IFRS Sustainability

Staff paper

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ISSB meeting

Date	**September 2022**
Project	**Climate-related Disclosures**
Topic	**Summary of comments**
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Objective

1. This paper provides the International Sustainability Standards Board (ISSB) with:

   (a) an overview of the letters received during the comment period for the Exposure Draft IFRS S2 *Climate-related Disclosures* ([draft] S2); and

   (b) a summary of the feedback received.

2. The ISSB will have the opportunity to consider and discuss, as appropriate, each question included in the Invitation to Comment included in [draft] S2. The ISSB will not be asked to make any decisions during this session. However, ISSB members are asked to comment on any feedback that is unclear, that provides new information or that needs further research.

Structure of the paper

3. The paper is structured as follows:

   (a) background (paragraphs 4–5);

   (b) summary of feedback (paragraphs 6–12);

   (c) comment letters received (paragraph 13–20);

   (d) feedback by question (paragraph 21–145);

   (e) questions for the ISSB (paragraph 146); and

   (f) Appendix

Background

4. In March 2022, the ISSB Chair and Vice-Chair published [draft] S2, which set out proposed requirements for identifying, measuring and disclosing climate-related risks and opportunities. The proposals in [draft] S2 were developed in response to calls from users of general purpose financial reporting (users) for more consistent, complete, comparable and verifiable information, including consistent metrics and standardised qualitative disclosures, to help them assess how climate-related matters and the associated risks and opportunities affect:

(a) an entity's financial position and financial performance;

(b) the amount, timing and certainty of the entity's future cash flows over the short, medium and long term and, therefore,

(c) enterprise value; and/or

(d) an entity's strategy and business model.

5. [draft] S2 included an Invitation to Comment, soliciting public feedback on the proposals in [draft] S2. The questions presented in the Invitation to Comment are included in the Appendix to this paper.

Key themes emerging from feedback

Robust stakeholder response

6. The stakeholder response to the comment period on [draft] S2 was robust in terms of the volume of responses and the diversity of respondents. Nearly 700 respondents submitted comment letters and/or surveys. These respondents represented a range of stakeholder types and geographies. The strong response rate suggests significant and widespread interest across the global capital markets in [draft] S2, including the work of the ISSB to develop IFRS Sustainability Disclosure Standards more broadly.

7. Preparers of climate-related financial disclosures (preparers) represented the single largest stakeholder type that provided feedback. In addition, we note that the number of responses from users of general purpose financial reporting, including organisations that represent users such as investor associations, is high relative to commonly observed response rates to consultations from other standard setters or regulators. For example, many asset managers and asset owners that represent a wide range of sizes (in terms of assets under management), geographies and investment strategies provided feedback on [draft] S2, suggesting a high level of interest from investors and other users. Additional information on the composition of respondents is summarised in paragraphs 13–15.

Broad support for the proposals

8. The proposals in [draft] S2 were generally well-received by respondents, in particular by users of general purpose financial reporting, who expressed strong agreement with the proposed objective and the specific proposals. Respondents noted the urgency of climate-related disclosure, citing significant risks that climate change presents to individual entities as well as to financial stability and the world's capital markets more broadly.

9. While there is broad support for [draft] S2, many respondents also asked for greater support, guidance, and examples to enable effective application of the proposals. This includes requests from preparers for greater clarity on certain aspects of the proposals in [draft] S2. These aspects are primarily discussed in further detail in the feedback summary for question 1 on overall approach (see paragraphs 21–27), question 5 on transition plans and carbon offsets (see paragraphs 38–50), question 7 on climate resilience (see paragraphs 65–79), question 9 on cross-industry metrics categories and greenhouse gas emissions (see paragraphs 83–101).

Mixed views on certain aspects of the proposals

10. Most respondents agreed that most of the proposed requirements would result in disclosures that enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on an entity's enterprise value. Almost all respondents agreed with the proposals on governance, strategy, risk management, the cross-industry metric categories and targets. Views were mixed on specific proposals, including those relating to Scope 3 greenhouse gas (GHG) emissions, the use of scenario analysis and the industry-based requirements. Many respondents, in particular

users, broadly agreed with these proposals, however, many other respondents, in particular preparers, commented on operational challenges associated with the proposals.

Emphasis on the scalability of the proposals

11. While respondents generally expressed agreement with most of the proposals, most respondents, across stakeholder groups also raised concerns about the range of capabilities and preparedness of entities around the world to apply some of the proposals in [draft] S2. Most respondents, especially preparers, in addition to auditors and some users of general purpose financial reporting, noted that some disclosures will require significant resources, both in a transition phase (for example, investments in new systems), and on an ongoing basis (for example, human resources). Furthermore, most respondents, particularly preparers, noted that there is a need for more illustrative examples and guidance on specific requirements to aid application.

12. Each of the questions asked in the Invitation to Comment will be described in further detail below, along with a more detailed summary of the feedback received on that particular question. For topics subject to further redeliberation additional analysis of the feedback will be included in later board papers.

Comment letters received

13. The comment period ended on 29 July 2022. The ISSB received comment letters and survey responses from 690 respondents on [draft] S2.[1] Figures 1 and 2 show the breakdown of the respondents by stakeholder type and geographic region, respectively.

14. Respondents to [draft] S2 included the following types of stakeholders (Figure 1):

(a) users of general purpose financial reporting (users);

(b) preparers of sustainability-related financial disclosures (preparers);

(c) accounting profession and auditors, including accounting professional bodies and audit firms;

(d) standard-setters, including accounting, auditing, and sustainability standard-setters;

(e) regulators, including auditing, securities and prudential regulators;

(f) policy makers, including central banks and government bodies;

(g) public interest, including NGOs, not-for-profit, and charity; and

(h) academia, including academics and students.

[1] The total numbers of letters received may exceed the number of respondents as some respondents submitted more than one comment letter or survey.

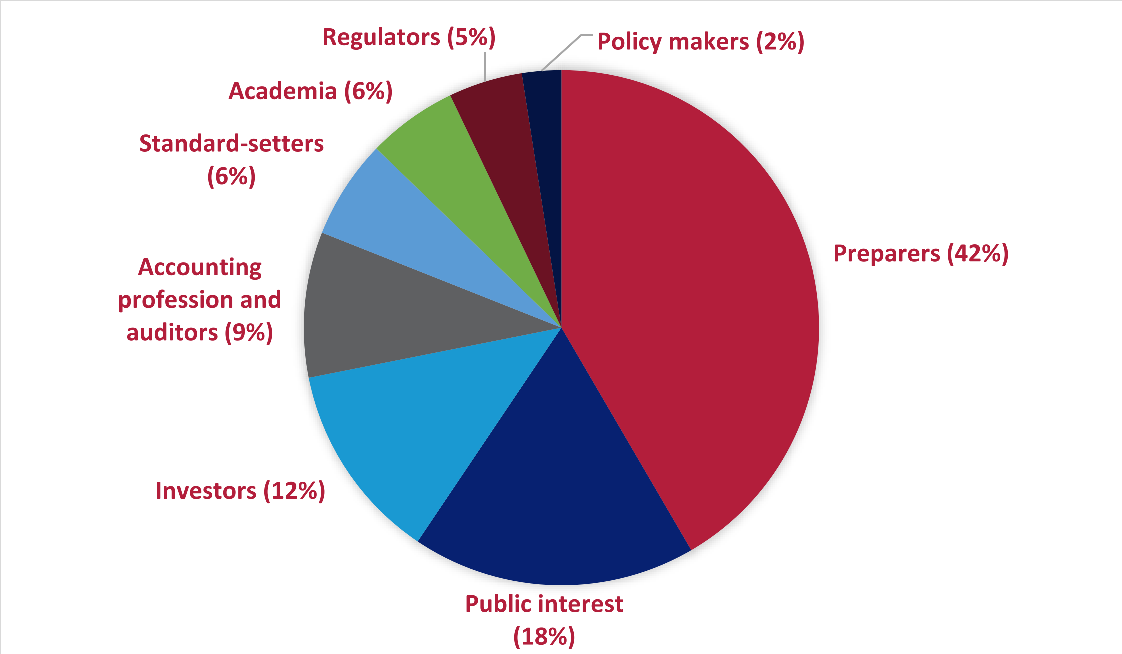

Figure – 1 Respondents by stakeholder type

15. Respondents to [draft] S2 provided an international perspective, coming from all geographic regions (Figure 2).

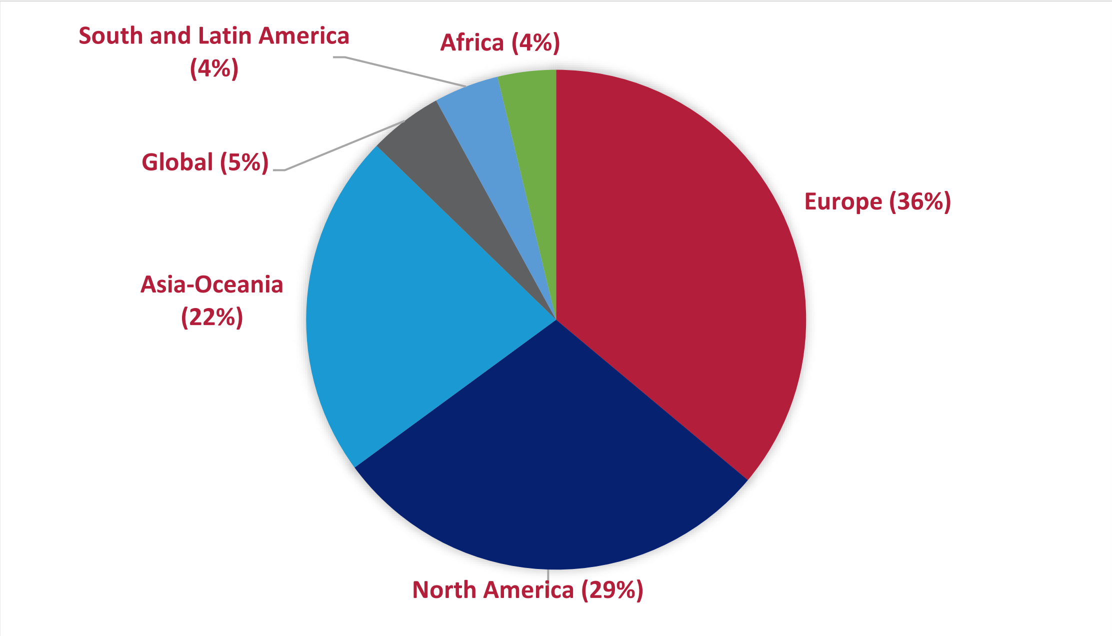

Figure – 2 Respondents by geographic region[2]

[2] South and Latin America geographic region category includes Mexico and the Caribbean.

Quantifying the feedback received

16. The paper uses the following terms to describe the extent to which feedback was provided by respondents (Table 1):

Term	Extent of response among respondents
Almost All	All except a very small minority
Most	A large majority, with more than a few exceptions
Many	A small majority or large minority
Some	A small minority, but more than a few
A few	A very small minority

Table – 1 Terminology used to quantify feedback responses received

17. The paper uses the term 'respondents' to refer to stakeholders who submitted comment letters or filled out a survey.

18. Respondents did not always comment on every proposal in [draft] S2. Consequently, we have used the terms listed in Table 1 to describe the proportion of the respondents that commented on a particular question/topic. This is not necessarily a proportion of all respondents.

19. When reviewing feedback from the respondents, we have identified areas for which we received different messages from individual stakeholder groups or from specific regions.

Feedback by question

20. This section follows the same structure as the Invitation to Comment, addressing each question as follows:

    (a) Question 1—Objective of [draft] S2 (paragraphs 21–27);

    (b) Question 2—Governance (paragraphs 28–30);

    (c) Question 3— Identification of climate-related risks and opportunities (paragraphs 31–34);

    (d) Question 4— Concentrations of climate-related risks and opportunities in an entity's value chain (paragraphs 35–39);

    (e) Question 5—Transition plans and carbon offsets (paragraphs 40–52);

    (f) Question 6—Current and anticipated effects (paragraphs 53–64);

    (g) Question 7—Climate resilience (paragraphs 65–79);

    (h) Question 8—Risk management (paragraphs 80–82);

    (i) Question 9—Cross-industry metric categories and GHG emissions (paragraphs 83–101);

    (j) Question 10—Targets (paragraphs 102–107);

(k) Question 11—Industry-based requirements (paragraphs 108–124);

(l) Question 12—Cost, benefits, likely effects (paragraphs 125–129);

(m) Question 13—Verifiability and enforceability (paragraph 130);

(n) Question 14—Effective date (paragraphs 131–138);

(o) Question 15—Digital reporting (paragraphs 139–141); and

(p) Question 16—Global baseline (paragraphs 142–145)

Question 1—Objective of [draft] S2

Question 1(a)—Objective

21. Most respondents, including most users of general purpose financial reporting, agreed with the proposed requirement for an entity to disclose information about its exposure to climate related-risks and opportunities. Specifically:

    (a) almost all respondents noted the need for a global baseline of consistent and comparable disclosure by entities on climate-related risks and opportunities; and

    (b) most respondents noted the urgency of climate-related disclosure, citing the significant risks that climate change presents to individual entities, as well as to financial stability and the world's capital markets more broadly.

22. However, some respondents, in particular public interest organisations, disagreed with the proposed objective. Specifically:

    (a) a few respondents said that the focus of the requirements should be broader than enterprise value. These respondents said that disclosure should include all information related to an entity's impacts on climate change, not just those impacts that are likely to be relevant to assessments of enterprise value; and

    (b) a few respondents said that the rationale for the proposed requirements is redundant for reporting entities that are already reporting climate-related risks and opportunities based on corporate ESG reporting, the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and IFRS Accounting Standards.

Question 1(b)—Objective focus

23. Most respondents agreed that the proposed 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. Most respondents also agreed that the proposed requirements set out in [draft] S2 meet the objectives described in paragraph 1 of [draft] S2. These respondents welcomed how the objective builds upon the TCFD recommendations.

Question 1(c)—Disclosure requirements enabling the objective

24. Many respondents raised concerns about the clarity of specific proposed requirements. These concerns included, but were not limited to, the use of the term 'significant' to describe the risks and opportunities that are included within the scope of disclosures in both [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ([draft] S1) and [draft] S2.

25. Some respondents, in particular public interest organisations and European respondents, said it would be difficult to accurately assess the effects of climate-related risks and opportunities on an entity's enterprise value without requiring entities to assess and disclose their impacts on climate change.

26. A few respondents agreed that information about an entity's impacts, dependencies and relationships when these create significant climate-related risks and opportunities for the entity is important as these affect users of general purpose financial reporting's assessment of enterprise value. However, these respondents said the proposals do not go far enough in requiring entities to assess their impacts on climate change.

27. Some respondents, in particular NGOs and academics, said that the proposed disclosure requirements should be amended to make it easier for users of general purpose financial reporting to assess the extent to which an entity's business operations and approach to climate change, including its transition plans, are aligned with the well below 2°C temperature goal of the Paris Agreement.

Question 2—Governance

Question 2(a)—Processes, controls, and procedures

28. Most respondents, including most preparers, users of general purpose financial reporting, and accounting professionals and auditors agreed with the proposed requirement for an entity to disclose information about the governance body or bodies with oversight of climate-related risks and opportunities, and information about management's role in those processes. Specifically, they agreed that:

    (a) it is beneficial that the proposed governance requirement is based on the TCFD Recommendations which should facilitate global convergence; and

    (b) the proposal is consistent with the objective of enabling users to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities.

29. A few respondents encouraged the ISSB to reduce the redundancy between [draft] S1 and [draft] S2 and noted that illustrative examples of sample disclosures would be helpful.

30. A few respondents noted that the proposed disclosures reflect governance arrangements that may not be relevant for smaller entities as they may configure their governance of climate-related risks and opportunities differently from larger entities. For example, respondents said that smaller entities are less likely to have separate committees and processes devoted to individual areas of sustainability-related risk, and that complying with such disclosures are expensive.

Question 3—Identification of climate-related risks and opportunities

Question 3(a)—Significant climate-related risks and opportunities

31. Many respondents agree with the proposed requirement to identify and describe significant climate-related risks and opportunities and found the proposed requirement in [draft] S2 to be sufficiently clear. However, some respondents suggested further clarification of the definitions for:

    (a) 'significant,' including how it is different than 'material';

    (b) 'climate-related';

    (c) 'reasonably expects'; and

    (d) short, medium, and long term.

32. Furthermore, some respondents suggested the need for guidance or illustrative examples to help them understand how to determine significant climate-related risks and opportunities. Some stated that additional guidance is needed on how climate-related risks and opportunities should be isolated from other sustainability-related risks and opportunities emerging from the application of [draft] S1 and, more generally, other business risks.

Question 3(b)—Applicability of disclosure topics

33. Most respondents agreed with the need to consider disclosure topics in [Draft] IFRS S2 *Climate-related Disclosures Appendix B Industry-based disclosure requirements* (Appendix B) in the identification and description of significant climate-related risks and opportunities, including almost all users of general purpose financial reporting and most preparers across all regions.

34. While most respondents agreed with the need to consider disclosure topics in Appendix B, respondents had mixed feedback on whether the disclosures in Appendix B should be required to be provided. A few suggested that the ISSB use stronger language to mandate the use of Appendix B. On the other hand, a few respondents suggested that Appendix B be a non-mandatory requirement due to:

   (a) jurisdictional applicability challenges; and

   (b) concerns that respondents may have had insufficient time to engage with the materials given their volume.

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

Question 4(a)—Effects of significant climate-related risks and opportunities

35. Most respondents agreed with the proposed requirement for an entity to disclose information that enables users of general purpose financial reporting to understand the entity's assessment of the current and anticipated effects of significant climate-related risks and opportunities on its business model and value chain.

36. Although most respondents agreed with the proposed requirement, a few suggested that the information provided be limited to suppliers that the entity directly conduct business with, such as contracted manufacturing facilities or production partners (Tier 1 suppliers) and the suppliers that the entity's Tier 1 suppliers directly do business with (Tier 2 suppliers). These respondents raised concerns about the cost and accuracy of information collected beyond Tier 2 suppliers, while a few respondents suggested different requirements for the aspects of the value chain for which an entity has direct control versus indirect control.

37. A few respondents stated that additional clarity is needed on the definition of 'value chain'.

Question 4(b)—Qualitative disclosures about an entity's concentration of climate-related risks and opportunities

38. Many respondents agreed that the disclosure required about an entity's concentration of climate-related risks and opportunities in its value chain should be qualitative rather than quantitative. However, some respondents, including many users of general purpose financial reporting and some individuals, asked that quantitative information should be required in addition to qualitative information where possible. Some respondents noted that the disclosure should only be qualitative, and not include quantitative disclosure as assumptions made to disclose quantitative figures may be inaccurate. In addition,

   (a) some respondents suggested further clarification of the term: 'anticipated effects'.

(b) some respondents suggested a need for further guidance or illustrative examples related to:

(i) determining risk concentration, and

(ii) assessing current and anticipated effects.

39. Many policymakers and a few users of general purpose financial reporting disagree with the proposed requirement that an entity disclose the concentration of climate related-risks and opportunities in the value chain. Many respondents from Canada also broadly disagreed with the proposal. Whilst reasons for this disagreement varied, some Canadian respondents said they wanted the requirement to be that entities provide quantitative disclosures about an entity's concentration of climate-related risks and opportunities when possible.

Question 5—Transition plans and carbon offsets

Question 5(a)—Transition plans

40. Most respondents agreed with the proposed requirement to disclose transition plans. Specifically, most respondents:

(a) view an entity's transition plans as critical for understanding the entity's strategy in responding to significant climate-related risks and opportunities; and

(b) said the proposed requirements provide a useful way for an entity to communicate to users of general purpose financial reporting how it plans to transition to a lower-carbon economy.

41. While most respondents agree with the proposed requirement, many noted operational concerns, specifically:

(a) concerns that the requirement is too high-level to ensure consistent application and that further guidance is needed to assist preparers;

(b) the lack of clarity between the proposed transition plan requirement and the proposed requirement for an entity to disclose its climate-related targets in paragraph 23 in [draft] S2;

(c) concerns that the disclosures may not be verifiable; and

(d) concerns about the timely availability, quality, and reliability of data.

42. Many respondents mentioned the Glasgow Financial Alliance for Net Zero (GFANZ) as a key driver to deliver clarity and consistency on the structure of transition plans; and some respondents recommended that the ISSB coordinate and align with GFANZ, as well as other existing initiatives.

43. A few respondents disagreed with the proposal to disclose transition plans, stating that the disclosure requirement is too specific and would pose a significant burden on smaller entities and emerging markets, and require disclosure of information that is potentially commercially sensitive.

Question 5(b)—Additional disclosures related to transition plans

44. Some respondents, including many users of general purpose financial reporting, preparers and regulators, felt that additional disclosure requirements were needed. Specifically, respondents suggested including a requirement:

(a) for an entity that does not have a transition plan to explain why, including whether it is intending to develop a transition plan, and if so, the timeframe in which the entity is planning to develop a transition plan;

(b) to disclose interim milestones as part of the entity's transition plans;

(c) to disclose absolute GHG emission reduction targets; and

(d) to disclose how transition plans will align with the Paris Agreement and science-based targets such as the 1.5°C reduction pathway.

Question 5(c)—Carbon offsets

45. Almost all respondents agreed with the proposed requirement that an entity disclose its intended use of carbon offsets in achieving its emissions targets. Specifically, most respondents agreed that the proposed requirement would provide:

(a) relevant information about an entity's approach to reducing its GHG emissions; and

(b) transparency around the entity's use of carbon offsets and the quality and credibility of those offsets.

46. A few respondents, most of which were preparers, noted that carbon markets are rapidly evolving, and that methodologies on how to use and evaluate carbon offsets are nascent. They argued that carbon offset disclosures may at this time be challenging for users of general purpose financial reporting to interpret.

47. While almost all respondents agreed with the proposed requirement that an entity disclose its intended use of carbon offsets, many respondents raised a concern that this disclosure should not obfuscate an entity's planned GHG emission *reduction* efforts. Specifically:

(a) some respondents raised a need to distinguish between a carbon offset and a carbon credit;

(b) many respondents said that the planned use of carbon offsets may provide an inaccurate view of the entity's ability to achieve its GHG emission targets. Instead:

(i) some respondents suggested that an entity be required to disclose its GHG emission reduction target as gross GHG emission reduction targets and that the entity's intended use of carbon offsets (credits) be required to be disclosed separately;

(ii) some respondents suggested that the ISSB provide guidance on the use of carbon offsets in the context of an entity's GHG emissions mitigation efforts; and

(c) further guidance may be needed to support entities in the application of the requirement and to ensure consistency of the disclosure by entities globally.

48. Some respondents encouraged the ISSB to collaborate with global initiatives on carbon offsetting, including work by the Greenhouse Gas Protocol (GHG Protocol), Net-Zero Banking Alliance (NZBA), the Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity (VCMI) and to coordinate requirements and materials where appropriate (for example looking at ways that information about certification should be included within required disclosures).

Question 5(d)—Cost to preparers vs the benefits to the users of general purpose financial reporting

49. Many respondents agreed that the costs and benefits of disclosing carbon offsets are balanced, as the information required in the disclosures should be readily available when an entity is intending to make use of carbon offsets.

50. Some respondents noted that the ISSB should give consideration to the different levels of capabilities and preparedness for the disclosure of transition plans in general, and the use of carbon offsets in

particular. These respondents noted how entities are currently challenged to hire specialists to provide climate-related disclosures, including transition planning, and that this is a proportionally larger challenge for smaller entities and entities in emerging economies.

51. Furthermore, some respondents cited concerns that a lack of illustrative guidance would result in high-level, boiler plate narratives and a lack of comparability. Additionally, a few respondents mentioned that a phased adoption of the carbon offset disclosures would be beneficial to ease the burden on preparers.

52. Data aggregators and public interest organisations made up most of those respondents who disagreed with the cost-benefit balance of the proposal.

Question 6—Current and Anticipated Effects

Question 6(a)—Quantitative disclosure of current and anticipated effects

53. Most respondents, including most preparers and most users of general purpose financial reporting, agreed with the proposed requirement that an entity disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities on its financial position, financial performance and cash flows unless the entity is unable to do so. Specifically:

    (a) most respondents, in particular users and accounting professionals and auditors, welcomed the proposed requirement for entities to disclose quantitative information;

    (b) most respondents, in particular preparers, said that the proposed disclosure requirement could be challenging for entities as:

        (i) some entities do not currently have the capabilities to provide quantitative disclosure and need time to implement systems to enable quantitative analysis;

        (ii) all entities may find it challenging to distinguish between the effects attributable to climate-related risks and opportunities from other sustainability-related matters;

        (iii) the methodologies and inputs that form the quantitative disclosures may have a high degree of uncertainty; and

    (c) most respondents, including users and preparers, agreed that entities be required to provide qualitative information when unable to provide quantitative disclosures as this would provide users with some of the information needed in a transition period while preparers implemented quantitative reporting techniques.

54. Some respondents said that further qualitative disclosure should be required to provide additional context alongside the current proposed required disclosure (whether the entity provides quantitative or qualitative disclosures) on the current and anticipated effects of significant climate-related risks and opportunities on the entity's financial position, financial performance and cash flows. These respondents argued that ideally both qualitative and quantitative information are necessary for users of general purpose financial reporting.

55. Some respondents stated that it would be helpful to have additional requirements, further clarity or more guidance on what an entity should disclose when it is unable to provide quantitative disclosures.

56. A few respondents disagreed with including a quantitative disclosure on the grounds that the costs of obtaining quantitative data may outweigh the benefits.

57. Finally, many respondents encouraged close coordination and cooperation between the ISSB and the IASB in this area.

Question 6(b)—Current effects of climate-related risks and opportunities

58. Most respondents agreed with the proposed requirement for 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.

59. A few respondents, including a few users of general purpose financial reporting and a few preparers, disagreed with the proposals. Preparers typically disagreed because of the challenges raised by respondents in paragraph 53 (b). The reasons a few users disagreed with the proposed requirement varied, including:

    (a) concerns that entities would not be able to disclose quantitative information with any degree of precision or reliability;

    (b) concerns that while the proposed disclosure requirement would capture effects of climate-related risks and opportunities on the entity's financial performance, financial position and cash flows, it would not capture information about the underlying drivers of the risks and opportunities associated with climate change; and

    (c) a request for further integration with the disclosures in the financial statements.

Question 6(c)—Anticipated effects of climate-related risks and opportunities

60. Many respondents, including most accounting professionals and auditors, agreed with the proposal to require an entity to disclose information on the anticipated effects of climate-related risks and opportunities on its financial position, financial performance and cash flows. Users of general purpose financial reporting, in particular, noted that this information is essential to enable the assessment of enterprise value.

61. Most of the respondents that agreed with the proposed requirement for 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, also agreed with this proposal.

62. Though many respondents agreed with the proposal, a few respondents asked for additional guidance about, or definitions for, 'short, medium and long term'. A few respondents suggested instead that the ISSB prescribe specific time horizons for disclosures.

63. Some respondents, in particular some preparers, disagreed with the proposal, arguing that the costs and operational challenges for preparers to estimate anticipated effects of climate-related risks and opportunities on financial position, financial performance and cash flows outweigh benefits for users of general purpose financial reporting.

64. A few respondents noted that disclosing anticipated effects of climate-related risks and opportunities on an entity's financial position, financial performance and cash flows is inherently uncertain, unlikely to be reliable, and could result in significant legal liabilities. Furthermore, a few respondents noted that the information entities would be required to be disclosed includes commercially sensitive and proprietary information.

Question 7—Climate resilience

Question 7(a)—Results of the analysis of climate resilience

65. Most respondents, in particular most users of general purpose financial reporting and standard-setters, agreed that the items listed in paragraph 15(a) in [draft] S2 reflect what users need to

understand about the climate resilience of an entity's strategy. While most users agreed with the proposed items listed in paragraph 15 in [draft] S2:

(a) some users noted the need for further capacity building, including guidance and illustrative examples.

(b) a few users noted that some of the items may not be relevant for all sectors. They argued that the ISSB should consider developing additional sector-specific requirements, or sector-specific guidance.

66. A few respondents argued that while they agreed with the items listed in paragraph 15(a) in [draft] S2, an entity should not be required to disclose information, practices or assumptions that are proprietary or commercially sensitive when disclosing the results of the analysis of its climate resilience.

67. A few respondents noted the need for further clarity on definitions and terminology, including suggestions to amend:

(a) the definition of climate resilience to better align it with the IPCC definition;

(b) paragraph 15(a)(ii) in [draft] S2 to clarify the threshold for 'significant' areas of uncertainty;

(c) paragraph 15(a)(iii) in [draft] S2 to clarify whether the entity's definition of short, medium and long term should be consistent with what it disclosed in paragraph 9(b) in [draft] S2.

Question 7(b)—Using alternative methods or techniques if unable to use climate-related scenario analysis

68. Many respondents welcomed the use of alternative methods or techniques to assess climate resilience when an entity is unable to conduct climate-related scenario analysis, in particular almost all regulators and accounting professionals and auditors agreed with this.

69. Many users of general purpose financial reporting agreed with the proposed requirement that an entity use climate-related scenario analysis to assess its climate resilience unless it is unable to do so, in which case the entity is required to use an alternative method or technique to assess its climate resilience. Specifically, these users said that:

(a) undertaking climate-related scenario analysis is a core TCFD recommendation and an essential tool to support users in understanding an entity's exposures to transition and physical risks, and how the entity is managing these risks.

(b) it enables users to assess the effects of climate-related risks and opportunities on an entity's enterprise value.

(c) undertaking climate-related scenario analysis can be challenging for entities, as they lack the resources and capabilities at present to undertake the climate-related scenario analysis. When an entity is unable to use climate-related scenario analysis, using an alternative method or technique to scenario analysis is preferred to no disclosure on an entity's climate resilience.

70. However, a few respondents, in particular some respondents from academia, public interest organisations and respondents representing industry groups, and some respondents from North America, disagreed with the proposed requirement. The reasons for disagreeing with the proposed requirement varied, specifically:

(a) a few respondents, in particular respondents from academia, disagreed with allowing alternatives saying that alternative approaches to assess climate resilience may impede comparability and should only be allowed as a transitional tool;

(b) a few respondents noted that further guidance is needed for the alternative methods and techniques;

(c) a few respondents argued that scenario analysis should not be required until the methodologies necessary to conduct and disclose useful results of climate-related scenario analyses are sufficiently well developed; and

(d) a few respondents, in particular respondents representing industry groups and from North America, disagreed that the use of climate-related scenario analysis should be required at all.

71. Some respondents raised a need for further guidance on when an entity would be considered unable to use climate-related scenario analysis and/or under which circumstances this would be expected.

Question 7(c)—Proposed disclosures about an entity's climate-related scenario analysis

72. Most respondents, including most respondents from academia, regulators and accounting professionals and auditors, broadly agreed with the disclosures about an entity's climate-related scenario analysis. These respondents said that this level of transparency will support users of general purpose financial reporting when evaluating how an entity has arrived at the results of the analysis.

73. Many respondents noted that there is a significant burden on entities to use climate-related scenario analysis, in particular for entities with less experience in climate-related disclosures or for smaller entities, as these are likely to be more resource constraints. As such, many respondents noted that more time may be needed. Furthermore, the need for additional guidance was highlighted.

74. Finally, some respondents argued that the disclosures should require inclusion of a 2-degree Celsius or 1.5-degree Celsius scenario, as they argued this is necessary for enabling users of general purpose financial reporting to assess the resilience of an entity's business model to transition risks.

Question 7(d)—Proposed disclosure about alternative techniques used for the assessment of the climate resilience of an entity's strategy

75. Most respondents, including almost all regulators, most preparers and many users of general purpose financial reporting, broadly agreed with the proposed disclosures about alternative techniques to enable the assessment by users of an entity's climate resilience. These respondents said that the disclosures would enable entities to disclose useful information to assess the entity's climate resilience when entities are unable to use climate-related scenario analysis. These respondents said that they view climate-related scenario analysis as the main tool for entities to use once they are able to.

76. A few respondents raised a concern that the proposed disclosures for alternative techniques lack clarity and that further guidance was needed to assist preparers.

Question 7(e)—Cost-benefit of an entity's strategic resilience to climate change

77. Most respondents, including most users of general purpose financial reporting and regulators and many preparers, agree that 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.

78. By jurisdiction, the feedback was mixed:

(a) almost all respondents in Africa and most respondents in Europe and South and Latin America agreed with the cost-benefit balance of the proposed requirement;

(b) only some respondents in Asia-Oceania expressly agreed with the cost-benefit balance of the proposed requirement; and

(c) some respondents in North America expressed disagreement that the requirements appropriately balance the costs with the benefits of the information.

79. A few respondents noted that the costs of performing scenario analysis are high across entities, but that the benefits outweigh the costs in the long run.

Question 8—Risk management

80. Most respondents agreed with proposed requirement for preparers to disclose the risk management processes that they use to identify, assess and manage climate-related risks and opportunities. Specifically:

(a) most respondents agreed that the proposed disclosures will enable users of general purpose financial reporting to understand the process an entity uses to assess its climate-related risks and opportunities, which will allow users to assess how robust those processes are;

(b) a few respondents noted how the requirement is interoperable with draft European Sustainability Reporting Standards (ESRS) E1 and ESRS E2's proposals that the entity shall provide a description of its processes to identify its sustainability impacts, risks and opportunities.

(c) most respondents agreed with the scope of the requirement to include the risk management processes that an entity uses to identify, assess and manage not only climate-related risks but also climate-related opportunities

81. However, the relationship between the risk management requirement in paragraphs 16-18 in [draft] S2 and the strategy requirement in paragraph 9 in [draft] S2 may have caused some confusion as a few respondents misunderstood the proposed risk management disclosure as requiring the entity to disclose information that enables users of general purpose financial reporting to understand the significant climate-related risks and opportunities to which the entity is exposed. This information is the subject of a proposed requirement in paragraph 9 in [draft] S2 in the strategy section. However, paragraphs 16-18 in [draft] S2 would require an entity to disclose the risk management processes that it uses to identify, assess and manage climate-related risks and opportunities.

82. A few respondents noted commercial sensitivities that could be associated with a requirement to disclose the process an entity uses to identify, assess and manage climate-related opportunities.

Question 9—Cross-industry metric categories and GHG emissions

Question 9(a)—Cross-industry metric categories

83. Almost all investors and most other respondents broadly agreed 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. Specifically, these respondents:

(a) said they appreciated how the proposed cross-industry metrics align with, and are building upon, the TCFD recommendations, as these are widely recognised by a broad range of stakeholders, including investors; and

(b) noted how the proposed cross-industry metric categories provide a common set of core climate-related disclosures applicable across sectors and industries, which could improve the comparability of disclosures across entities.

84. Most respondents, across stakeholder groups and jurisdictions, agreed with the proposed requirement in [draft] S2 paragraph 21(a) that an entity disclose its absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard, expressed as metric tonnes of CO2 equivalent. In particular, almost all respondents, across stakeholder types and jurisdictions, broadly agreed that entities should be required to disclose Scope 1 and Scope 2 GHG emissions. They suggested that the information would help users of general purpose financial reporting assess entities' exposure to particular climate-related risks and opportunities, enabling users' assessment of entities' enterprise value.

85. However, a few respondents disagreed with the proposed disclosure requirement. Furthermore, while most respondents broadly agreed with the seven cross-industry metric categories, some respondents raised concerns about particular aspects of the proposed requirement. Specifically:

(a) some respondents said that Scope 3 GHG emissions are likely to be challenging and costly for most entities to report accurately;

(b) some respondents said that the cross-industry metric categories are defined too broadly;

(c) a few respondents recommended that a phased implementation period be applied to some of the metrics such as Scope 3 GHG emissions, as well as the cross-industry metric categories for physical and transition risk;

(d) a few respondents noted that Scope 1 and Scope 2 GHG emissions should be mandatory to all entities, irrespective of materiality judgement;

(e) a few respondents suggested that there are areas of duplication between the cross-industry metrics and the industry-based metrics included in Appendix B;

(f) a few respondents said that further guidance addressing how cross-industry and industry-based metrics interact would be helpful; and

(g) a few respondents noted that some of the cross-industry metric categories could be challenging for entities in certain jurisdictions, such as internal carbon prices.

2. Many respondents also noted that further guidance is needed to assist preparers with the implementation and application of the cross-industry metric categories.

Question 9(b)—Additional cross-industry metric categories

86. Many respondents including most respondents from the accounting profession and auditors, said that the seven cross-industry metric categories are sufficient and did not propose additional cross-industry metric categories. In fact, many respondents emphasised keeping the cross-industry metrics to a limited number as this would give companies sufficient time to understand how to disclose them in an effective way.

87. Many other respondents, particularly respondents in Europe and North America, suggested additional cross-industry metric categories that they said would be useful. These included:

(a) a suggestion from a few respondents to include an additional requirement for an entity to disclose its GHG intensity, expressed as metric tonnes of CO_2 equivalent per unit of both physical and economic output;

(b) a suggestion from a few respondents to include additional requirements for an entity to disclose its energy consumption and/or the energy mix and/or the energy intensity; and

(c) a suggestion from a few respondents to include additional requirements relating to the entity's environmental impacts, and associated risks and opportunities, such as the disclosure of an entity's impact on biodiversity, the entity's water usage or an entity's usage of plastic packaging in the reporting period.

88. A few respondents noted that they wanted fewer cross-industry metric categories than those proposed in [draft] S2. These respondents typically suggested that the disclosure of Scope 3 GHG emissions should be optional.

Question 9(c)—Using GHG Protocol to measure GHG emissions

89. Most respondents agreed with using the GHG Protocol as a GHG measurement method, stating that the GHG Protocol is globally recognised, used by entities around the world and would allow for a standardisation of emissions data across jurisdictions, increasing comparability. A few stated the flexibility of different approaches to organisational boundaries in the GHG Protocol Corporate Standard would reduce comparability and diminish the usefulness of data.

90. Some respondents have raised concerns about [draft] S2 requiring disclosure of GHG emissions measured in accordance with the GHG Protocol Corporate Standard because entities already use national schemes or other international schemes like the International Organization for Standardization's (ISO) 14064. These entities would prefer flexibility in measurement methods used for disclosure.

91. A few respondents raised concerns about the [draft] S2 mandating use of third-party methods such as the GHG Protocol Corporate Standard because any changes or updates to the methods would be outside the ISSB's control. Furthermore, a few respondents noted that the GHG Protocol Corporate Standard is more than 20 years old, so that it may no longer be fit for purpose and might require updating.

Question 9(d)—Aggregation of greenhouse gases

92. Many respondents agreed that disclosing an aggregated total of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3 GHG emissions, expressed in CO_2 equivalent is sufficiently decision-useful to users of general purpose financial reporting and cost-effective for preparers. However, among those who agreed, most respondents further suggested that disaggregation may be helpful in the following situations:

    (a) if there are sector- specific requirements, as in the oil and gas industry (e.g., methane disclosure); and

    (b) if information about a specific component gas is material or if there is a significant portion from gases other than CO_2.

93. In addition, many respondents said they prefer that preparers use consistent, standardised global warming potentials (GWP) or disclose methodologies and emission factors for each gas. Some respondents, notably policymakers and respondents from North America, said they prefer disaggregated disclosure of component GHGs if the data is readily available, since each GHG has a different lifetime and impact in the atmosphere. In addition, some users of general purpose financial reporting said that disaggregated data would help users assess and manage the unique risk-return profile associated with different gases, including exposure to regulations that limit specific gas emissions.

Question 9(e)—Separate Scope 1 and Scope 2 emissions

94. Most respondents agreed that entities should be required to disclose Scope 1 and Scope 2 emissions for the consolidated accounting group (the parent and its subsidiaries), saying that such disclosure would help users of general purpose financial reporting understand and compare the total emissions for entities with different business structures.

95. However, further clarity might be needed as many respondents understood the requirement to mean that an entity would be required to disclose all the GHG emissions from its associates, joint ventures, unconsolidated subsidiaries, or affiliates, irrespective of consolidation approach.

96. Some respondents requested more clarity on how entities should disclose their GHG emissions using the GHG Protocol Corporate Standard.

Question 9(f)—Absolute gross Scope 3 emissions

97. Most respondents that are users of general purpose financial reporting and global organisations agreed with the proposal to require the disclosure of absolute gross Scope 3 GHG emissions by all entities. These respondents cited a range of reasons for their position, including statements suggesting that:

  (a) Scope 3 emissions can represent a significant portion of an entity's overall emissions profile and leaving it out could present a misleading view of an entity's risk exposure;

  (b) Scope 3 emissions disclosure is increasing and improving across all sectors and jurisdictions, which respondents said reflects an increasing recognition that Scope 3 emissions are an important component of investment risk analysis and enterprise value assessment; and

  (c) Scope 3 emissions disclosure can help users evaluate the extent to which an entity is exposed to transition risk and is adapting to a lower-carbon economy or meeting its net zero targets.

98. Although many preparers broadly agreed with the proposal to require the disclosure of absolute gross Scope 3 emissions by all entities, they and other respondents expressed a range of concerns about particular aspects of the requirement. Specifically:

  (a) many stated that data collection practices and technologies for Scope 3 emissions are nascent and therefore it is difficult to obtain reliable, high-quality data for Scope 3 emissions from sources that fall outside an entity's direct control;

  (b) many stated reporting Scope 3 data will place an undue burden on entities in the value chain;

  (c) many stated that there are significant timing challenges in aggregating and reporting Scope 3 emissions data across different value chain entities and difficulties arising from the different financial reporting periods of those entities;

  (d) many stated that Scope 3 measurement and disclosure methods are undeveloped or still developing and therefore it will be difficult to obtain a faithful, accurate or comparable measure given the significant reliance on estimates and assumptions; and

  (e) a few stated that the usefulness of Scope 3 information is compromised by the risks of double counting.

99. Many respondents asked for additional clarity on the reporting boundary for Scope 3 disclosure, and further guidance on how many levels up and down the value chain the entity should count for Scope 3 GHG emissions.

100. Some respondents agreed with the proposal to require entities to disclose gross Scope 3 GHG emissions, but recommended a safe harbour or phased-in approach because they said:

  (a) getting sufficient information from entities in the value chain at least initially is likely to prove challenging; and

(b) data availability and process maturity will differ by jurisdiction and entity.

101. Some respondents asked for more clarity on what measurement methodology reporting entities should or can use for preparing their Scope 3 GHG emissions information and whether the disclosure should be based on the 15 categories from the GHG Protocol Corporate Value Chain (Scope 3) Standard. In addition, some respondents assumed the Scope 3 disclosure is not subject to materiality and raised concerns about disclosing all categories of Scope 3 emissions throughout their value chain.

Question 10(a)—Climate-related targets

102. Most respondents agreed with the proposed requirement that an entity disclose its climate-related targets. In the instances respondents elaborated on key aspects of the requirement they agreed with, they often highlighted paragraph 23(e) in [draft] S2, that an entity disclose how its targets compared with those created by the latest international agreement on climate change.

103. However, some respondents raised comments that suggested further clarity may be needed between the requirement that an entity disclose information regarding climate-related targets for its transition plans in paragraphs 13(b) in [draft] S2 and the requirement that an entity disclose its climate-related targets in paragraph 23 in [draft] S2. For example, a few respondents said that there was an overlap between the two requirements and asked whether this could be removed. A few other respondents expressed a concern that the relationship between the two requirements might not be clear or asked for further guidance as to the difference between the two requirements.

104. Furthermore, many respondents suggested additional requirements for entities disclosing their climate-related targets or asked for further clarity and/or guidance, including:

(a) an entity's GHG emission targets—for example, whether an entity should be required to disclose which GHG emission Scopes are included in the target, or for example additional guidance on the use of carbon offsets to achieve an entity's GHG emission targets;

(b) the latest international agreement on climate change—for example, additional guidance on how an entity sets climate-related targets that align with the latest international agreement on climate change;

(c) other climate-related targets—for example, what climate-related targets entities could consider in addition to GHG emissions targets and what information entities should disclose on these; and

(d) further guidance on what entities should disclose if it revises its targets.

105. A few respondents noted that the proposed disclosure requirement does not identify the use of pre-defined timeframes, which they said could undermine comparability and increase the cost of analysing various companies' performance goals across and within sectors or asked for interim disclosures on performance against those targets.

Question 10(b)—'Latest international agreement on climate change'

106. Many respondents agreed that the definition of 'latest international agreement on climate change' is sufficiently clear and that referencing the 'latest international agreement on climate change' allows for flexibility in reporting as the international agreements get updated. A few noted that in the event that the Paris Agreement is revised in the future, the 'latest international agreement on climate change' may become different depending on the timing each jurisdiction ratifies the new agreement. Accordingly, these respondents suggested it may be useful to disclose which agreements the entity considered to be the 'latest international agreement on climate change' when it sets targets.

107. A few respondents suggested a need for further clarity given that it is ambiguous whether the statement indicates alignment with a global threshold of below 2°C, a 1.5°C aspirational target or a country-level jurisdictional target.

Question 11—Industry-based requirements

Questions 11(a) & 11(b)—International applicability of industry-based requirements

108. Respondents' feedback to questions 11(a) and 11(b) was similar. For conciseness, the responses to both questions have been combined.

109. Most respondents, across jurisdictions, including most preparers, users of general purpose financial reporting and policymakers and many regulators and public interest organisations, agreed with the approach taken to enhance the international applicability of the industry-based requirements and said it would enable entities to apply the requirements regardless of jurisdiction.

110. While most respondents agreed with the approach taken and with the proposed amendments to a subset of the industry-based requirements, many said that additional improvements are needed before the industry-based requirements can be applied internationally. Many respondents expressed the view that the SASB Standards, from which the industry-based requirements were derived, display a regional bias and suggested that further research and consultations are needed to capture jurisdictional variations. These comments related both to the applicability of the SIC classification categories and particular disclosure requirements.

111. Some respondents suggested that Appendix B should be non-mandatory or introduced in a phased manner with additional guidance to support application, particularly by entities in jurisdictions where use of the SASB Standards is less prevalent.

Question 11(c)—Consistency with prior reporting periods

112. Most respondents agreed that for entities that have used the SASB Standards, the industry-based requirements would enable them to continue to provide information consistent with equivalent disclosures in prior periods.

Question 11(d)—Financed and Facilitated Emissions

113. Many respondents, including almost all regulators and most investors, agreed with the proposed industry-based disclosure requirements for financed and facilitated emissions, suggesting they find it additive to the cross-industry requirement to disclose Scope 3 GHG emissions (which includes Category 15: Investments). A few respondents recommended further guidance be provided to ensure comparability. Agenda paper 4D *Climate-related Disclosures—Financed and Facilitated Emissions* provides more detailed analysis of the feedback received on these proposed disclosures.

Question 11(e)—"Carbon-related' Industries

114. Many respondents agreed with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities. A few respondents noted that further guidance may be needed to clarify sectors given that different jurisdictions may have different interpretation of the industries.

Question 11(f)—Absolute and Intensity-based Financed Emissions

115. Most respondents agreed with the proposed requirement to disclose both absolute and intensity-based financed emissions. A few respondents noted that absolute metrics are sufficient.

Question 11(g)—Methodology

116. Most respondents agreed with the proposals to require disclosure of the methodology used to calculate financed emissions. A few respondents suggested that the requirement to disclose

methodology should include information about when significant judgement is applied or high levels of uncertainty exist that may significantly affect the calculation. These respondents said such disclosure would be helpful given the relative immaturity of the metrics.

Question 11(h)—GHG Protocol Corporate Value Chain (Scope 3)

117. Most respondents agreed 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. However, many respondents also suggested the use of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry, suggesting that it would enable greater consistency and comparability among disclosures. A few users of general purpose financial reporting disagreed with the proposal only to use the GHG Protocol Corporate Value Chain Standard without providing further guidance, as did respondents from Canada and some European countries.

Question 11(i)—Financed emissions associated with total AUM

118. Respondents had mixed view on whether the disclosure of financed emissions associated with total assets under management provides useful information for the assessment of an entity's indirect transition risk exposure in the asset management and custody activities industry. Whilst many respondents agreed with this disclosure, in particular auditors, only some investors agreed.

Question 11(j)—Proposed Industry-Based Requirements

119. Many respondents, including almost all respondents from Africa and most respondents from North America and South and Latin America, agreed with the proposed inclusion of industry-based requirements, recognising that climate-related risks and opportunities often manifest differently in different industries. While many respondents agreed that industry-based requirements are necessary information for users of general purpose financial reporting to enable their assessment of an entity's enterprise value, some respondents expressed concerns with the international applicability of Appendix B. A few other respondents noted that certain industry-based requirements may duplicate content in other parts of [draft] S2.

120. Many respondents from all regions, most notably including those in South America and Africa, that agreed with the proposed industry-based requirements, mentioned the widespread support for and use of the SASB Standards, from which the industry-based requirements in Appendix B were derived.

Question 11(k)—Additional industry-based requirements that address climate-related risk and opportunities

121. Some respondents suggested additional industry-based, climate-related disclosure requirements that they said were absent from Appendix B and are necessary to enable users of general purpose financial reporting to assess enterprise value.

122. Some respondents said that some of the industry-based requirements proposed in Appendix B cover topics that are broader than climate-related risks and opportunities and suggested that this should be addressed.

Question 11(l)—Industry Descriptions

123. Some respondents expressed a preference for using the Global Industry Classification System (GICS) as opposed to the Sustainable Industry Classification System (SICS) to classify industries as a basis for establishing the applicability of the industry-based disclosure requirements. A few respondents noted that they are not clear on the implications for an entity that does not fit into any of the industries or for an entity that fits into multiple industries, such as a conglomerate. These respondents suggested that the ISSB issue a guidance document outlining the concept of industry classification selection.

124. Additionally, a few respondents said that the industry categories may not apply in certain countries or jurisdictions so questioned global applicability.

Question 12— Cost, benefits, likely effects

Question 12(a)—Implementation costs, benefits and likely effects

125. Many respondents commented that the benefits of implementing climate-related disclosure are likely to outweigh the costs. Specifically, respondents suggested that implementation of [draft] S2 would:

(a) improve entities' monitoring of climate-related risks and opportunities, leading to more informed internal decision-making and enterprise value creation;

(b) encourage entities with less mature disclosure practices to improve, enhancing the comparability of information available to markets;

(c) promote efficient markets that reflect the cost of risk; and

(d) reduce the risk that fragmented jurisdictional disclosure requirements will increase complexity for preparers and users of general purpose financial reporting.

126. Most respondents, particularly preparers, said the cost of implementing [draft] S2 would be substantial. Some respondents said it would be extremely costly. Most respondents from the banking sector commented that [draft] S2 would entail substantial costs and investments for banks. One commenter in this group noted that costs associated with cross-industry requirements would be manageable, but that costs associated with industry-based requirements, if full implementation is required, would be significant. Other costs mentioned included those associated with:

(a) hiring and training staffing, as well as potential outsourcing costs (hiring consultants);

(b) implementation of systems and processes to capture, store and access data; and

(c) additional implementation costs to entities that have less experience in climate-related disclosures.

Question 12(b)—Ongoing application costs

127. Many respondents said that many of the costs involved are a one-off investment with permanent benefits and that the costs after the initial year would be significantly lowered. However, respondents mentioned the following ongoing costs, associated with:

(a) discrepancies between disclosures released by the U.S. Securities and Exchange Commission (SEC), the European Financial Reporting Advisory Group (EFRAG) and the ISSB, which respondents said would increase costs to preparers that need to comply with all three or two of these standards;

(b) ongoing staff and data management expenses, in particular those associated with disclosures that require information from an entity's value chain; and

(c) independent, third-party assurance.

128. Additionally, some respondents mentioned that a phased approach to the effective date would help ease the cost burden on preparers.

Questions 12(c)—Disclosures where benefits would not outweigh costs

129. Some respondents said that the benefits of implementing certain disclosure requirements may not outweigh the costs associated with preparing the information, including the proposals associated with:

(a) the industry-based requirements included in Appendix B; and

(b) Scope 3 GHG emissions.

Question 13—Verifiability and enforceability

130. Many respondents said that there could be some challenges in verifying sustainability information. Specifically:

(a) some respondents said that the proposed requirement that an entity disclose Scope 3 GHG emissions could present challenges for verifiability, as the disclosure relies on estimates and data outside the entity's control—similar concerns were raised on the concentration of risks in the value chain.

(b) some respondents said that proposed requirements for entities to use scenario analysis (unless the entity is unable to do so) and the requirement for entities to disclose the anticipated effects of climate-related risks and opportunities on their financial performance, financial position and cash flow, could be difficult to verify because of their prospective nature and levels of uncertainty.

(c) a few respondents suggested that entities should be required to disclose the methodologies they used and key assumptions in order to facilitate verification. A few respondents also recommended that preparers disclose the judgements and assumptions used when determining which climate-related risks and opportunities are 'significant' and which disclosures are 'material' to users of general purpose financial reporting.

(d) a few respondents mentioned that reporting sustainability-related information alongside financial statements will strain external resources such as auditors, accountants and outside counsel and would therefore pose difficulty with verification.

Question 14—Effective date

Question 14(a)—Effective Date Earlier/Later/Same as IFRS S1

131. Most respondents said that IFRS S2 should have the same effective date as IFRS S1. Most respondents emphasised that to apply the proposed requirements in [draft] S2 appropriately, it is necessary to apply it at the same time as the general features set out in [draft] S1. Furthermore, many respondents noted that investors need data that is consistent, across all sustainability-related risks and opportunities to assess an entity's enterprise value.

132. A few respondents said that [draft] S2 should have a later effective date than [draft] S1, to allow extra time for entities to invest in and implement the systems needed to measure and report against the proposed disclosure requirements in [draft] S2.

133. A few other respondents said [draft] S2 should have an earlier effective date than [draft] S1. Those respondents emphasised the urgency for consistent and comparable climate-related disclosures due to the significance of climate-related risks and opportunities for most entities. Furthermore, those respondents highlighted the widespread adoption of the TCFD recommendations as a reason [draft] S2 should have an earlier effective date.

Question 14(b)—Effective date

134. Most respondents provided no suggestion for an effective date. However, a few respondents did provide an estimate for how long after IFRS S2 is issued the effective date should be. Of the few respondents that provided an estimate:

   (a) some respondents suggested that IFRS S2 should be effective as soon as possible, or within one fiscal year of IFRS S2 being issued;

   (b) many respondents suggested an effective date of two or more years; and

   (c) some respondents suggested an effective date of three or more years.

135. While there was a wide range in the estimates provided by the respondents, the rationales behind the estimates were similar: the respondents typically highlighted that preparers would need time to invest in the appropriate systems to ensure that they could collect and disclose the information.

136. Many said that the implementation should be phased, either by requiring some disclosures to be effective earlier than others, which is outlined in paragraphs 137–138, or by requiring larger listed entities to apply the disclosure requirements sooner than smaller listed entities. A few respondents suggested aligning the effective date with the EFRAG and U.S. SEC's requirements.

Question 14(c)—Disclosures that could be applied earlier

137. Many respondents agreed that entities could apply some of the disclosure requirements included in the [draft] S2 earlier than others. Specifically, a few respondents suggested that:

   (a) the proposed risk management and some proposed strategy disclosure requirements (those that would require an entity to disclose a description of significant climate-related risks and opportunities over the short, medium and long term), could be applied earlier than other requirements. This is because these requirements form the first steps for an entity to identify and address the sustainability-related risks and opportunities to which it is exposed;

   (b) disclosure requirements that are more qualitative in nature, for example, those related to governance and risk management, could be applied earlier than other requirements because they require less investment by entities in systems for collecting and reporting information; and

   (c) Scope 1 and Scope 2 GHG emission disclosures could be disclosed earlier, because these disclosures are already widely used.

138. However, some respondents disagreed that some disclosures can be applied earlier, noting that it is the combination of the information that provides users of general purpose financial reporting with a holistic understanding of an entity's risk and approach to climate change. In their view all disclosures should be required to be effective at the same time.

Question 15—Digital reporting

139. Most respondents agreed with, and welcomed, the development of a digital taxonomy, saying it would contribute to the global availability and accessibility of data. Respondents noted that with the increase in textual or narrative data, detailed tagging would help to synthesize varied sustainability and climate-related disclosures consistently.

140. Some respondents noted that there would be challenges in implementing digital reporting, namely that the approach would need to be consistent across different jurisdictions and that international alignment would be crucial to ensure that there is no fragmentation or confusion for issuers and users of general purpose financial reporting alike.

141. There was mixed feedback regarding the implementation timeline of this proposal, however, with some respondents noting that it would be expedient to roll out digital reporting alongside finalizing IFRS S1 and IFRS S2 while others urged the ISSB to finalize IFRS S1 and IFRS S2 prior to facilitating the development of an accurate taxonomy.

Question 16 – Global baseline

142. Almost all respondents agreed with, and welcomed, the development of IFRS S2 to enable a comprehensive global baseline of climate-related financial information for the world's capital markets.

143. Most respondents agreed that there is a need for the IFRS Climate-related Standard to be interoperable with jurisdictional initiatives, in particular highlighting the work of the EFRAG and U.S. SEC.

144. Many respondents, in particular preparers, raised that there are aspects of the proposals in [draft] S2 they believe would limit the ability of the IFRS S2 to be used as a global baseline of sustainability information for the world's capital markets. Specifically:

(a) most respondents suggested that the ISSB should give more consideration to the range of capabilities and preparedness of entities around the world to apply the proposals in the exposure drafts [draft] S1 and [draft] S2.

(b) some respondents noted the different concepts of materiality used by EFRAG's reporting standards and those of the ISSB. A few respondents observed that although the scope of the standards will be different, there needs to be a common set of definitions and clearer illustration of how the two approaches are interoperable.

(c) a few respondents noted the ISSB's use of different terminologies to refer to similar concepts used by jurisdictions (for example, ISSB's use of 'carbon offsets' and EFRAG's use of 'carbon credits').

145. A few respondents welcomed the IFRS Foundation's establishment of its new Jurisdictional Working Group and the Sustainability Standards Advisory Forum.

Questions for the ISSB

146. Staff presents the following questions for the ISSB.

Question for the ISSB
1. Does the ISSB have any questions on the feedback summarised in this paper?
2. Is there any information provided that is unclear?
3. What other comments does the ISSB have on the feedback received on [draft] S2?

Appendix—Questions in the [draft] S2

Questions for respondents

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?

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?

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?

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?

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?

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?

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?

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?

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

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

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

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

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

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

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

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

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

For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;

- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

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

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

(a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

(b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?

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

(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

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?

Question 11—Risk management

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?

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?

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.

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?

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)?

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?

Question 17—Other comments

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