longer fit for purpose, so we ask the Board to consider both the current and future consequences of linking the ED to this protocol.

We agree this is an important area, but we think it should be acknowledged that even large organisations are struggling with this area, and it is a massive task so the practicality of this should not be underestimated. We recommend a phased in approach in case entities are not able to report on 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?**

We believe climate-related targets should be defined, and made clearer in what form they should be in.

We feel the required disclosures read as being in relation to those to do with carbon reduction, however that might not encompass all targets. For example, some entities may have targets to reduce reliance on oil and gas sector and attracting customers in other sectors and the target might be to reduce oil and gas sector revenues by 20%.

Paragraph 23(e) refers to targets being validated by third parties. Given this, we believe there should be a reference to their qualifications here, to ensure those validating it have the relevant qualifications. Also, we think the reference to international agreements could encourage green-washing, so we asked the Board to consider this outcome.

Paragraph 23(f) refers to 'sectoral decarbonisation approach' we believe this term should be defined and written in plain English.

In order to present information that will be useful for an entity´s users, in addition to disclosing the target set in the Paris Agreement, if material, it should be also disclosing the nationally determined contributions (NDCs) (which is the country action plan for climate in order to reduce its greenhouse gas emission). This will inform to the users about the environment the entity is operating.

A final comment we would make in this area is that climate risk assessments will made more frequently and they will be assessed more regularly by investors. We ask the Board to consider whether there should be an additional requirement in this proposed standard to explain how the entity plans to achieve its climate related targets outside of any discussion on transition plans, as we see no requirements in the ED addressing this point.

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?

As mentioned previously, we believe the Board should be careful when referring to the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard as any changes in that protocol may then require consequential changes to be made to the proposed standard and this might be time consuming. Put another way, we encourage the Board to be mindful of 'hard wiring' other standards and protocols that they cannot control into their proposed standard.

We have some concerns if the SASB requirements are to be considered mandatory and worry about the burden this would put on entities, especially those working across multiple industries. We think the ED should be made clearer as to the intention of the Board when considering these standards. In our discussions we acknowledged the importance of comparability between the industry sectors, however, our concern having these standards as mandatory might generate a 'tick-in-the-box' response rather than thoughtful consideration

of what is material and significant and what is not. Therefore, we believe reference to these standards should always be dependent on an entity's own materiality assessments and on metrics they are already reporting on internally.

Another observation we would make here is whether all the SASB metrics that affect the environment have a relationship to climate. For example, disclosures such as the percentage of eggs from caged hens and percentage of meat protein that was given in antibiotics may not have a relationship with climate. Our request is that both the Board make a clear, and very careful distinction between what affects the environment, and what specifically affects climate. Not only this, but there are references to US Dollars (which are inappropriate) and we are currently struggling to find where climate is defined in the SASB standards, so further clarification on this, in our opinion, is needed.

We have a few comments in relation to specific paragraphs as follows:

- Paragraph 21(a) refers to information relevant to the cross-industry metric categories and the term 'information relevant' is used. Our view is this could be interpreted widely so we think there is a need to make disclosure about the methodology followed and the key assumptions that were used in quantifying metrics, so we would like the Board to consider if the current wording is sufficient to generate the disclosure outcome they are seeking.
- Paragraph 21(a)(ii) notes a common ratio is based on headcount or full-time employees but we are not clear how that metric aligns with 'physical' or 'economic' output so we recommend to the Board that some illustrative examples are included.
- In reading paragraph 21(a)(vi)(2), we assume the categories are referring to the GHG Protocol but this may not case, so we suggest this is made clearer in the final text.
- We considered whether the requirements set out paragraphs 21(b)-(e) are going to be possible for many entities because based on our experience, they are going to be hard to quantify accurately. In addition, we thought the requirements set out in paragraphs 21(b)-(d) would be captured as part of paragraph 14(a) so we had a concern the proposed standard was repeating itself and contained unnecessary duplication. Our ask is for the Board to reconsider what has been set out in the proposed standard to assess whether there has been any unnecessary duplication, and if so, remove it.

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?

We are pleased to see the Basis for Conclusions explicitly reference the need to appropriately balance costs and benefits. We observe some of the disclosure requirements may prove costly for entities to generate. That said, based on our technical analysis of the proposed standard in its current form, we have not identified any circumstances where the benefits would not outweigh the costs associated with preparing them.

One recommendation is that the costs of a sustainability audit be disclosed separately from the costs of a financial audit, as this will provide transparency over both.

Our final comment is that compliance costs are likely to increase when the building block approach is used, and jurisdictional requirements and other regulatory requirements are added to the global baseline standard.

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.

Other than the comments we have already mentioned in relation to earlier questions, we have nothing to add here.

However, in terms of verifiability, we believe this is dependent on a number of issues out of the Board's control. For example, what the International Auditing and Assurance Standards Board (IAASB) decide to do, whether they add new Standards or amend existing standards. It also depends on local jurisdictions and what they add to the Board's requirements.

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?**

Ideally IFRS S1 and IFRS S2 should be published together. However, if this is not possible, we believe that IFRS S2 should be published as soon as possible. Climate disclosures are the priority for investors.

In relation to the effective date versus the release date, we think this is a difficult one to comment on as it is down to local jurisdictions to enforce. Therefore, we recommend the Board make these Standards available as soon as possible and let jurisdictions determine how quickly they must comply.

We believe there is an opportunity to allow entities to apply some of the disclosure requirements before others. Particularly those in relation to governance and some strategy and risk management. Metrics and targets will be the most time-consuming area for entities due to the data collection, and so could allow them more time to implement these or provide a phased in approach. For example, we believe value chain metrics be phased in, as this is likely to be the most complex area.

We also support entities choosing to adopt earlier than is required, and therefore we recommend the Board include the early adoption clause.

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)?

As mentioned earlier, we believe it could be helpful to have a specific location for reporting the information. It would particularly help when it comes to tagging the information in a taxonomy. Having the information in the same place would ensure consistency of the tagging.

We recommend the Board focuses on the jurisdictions that will adopt the ISSB Standards as they are, and those that have regional adaptions can build on this accordingly.

We also recommend the Board keep the taxonomy as simple as possible, so it is easy to follow and implement.

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?

Overall, we do not see any issues with the Board intending that these requirements could be used as a comprehensive global baseline and the requirements of others could build on them. However, as it stands, we believe there is more work to be done to align other standards proposed by other standard setters with these proposals, so they can build on the ISSB standards.

Question 17—Other comments

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

We do not have any other comments to raise other than the following:

- We believe a post implementation review (PIR) should be done as soon as practicable after effective date of the Standard.
- We also believe there would be merit in the Board evaluating whether some differential reporting concessions for small and medium sized entities should be made. We appreciate the challenge for the Board will be establishing what criteria should be used for this regime (ie should it be based on financial amounts or ownership criteria, or some combination of the two). Given that 'IFRS for SMEs' (based on IFRS requirements) provided a pragmatic and cost-effective solution for many reporting entities, our wish is that some similar form of differential reporting could be applied to this standard and subsequent sustainability standards.

- We encourage the Board to consider the deployment of Transition Resource Groups (TRGs) to promote the consistent application of the new sustainability standards, particularly prior to their effective application dates. TRGs have proven to be a cost-effective and efficient way of sharing knowledge between standard setters, preparers, auditors and those charged with governance on how to resolve a wide range of commonly found application issues. Our view is that the discussions at sustainability TRGs meetings could also prove very helpful to the Board as it looks to develop a significant amount of guidance material in a relatively short period of time.