International Sustainability Standards Board
Columbus Building
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28 July 2022

Dear Sir/Madam

Re: ED/2022/S2

Please find our detailed response to the IFRS S2 Climate-related Disclosures Exposure Draft in Appendix B. Our single cover letter which identifies the key issues we would like to draw your attention to on IFRS S1, General Sustainability-related Disclosures and IFRS S2, is included in the response to IFRS S1.

Please do not hesitate to contact Henry Daubeney (henry.daubeney@pwc.com), Scott Bandura (scott.bandura@pwc.com), Andreas Ohl (andreas.ohl@pwc.com) or Mark O'Sullivan (mark.j.osullivan@pwc.com) if you have any questions with respect to our responses.

Yours faithfully,

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Appendix B - Responses to the S2 Exposure Draft Questions

Question 1—Objective of the Exposure Draft
Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting: • to assess the effects of climate-related risks and opportunities on the entity's enterprise value; • to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and • to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities. Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not? (b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value? (c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

We support the overall objective in the Exposure Draft and the ISSB's ambition for the IFRS Sustainability Disclosure Standards to be the global baseline for sustainability reporting.

However, we have a number of concerns, as set out below, that we believe need to be addressed if users are to receive the information that matters and avoid unnecessary duplication or voluminous, boilerplate disclosures on any potential risk or opportunity:

Emerging risks – Certain emerging risks might be monitored by management as part of strategic planning and to understand the potential headwinds that a business might face. In some cases, it could be difficult to precisely quantify the impact of such emerging risks on the current enterprise value of an entity, because there is not yet consensus about how different parties would factor these risks into business valuation models, even though there is likely to be consensus amongst investors that it is prudent for management to consider these risks in its stewardship of a business. To the extent that a sustainability-related risk is being actively monitored by management in the strategic planning for a business, we believe that there should be a presumption that such risk is material to enterprise value and hence that such risk would form part of 'significant sustainability risks', unless this presumption can be overcome by clear evidence.

Please refer to our response to Question 2(a) in Appendix A to our response to IFRS S1 ("Appendix A") for more detail on our point of view.

Definitions – In addition to the terms suggested in the S1 Exposure Draft response in Appendix A that we believe require definitions and/or further clarification, there are a number of terms used in the S2 Exposure Draft that, while examples might have been provided, have not been clearly defined. For example, 'direct' and 'indirect mitigation and adaptation efforts', 'vulnerable', 'amount of assets/business activities vulnerable to physical risks', and 'resilience' have not been defined or need additional clarification as to the meaning of terms used in the definitions where definitions have been provided. We believe that additional key terms should be defined in Appendix A to the S2 Exposure Draft, with reference to the source of the definition where applicable (such as the Intergovernmental Panel on Climate Change (IPCC), GHG Protocol Corporate Standard). This will facilitate consistency across disclosures, because there will be less interpretation needed, and it will reduce subjectivity. Further, where possible, we believe that there is benefit to aligning the definitions of terms used in the S2 Exposure Draft with those used in IFRS standards, and by other standard setters. This is consistent with the objective of the ISSB standards being the global baseline, it will promote the usefulness of information for investors, and it will reduce costs for preparers to report information under multiple frameworks.

Management's view – Please refer to our response to Question 1(a) in Appendix A for our views on the importance of utilising a 'management approach' and the need for clarification over which aspects of the draft standard (if any) are mandatory, regardless of management's assessment of the significant climate-related risks and opportunities.

Closer alignment between IFRS S1 and IFRS S2 – As noted in our response to Question 1(a) in Appendix A, we believe that additional clarity is needed about the role of the S1 Exposure Draft, and its interaction with the S2 Exposure Draft (and future thematic standards). Otherwise, there is a danger that the S2 Exposure Draft, and future thematic standards, could be approached without a broader consideration of significant sustainability-related information, resulting in excess volume, repetition and generic disclosures.

Further, the S2 Exposure Draft is relatively silent on the 'general features' of the S1 Exposure Draft, particularly the concepts of the reporting entity and connected information. We believe that either clear cross-referencing or an upfront summary of these features should be emphasised in the standard itself, and this should play a key role in the way in which companies approach reporting. We believe that these clarifications, as well as for how associates and joint ventures should be considered in the S2 Exposure Draft and other future thematic standards, will enhance the role of the S1 Exposure Draft and position it appropriately in advance of the proposed increase in thematic standards. Please refer to our response to Question 5(a) in Appendix A for further recommendations on the role of the S1 Exposure Draft in setting the reporting boundaries.

Connectivity – In our UK member firm's monitoring of emerging UK practices in mandatory TCFD reporting, we have found that there is often a lack of connectivity between the disclosures required under the pillars (referred to as 'the core content' in the S1 Exposure Draft) as they are presented in the annual report (for example, between the climate-related risks identified and strategic response/metrics, between scenario analysis and climate-related risks identified). Further, we have found that, while many companies provide extensive climate-related disclosures in the front half, their conclusions as to why the issue is 'not material' for the financial statements could be made clearer. We believe that the concept of 'connected information' needs to be emphasised throughout the S2 Exposure Draft – for example, with additional implementation guidance/illustrative examples to identify how the connections between the assumptions underpinning the assessment of significant climate-related financial risks and information and those for the general purpose financial reporting should be disclosed or differences explained (or, more broadly, the interplay between the climate-related risks and opportunities identified, and the metrics and targets to track progress).

Primary users – Please refer to our response to Question 8(a) in Appendix A for considerations on 'potential' investors as a primary user.

Question 2—Governance
Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.

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

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

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

We believe that the proposed disclosure requirements meet the objective of providing information on processes, controls and procedures used to monitor and manage climate-related risks and opportunities.

However, by only focusing on this information, rather than the application of these processes and what influence they have had on the strategic direction of the business, we are concerned that the information might become boilerplate. Please refer to our response to Question 4 in Appendix A for our recommendations to help reduce the risk of boilerplate disclosures about governance, and clarification of the proposed disclosure requirement in paragraph 5(a) regarding disclosure of the identity of the individual within a body responsible for oversight of climate-related risks and opportunities.

We are conscious that governance disclosures are already required in a number of regulatory regimes, and therefore there is a risk of repetition and potential inconsistencies in disclosures. Further, there are similar overlaps with other parts of the exposure draft, including strategy and risk management. We acknowledge, and support, the recognition of this issue in paragraph 6 (to avoid unnecessary duplication). Our UK member firm's experience to date with TCFD reporting in the UK has shown that there is often repetition and minimal linkage made between the various pillars (for example, between scenario analysis, risk management and the strategic plans in place to manage them). As mentioned in our response to Question 1 above, we encourage there to be more emphasis on the principle of connectivity within the core content and the importance of avoiding repetition throughout the S2 Exposure Draft.

Question 3—Identification of climate-related risks and opportunities

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

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

(a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

(b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

(a) We believe that the requirements to disclose a description of significant climate-related risks and opportunities are clear. However, we believe that there are a number of areas that need to be addressed to avoid the risk of voluminous, boilerplate, and potentially repetitive disclosures of potential climate-related risks and opportunities.

Isolating climate-related risks and opportunities – we believe that there could be a challenge in isolating the effects of climate-related risks and opportunities from other sustainability-related risks and opportunities, as well as from broader business risks. For example, the definition of 'transition risks' is broad, potentially encompassing a wide swath of an entity's strategy. There are also application issues related to the definition of transition risks; it might be unclear, for example, if changes in law or regulation are related to climate risks or if reduced customer demand is attributable to carbon concerns or general consumer trends.

Assessing how an entity should disclose its strategic and risk management activities, where climate is only one consideration (which would often be the case), would be especially challenging in evaluating how such risks have affected an entity's most recently reported financial position, financial performance and cash flows. For example, should an identified significant risk be disclosed as climate-related if climate is at all a consideration when management monitors the risk, or should it only be disclosed as a climate-related risk if climate is the predominant factor that management considers when monitoring the risk? We believe 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 IFRS S1 (and broader business risks) and the implications for the other disclosure requirements around strategy and governance.

This challenge is clearly not unique to climate-related risks and opportunities, given that many sustainability-related risks identified will have overlapping characteristics that might relate to other risks, such as biodiversity or water-scarcity. Please refer to our recommendation in our single cover letter on interoperability of the standards.

Definitions of 'significant' and 'reasonably expects' – we believe that additional clarification is needed regarding the terms 'significant' and 'reasonably expects'. Please refer to our responses to Questions 1(a) and 17, respectively, in Appendix A for our recommendations.

(b) We 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. However, we do not think that the disclosure of these topics, or metrics, should be required in order to be able to state compliance with the standard. Instead, we recommend a focus on the climate-related risks and opportunities that management assesses, monitors and manages. We would suggest that the ISSB should undertake a project to refine the industry-based guidance and to conduct due process to ensure that the requirements are robust and meet the objective of this exposure draft, and that this guidance should not be mandatory at the outset of the standard. Please refer to our response to Question 11 below for additional input on the industry-based metrics.

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain
Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and

opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.

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

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

(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

(a) We support the consideration, and disclosure, of the effects of significant climate-related risks and opportunities on an entity's business model and value chain. However, the term 'value chain' is open to interpretation, it might be seen as overwhelming in some business models, and it is prone to exposing preparers to challenges around data availability and quality. Please refer to our response to Question 4 in Appendix A for our recommendations on how the concept of value chain might be considered by preparers and what additional implementation guidance is required.

(b) We do not necessarily agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be limited to qualitative information. We recommend disclosure of quantitative information (in addition to qualitative information) to the extent possible (unless it cannot be done 'without undue cost or effort', to align with similar terminology under IFRS). We believe that the requirement for quantitative disclosure could be similar to that in paragraph 34 of IFRS 7 - Financial Instruments: Disclosures: for each significant climate-related risk and opportunity, an entity should disclose summary quantitative data about its exposure to that risk at the end of the reporting period. Consistent with our recommendations to report 'through the eyes of management', this disclosure should be based on the information provided internally to the CODM. The summary quantitative data could include, for example, information consistent with the discussion around Scope 3 emissions or metrics that an entity reports related to transition risks, physical risks, climate-related opportunities, or capital deployment pursuant to paragraph 21.

We also recognise that it might be challenging for many entities to report quantitative information, given that they will be reliant on others for this information and might not have existing systems in place to capture this information in a reliable manner. We would therefore recommend that any quantitative information should be accompanied by a description of the source and estimation uncertainty. This could be required using a data quality hierarchy, such as the Partnership for Carbon Accounting Financials (PCAF) data quality scores, or a fair value hierarchy, such as in IFRS 13. We believe that providing clear criteria for the type of data that falls into each category will increase consistency and comparability between entities.

We believe that there needs to be a balance between the provision of useful information and the disclosure of information that might put the reporting entity at a strategic disadvantage. Please refer to the 'Strategy' heading in our response to Question 4(b) in Appendix A for our recommendations.

Question 5—Transition plans and carbon offsets
Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value. Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity. An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets. The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance. The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets. Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not? (b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary. (c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why? (d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

(a) and (b)
We generally agree with the proposed disclosures related to transition plans. We note that the proposed disclosures would require information about current and anticipated changes to its business model, including: *"[...] strategies to manage carbon-energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets"*. While climate change has a significant impact on water, it is unclear why only water is specified in this example. Actions taken as part of an entity's transition plan towards a lower-carbon economy might contemplate or impact other significant sustainability-related topics (such as biodiversity) or social factors as part of a 'just transition'. We therefore suggest making the reference broader to disclose how these actions taken might impact the risks and opportunities related to other significant sustainability-related topics identified through application of IFRS S1.

(c)
We generally agree that 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. However, this is a relatively new and underdeveloped area, and we would encourage the ISSB to consider the following:

- An increasing number of entities are investing in projects that will offset emissions that do not result in verified or certified carbon offsets. As currently defined in Appendix A to the S2 Exposure Draft, the resulting emissions reductions from these investments would not be considered a carbon offset. We suggest providing additional guidance on how the impacts of these types of projects should be considered against an established target.
- We recommend clarifying whether the emissions targets set and disclosed by an entity in accordance with paragraph 23 can include the use of carbon offsets. We support requiring disclosure on a gross basis (and additionally allowing an entity to disclose on a net basis), to allow an investor to clearly distinguish between emissions reductions from a change in an entity's actions and emissions reductions from the purchase or self-generation of carbon offsets.
- There is inconsistency in practice in how entities consider the credibility and integrity of offsets (for example, how permanence is considered). We recommend providing additional guidance or references to internationally recognised conventions, in order to provide some level of consistency across disclosures. Furthermore, we suggest requiring disclosure of the source of the carbon offset, as an additional potential indicator of the quality of the carbon offset.
- The proposed disclosures are unclear as to whether an entity is required to disclose carbon offsets used in the current reporting period. We recommend that this should be clarified to require current year emissions (on a gross basis) compared to self-generated or purchased offsets retired during the period (expressed as metric tonnes of CO_2 equivalent).
- Further guidance on how to determine whether emissions in a particular period can be presented as offset. For example, do credits or offsets need to be purchased and retired in the period or are commitments to purchase / retire sufficient? There is also a lack of guidance in financial accounting on how to account for pollutant pricing mechanisms and carbon offsets. We acknowledge that the IASB will consider a project on pollutant pricing mechanisms, but it appears to have assigned it a low priority by indicating that this will only be completed before the next Agenda Consultation if additional capacity becomes available. The ISSB should work closely with the IASB on this project and should encourage the project to be addressed as a matter of priority by the IASB, given the increasing relevance of such initiatives to investors and the need for the ISSB and IASB to coordinate as part of the strategic vision/purpose of the IFRS Foundation in forming the ISSB.

Question 6—Current and anticipated effects
The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value

may be more appropriate.

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

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

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

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

(a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

(b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

(c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

(a) We support a requirement to disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities. However, we believe that clearer explanations are required for the meaning of 'anticipated effects' (does it mean probable, possible, likely?) and 'unable to do so'. On the latter, we recommend aligning with existing terminology in IFRS, such as 'without undue cost or effort', assuming that 'unable to do so' has a similar intention to this term.

    Furthermore, in addition to the requirement to disclose why an entity is unable to disclose quantitative information (as required by para 14(e)), we recommend requiring additional disclosure about the entity's plan to be able to provide quantitative information in the future, to give investors insight into the actions that the entity intends to take to provide information impactful to enterprise value, and by when.

(b) We support providing quantitative information of the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period, because we recognise that this is important for a user of general purpose financial reporting to assess the impact of the information on the enterprise value of a company. We do not recommend the level of granularity required by the draft US SEC proposal but, as the emphasis on the potential risks (and opportunities) of climate change continues to grow in the front half narrative of annual reports, we believe that there is the potential for an understanding gap to emerge in why a similar emphasis has, or has not, been provided in the financial statements.

We therefore suggest that clearer emphasis is placed on the importance of 'Connected information', as noted in our response to Question 1 above, and we recommend requiring entities to consider and explain the consistency in underlying assumptions between climate (and broader sustainability) related financial information disclosed and the financial statements. We believe that there will be situations where it is not possible to use a consistent estimate – for example, where financial reporting requires the use of fair values based on market participant assumptions, and sustainability standards require a 'best estimate' approach. Where there are differences in the nature of estimates because of differences in requirements under the relevant reporting framework, we recommend that disclosure should be provided of the reasons for the difference(s). We also recommend that further implementation guidance/illustrative examples would be useful to identify how the connections between climate-related risks and information in the financial statements should be considered and disclosed.

Further, we encourage the ISSB to work closely with the IASB, especially on the project cited in the IASB's Third Agenda Consultation. We are concerned that the proposals made by the IASB staff at the April 2022 IASB meeting – to add a maintenance and consistent application project on climate-related risks – will be viewed as insufficient, particularly given the developments at the SEC and the commitment for the ISSB and IASB to work closely together. The benefits of having the ISSB and IASB integrated into the IFRS Foundation might be eroded if it appears that there is lack of coordination on such a critical project.

(c) We support 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. But, as noted under the 'Strategy' heading in our response to Question 4(b) in Appendix A, we believe that further guidance is required in the determination of what is meant by short, medium and long term.

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?

Methodology used to assess resilience
While we believe that scenario analysis is an integral part of assessing resilience, it is our experience, with TCFD reporting to date, that performing and reporting on climate-related scenario analysis remains one of the most challenging aspects of the framework to implement, disclose and assure.

We therefore believe that some type of analysis, whether that be climate-related scenario analysis or an alternative method or technique (such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests), is essential for an entity to assess its resilience to climate-related risks and opportunities over the short, medium and long term.

As proposed, management would have the flexibility to disclose scenario analysis performed based on the variables most impactful to its business or, alternatively, based on widely accepted scenarios, such as those detailed in the Paris Agreement. Where scenario analysis is used, we agree that providing details about the scenarios considered, as well as the significant parameters and assumptions, would be helpful. Specifically, we believe that an understanding of which assumptions have the largest potential impact on future strategy and results would be of interest to an investor analysing the future prospects of the business.

We are concerned, however, that detailed quantitative information – even if framed as assumptions and ranges – might imply a level of precision in an area of extreme uncertainty. We have observed that scenario analysis is often qualitative, even among entities in advanced stages of environmental disclosure. This position is consistent with the advice given in the 2020 TCFD publication, 'Guidance on Scenario Analysis for Non-Financial Companies', in which entities are advised not to rush to quantification. The report states:

"Quantification should proceed in steps; for example, by starting with a qualitative analysis followed by quantification of impacts through 'orders of magnitude' or directional indications. More detailed quantitative approaches and models may be developed later once these impacts are well understood and the necessary data has been obtained."

We recommend eliminating the hierarchy which mandates climate-related scenario analysis over alternative methods or techniques. The focus should be on how management is actually assessing resilience, and it should provide flexibility in how the analysis of resilience is performed – whether qualitative or quantitative. As processes mature over time and investors are more experienced at evaluating the disclosures, more detailed quantitative approaches will emerge.

Connectivity
At present, the discussion on climate resilience in the S2 Exposure Draft feels distinct from the determination, and disclosure, of the significant climate-related risks and opportunities. Given the importance of scenario analysis and the central role it plays in determining an entity's resilience to these risks and opportunities, we believe that more guidance should be provided on how the analysis performed aligns with the core content of the standard and how it informs the assessment of risk management or strategic response – for example, how the significant risks and opportunities (and their financial effects), as well as the corresponding mitigating actions, were considered in how the analysis was conducted, and the results of the analysis determined.

Further, we believe that clarification should be provided regarding how the resilience analysis proposed under the climate standard interacts with, or differs from, existing analysis or scenario analysis that might be required under other future thematic standards. Please refer to our recommendation in our single cover letter on interoperability of the standards.

Proposed disclosures and application guidance
To the extent that climate-related scenario analysis is used by an entity (or is mandated by this standard):

- We support the requirement to disclose whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change and, if not, a description of how the assumptions differ from that agreement. This will bring a level of consistency and comparability to the analyses performed by companies.
- Further, we recommend requiring disclosure of how the scenarios used align with any additional agreements entered into or commitments made by jurisdictions at a country level. This requirement would be dependent on where an entity is registered or has significant operations, and the scope of the target set by the corresponding jurisdiction. We believe that this is relevant for users, since these commitments might have additional transition risks and opportunities associated with them that should be considered when assessing resilience. This information will also provide context for the user when assessing the processes that the entity has put in place to address climate-related risks and opportunities.
- We recommend providing additional guidance on what should be considered when determining the approach of the scenario analysis, including - the number of scenarios, frequency of the analysis, and examples of acceptable methodologies around the types of scenarios that should be considered (such as 'reasonably possible scenarios' or those provided by the NGFS, IEA or IPCC). Where applicable, we suggest considering the type of guidance in IFRS that sets parameters and provides application guidance for how scenarios should be assessed (for example, in IFRS 9 when measuring expected credit losses). This implementation guidance could equally apply when using an alternative method or technique in order to provide a level of consistency and comparability across entities.

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?

Overall, we support the proposed disclosure requirements for the risk management processes, but we highlight the following areas for further consideration:

- *Unnecessary duplication*
  We support the emphasis in paragraph 18 to avoid unnecessary duplication. However, we would encourage that emphasis to be applied to the whole standard, where applicable, and between standards. For example, we believe that the ISSB should be clear about how the disclosure requirements in the S2 Exposure Draft are driven by the assessment of risk in the S1 Exposure Draft, and that there is no need to duplicate disclosures that would otherwise be required by the standard if it is covered by the general standard. Not only would this avoid duplication, but it would also have the potential to 'future proof' IFRS S2 when other thematic standards are introduced, to ensure that the consideration of all of the thematic standards, and hence disclosures, are driven by the work done to comply with IFRS S1.
- *Connectivity*
  While the S2 Exposure Draft references the need to avoid unnecessary duplication, we believe that it should also emphasise the other principal characteristics of the S1 Exposure Draft, including the importance of connectivity – both between the assessment of climate-related risks and opportunities and existing risk management disclosures (for example, how to consider transition risks and their interaction with broader strategic risks where climate is only one consideration), and the other elements of the standard (for example, how the plans and metrics and targets respond to the identified risks and opportunities).

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

- 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 CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2))?

(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?

<u>(a) and (b)</u>

We agree with the seven proposed cross-industry metrics, and we do not have any suggestions for additional metrics. However, we believe that there should be flexibility in determining which cross-industry metrics should be reported, and whether other internal metrics might be more appropriate, in light of the determination of significant climate-related risks and opportunities. For example, does a reporting entity need to report all of the cross-industry metrics if certain ones are not identified as a significant risk? Additionally, certain of the cross-industry metrics (such as internal carbon prices or GHG intensity metrics) might not be used by an entity or might already be disclosed as part of other core content disclosure requirements (including resilience analysis or targets).

The current wording appears to mandate the cross-industry metrics and contradict the overall objective of the standard to require entities to disclose information on the significant climate-related risks and opportunities to which they are exposed. We therefore believe that the ISSB should clarify the status of the cross-industry metrics, and we encourage them to alter the wording to ensure that they are considered, but not mandated.

<u>(c)</u>

While the Greenhouse Gas Protocol (GHG Protocol) is currently the most widely used framework for greenhouse gas (GHG) emissions measurement, we recognise that a number of other frameworks are used globally. We believe that the development of a set of globally accepted standards for the measurement of greenhouse gases, aligned with the financial reporting framework, must be the ultimate goal, and we strongly encourage the ISSB to work with other regulators and ESG standard setters to achieve this outcome.

In the meantime, we support the use of the GHG Protocol to calculate GHG emissions, and we support permitting the use of other methodologies, recognising that methodologies related to the measurement of GHG emissions are evolving. However, we are concerned that the use of a company-specific framework, or one not widely accepted, would fail to achieve the ISSB's objective to serve as a comprehensive global baseline. As a result, we recommend that the ISSB should allow entities to use methodologies other than the GHG Protocol, but it should require the use of a known framework that meets specified minimum criteria; this could include those developed by specific industries. We believe that the comparability and usefulness of company-specific data will be diminished without the application of a generally accepted methodology.

Estimates and assumptions – regardless of the methodology chosen, there is often a wide range of estimates and assumptions that are used to calculate GHG emissions that might inhibit comparability. In our experience, data requires context. Only a few industries (such as power and utilities) regularly incorporate continuous emissions monitoring systems in the calculation of direct (Scope 1) emissions. Instead, emissions are typically based on indirect measures (that is, activity data multiplied by emissions factors). Thus, the methodology, significant inputs, and significant assumptions used to calculate GHG emissions will be important to provide context for users. We recommend that the disclosure requirements should encourage transparency around what approach has been used, and we recommend additional requirements to disclose the key inputs, sources of the key inputs, significant estimates made and critical assumptions used when measuring an entity's GHG emissions. This would include information on emissions factors used, including the source(s) of those factors. Further, although current practice in GHG emissions measurement is highly reliant on estimates, we believe that the ISSB should advocate using company-specific data where possible (for example, relying on an invoice rather than an estimate to determine electricity consumed in a specific facility). Please refer to our response under (f) below for further recommendations on Scope 3 emissions disclosures.

A set of globally accepted standards aligned with financial reporting – we advocate the development of a set of globally accepted standards for the measurement of greenhouse gases, which we believe will benefit both preparers and investors and reduce diversity in practice. The GHG Protocol is currently the most widely used framework for emissions measurement and we expect that most companies will look to its guidance in preparing their emissions disclosures. We believe that the ISSB is uniquely positioned to trigger improvements, and we recommend that it works with other regulators and ESG standard setters to perform a full review of the GHG Protocol to align with the financial reporting framework, including guidance on treatment of acquisitions, disposals, and non-controlling interests and changes in estimates in reporting GHG emissions. This would also help to ensure that its principles continue to keep pace with developments in GHG measurement.

Reporting boundaries

Consistent with our strong support for alignment with financial reporting, we believe that there should be consistency in the organisational boundary of reporting GHG emissions with the basis for presentation for the financial statements, and therefore consistency in terminology and policies used to report between this standard and IFRS standards.

The definitions of organisational and operational boundaries outlined in the GHG Protocol were designed to provide some level of standardisation to GHG reporting, with a dual benefit of providing information for use by policymakers and architects of GHG programmes. However, these boundaries might not align with the determination of which entities should be included in an entity's consolidated financial statements, which is based on a significant volume of generally accepted accounting principles that has developed over decades of standard setting.

Investors understand the concept of consolidated financial statements, and they rely on the knowledge that all information reported in an annual report is reported on the same basis, for the same group of entities. Aligned with our recommendation to have as much consistency as possible with other global standard setters and with the financial statements, we encourage the use of financial control for entities that are ‘controlled’ (as defined in IFRS) and an equity approach for associates and joint ventures when reporting GHG emissions.

If use of operational control is permitted under the standard, we believe that additional application guidance should be provided to assist entities in preparing this information, given that the guidance in the GHG Protocol under this methodology is not aligned with the concepts in financial reporting. The same concern would apply to different GHG emissions methodologies that allow entities to apply a different organisational boundary as compared to the consolidated financial statements. For example:

- We recommend requiring disclosure of material impacts, if any, arising from application of different organisational boundaries and any changes in the reporting boundary compared to the prior period.
- We suggest requiring disclosure similar to an accounting policy footnote to explain the assumptions used and basis of presentation for reporting.
- Given the evolution of financial reporting standards, certain concepts included in the GHG Protocol are no longer relevant under many accounting frameworks (in particular, operating leases). We suggest that the ISSB should provide guidance on how right-of-use assets should be considered when reporting on GHG emissions, since the GHG Protocol is not clear in this regard.

Formal oversight process
Further, as part of this effort, we recommend that key elements that support high-quality standards should be more formally incorporated into the oversight of the GHG Protocol, such as establishing formal due process, amending the GHG Protocol for current accounting standards and financial reporting requirements, developing implementation guidance, and implementing an ongoing update process.

(d)
We support the proposals that an entity should be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2 and Scope 3 – expressed in CO2 equivalent. Additionally, we suggest that an entity should disclose Scope 1, Scope 2 and Scope 3 emissions on a disaggregated basis by constituent greenhouse gas (defined in the S2 Exposure Draft based on the Kyoto Protocol), where material. Information about the type of greenhouse gases emitted by a company would be meaningful information for investors, given the vastly differing levels of global warming potential among the different gases. Disaggregated data might also aid investors in understanding an entity’s risk profile, because different gases might be subject to varying regulations.

(e)
We support the proposed approach in the S2 Exposure Draft requiring entities to disclose Scope 1 and Scope 2 emissions separately for the consolidated accounting group compared to other entities included in those metrics. We suggest aligning the terminology used for those other entities with types of investments or entities defined in IFRS (for example, ‘affiliates’ is not a defined term under IFRS) to avoid confusion about what is meant to be disclosed. We note that, depending on the approach chosen under the GHG Protocol, for example, entities might report zero Scope 1 and Scope 2 emissions for associates and joint ventures, because they would be considered Scope 3 emissions. We believe that such diversity in practice would be at odds with the objective of comparability. We would therefore encourage additional guidance from the ISSB on the disclosure of Scope 1 and Scope 2 emissions for those entities applying an approach that results in GHG emissions for associates and joint ventures being included in Scope 3 emissions only (for example, following the requirements in paragraph 21(b)(ii) of IFRS 12, which requires disclosure of summarised information for joint ventures and associates that are material to the entity).

(f)
We agree with the inclusion of absolute gross Scope 3 emissions as a cross-industry metric, because this data might benefit investors trying to understand a company’s broader environmental footprint, particularly in circumstances where the registrant’s downstream or upstream activities are emissions

intensive. However, we recognise the challenges faced by entities in measuring these emissions, given the reliance on third party information and the level of estimation typically required. With this in mind, we recommend:

- Clarifying under what circumstances certain information might be omitted from an entity's Scope 3 disclosures. Paragraph 21(a)(vi)(4) indicates that an entity's measure of Scope 3 emissions can exclude entities in the value chain if, for example, it is 'unable to obtain a faithful measure'. It is not clear under what circumstances this information could be omitted given that much of the information included in Scope 3 emissions disclosures will be estimates and will need to be obtained from third parties. We believe that an entity's Scope 3 emissions disclosures should be driven by an entity's assessment of the significant climate-related risks and where those risks exist. Clear principles should be established in the standard for determining the categories of Scope 3 emissions that should be reported.
- Requiring disclosure of the source of the data, significant estimates and critical assumptions used when measuring Scope 3 emissions. This could be required using a data quality hierarchy, such as the Partnership for Carbon Accounting Financials (PCAF) data quality scores, or a fair value hierarchy, such as in IFRS 13. We believe that providing clear criteria for the type of data that falls into each category will increase consistency and comparability between entities.
- Required disclosures on how Scope 3 emissions have been included in, or excluded from, an entity's targets or transition plans.

Question 10—Targets

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

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

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

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

(b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

(a) We support the proposed disclosures for climate-related targets. However, there are two points of clarification that we believe are needed:
    - *Beyond emissions*
      Many of the disclosure requirements appear to be specific to GHG emission-reduction targets. Given that the requirement of paragraph 23 is to disclose 'climate-related targets', which might be broader than GHG emission-reduction targets, we suggest clarifying this and emphasising the linkage with paragraph 19, which is broadly applicable to any climate-related target.
    - *Gross versus net*
      We seek clarification as to whether GHG emission-reduction targets disclosed by an entity should be presented gross or net of any carbon offsets that are intended to be used. We

recommend that targets should be disclosed on a gross basis (and additionally permit an entity to disclose targets on a net basis).

(b) We support the requirement to disclose how the entity's targets compare with those prescribed in the latest international agreement on climate change. However, we would also recommend requiring disclosure of how the targets align with any agreements entered into or commitments made by jurisdictions at a country level. This requirement would be dependent on where an entity is registered or has significant operations, and the scope of the target set by the corresponding jurisdiction. We believe that this will provide comparability at a jurisdictional level and is relevant for users, since these commitments might have additional transition risks and opportunities associated with them that should be considered when assessing resilience. Further, this information will provide context for the user when assessing the processes that the entity has put in place to address climate-related risks and opportunities.

Question 11—Industry-based requirements

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

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

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

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

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

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

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

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

(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

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

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

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

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

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

(k) Are there any additional industry-based requirements that address climate related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

Although we recognise the importance of industry guidance, we think that the priority should be a focus on cross-industry metrics in order to establish a high-quality global baseline. Accordingly, we recommend that the industry guidance is removed as mandatory and referred to as only voluntary guidance when the standard is published. We believe that the current level of granularity in industry classification is excessive and there are unnecessary inconsistencies across industries. Furthermore, many companies that represent conglomerates across various industries will find it difficult to apply the industry guidance. We also note that not all of the SASB industry guidance incorporates climate disclosures. This would imply that no industry-specific climate disclosures are relevant for certain industries, which we question. We recommend that the ISSB should undertake a project to consolidate and simplify the industry guidance. The focus should be on principles rather than a list of metrics, to the extent possible, although we recognise that there does need to be a balance between principles and rules in some areas to ensure comparability. Further, this would increase the initial focus of the standards on the cross-industry metrics, which we suggest that the ISSB should emphasise as a higher priority for a global baseline, providing comparability across all industries versus highly specific industry metrics.

Consistent with the 'Metrics and targets' section of our response to Question 4 in Appendix A, we believe that the language in paragraphs 10, 20 and 24 of the S2 Exposure Draft (*""an entity shall refer to the disclosure topics defined in the industry disclosure requirements (Appendix B)", "an entity shall disclose industry-based metrics (as set out in Appendix B)"* and *"an entity shall refer to and consider the applicability of industry-based metrics…including those defined in Appendix B"*, respectively) should be clarified to reflect that application of the industry-based guidance in Appendix B is considered good practice, but not mandatory.

As a result of our recommendation to further develop the industry-based guidance, we have not performed a detailed review of Appendix B, including the new proposed guidance for the commercial banks, investment banks, insurance and asset management industries.

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?

Please refer to our response to Question 16 in Appendix A.

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.

We recognise the growing demand for more transparent, consistent and globally comparable sustainability information. We support the direction that the ISSB is taking, including recognition that assurance has a critical role in building trust in that information.

There are inherent challenges in verifying and assuring sustainability information, including the requirements in the exposure drafts, which cannot be addressed through a reporting standard alone. We believe that an additional requirement for entities to disclose information about the underlying judgements and assumptions used when assessing materiality would help the user to understand the decisions made by the entity in presenting the information, and it would also support assurance verification of the information disclosed by the entity. In addition, the clarification of a number of terms used in the exposure drafts (see our response to Question 1 above) would also aid user understanding and support verifiability.

However, looking beyond verifiability and in order to meet investor and other stakeholder expectations, reasonable assurance over the entirety of the entity's climate-related disclosures, taken as a whole, must be the ultimate ambition. The ability to provide such an opinion will require a collaborative effort between accounting and assurance standard setters, preparers and practitioners, to establish the framework, standards, guidance and reporting necessary to deliver on this ambition. We encourage the ISSB to work with the International Auditing and Assurance Standards Board (IAASB) and other key stakeholders to establish a forum to help address this issue.

Set out below are examples of what we believe is needed as part of this journey:

Terminology

We believe that clarification is needed in relation to the terminology used. We recognise that the term 'verifiability' (as included in paras C21–C24 of IFRS S1) is focused on whether it is possible to corroborate either the information itself or the inputs used to derive it. However, assurability is a broader concept addressing whether what is reported is reasonable, including that it is complete, reliable, unbiased, appropriately presented and meets other attributes necessary to give a true and fair view. This includes taking into account all evidence obtained, whether corroborative or contradictory to assertions made by management.

We recommend that, when referencing the role of auditors or assurance practitioners within the standards, the terms 'assure' and 'assurability' are used rather than 'verify' and 'verifiability'.

A system of internal control

Underlying an entity's ability to provide a true and fair depiction of its financial position and results of operations in its financial statements is a system of internal control that is designed to ensure completeness, accuracy and reliability of the reported information. It will be an evolutionary process for many entities to design and implement similar systems of internal control over their reported climate-related information and disclosures. If it is the ISSB's intention that an entity should be able to report a true and fair depiction of its climate information, as a whole, in accordance with the requirements of the ISSB standards, we recommend that the ISSB should highlight, as part of the governance pillar, the importance of a robust system of internal control over climate-related information including robust oversight by those charged with governance. We then recommend that the ISSB should encourage other appropriate bodies (for example regulators) to determine the shape or form that the internal control framework might take.

Assurability of reported information

There are a number of aspects of the proposed disclosure requirements where, in our view, further clarity is necessary to help drive consistent and comparable reporting, making it more understandable for the user and capable of assurance. These include: the clarification on whether an entity is required to disclose the output of a process, the process itself, or both; clear, objective definitions (criteria) for subjective concepts, so that they become objectively understandable; and additional guidance on how the information required to be disclosed should be prepared (for example, how significant risks and opportunities should be identified).

We would be happy to engage in further dialogue with you to provide further details with regard to the short- and long-term opportunities and challenges.

Question 14—Effective date
Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach. Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application. [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information requires entities to disclose all material information about sustainability related risks and opportunities. It is intended that [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 General Requirements for Disclosure of Sustainability related Financial Information could take longer to implement. Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why? (b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will

be required by entities applying the proposals in the Exposure Draft.

(c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

(a) Given that the processes followed in IFRS S1 will determine whether climate change is considered a significant risk (or opportunity) – and hence IFRS S2 should be applied – there is undoubtedly an argument for IFRS S1 to have an earlier effective date. However, given the dynamic nature of this agenda and the speed with which the US SEC and the European Union (EU) with the Corporate Sustainability Reporting Directive are moving, we believe that it is imperative that the ISSB standards should be through due process and available for adoption by local jurisdictions on the same timeline as (or potentially earlier than) these other initiatives if they are to act as a global baseline. This would allow time for regulators to adopt the ISSB standards (or for companies to voluntarily report under the ISSB standards) and build on the required disclosures to comply with incremental requirements under other jurisdictional frameworks.

(b) We acknowledge that local jurisdictions will need to determine whether and when they will require adoption of the IFRS Sustainability Disclosure Standards. A PwC UK review of the first 50 companies to report under the UK's new mandatory TCFD disclosures found that 50% of those companies believe they have more work to do on their disclosures in future periods,[1] not least in the areas of scenario analysis, transition plans and Scope 3 emissions. Indeed, the TCFD itself in its Status Reports encourages entities to apply some disclosure requirements earlier than others in a phased approach, as highlighted in its illustrative implementation plan. That said, we believe that local regulators are best positioned to understand the extent to which entities in their jurisdiction might be progressing in their assessment of climate-related risks and opportunities, and hence determine when the effective date of the final standards should be and how they should be adopted. We are encouraged by the ISSB's formation of a working group of jurisdictional representatives, and we recommend that the group should take account of the TCFD illustrative implementation plan when considering the approach to the adoption of the standard. We are hopeful that this working group will provide a useful basis for understanding and sharing local practices and progress, and that it will result in a considered and measured adoption of IFRS S2, possibly through the ability to adopt with certain exceptions in the local jurisdiction, with the aim of full compliance after a reasonably short transition period.

    Additionally, we recommend inclusion of a first-time adoption paragraph/section within the final standards, rather than solely an appendix on effective date. This appendix should provide ongoing guidance in terms of the first-time adoption considerations that entities need to be aware of and to take into account when preparing to report for the first time under these standards. The language could be adapted from paragraphs 2 and 3 of IFRS 1, as appropriate to sustainability standards.

    To the extent that further exemptions/exceptions are provided for transition at future dates, a separate first-time adoption standard should be developed, rather than providing specific relief throughout thematic standards.

(c) There is no doubt that certain elements of the S2 Exposure Draft – including strong governance and robust risk management – should be in place before strategic plans are established and metrics identified, and certain requirements are less complex to implement than others. However, we believe that entities should be required to make an explicit and

[1] 'The green shoots of TCFD reporting', PwC, June 2022

unreserved statement of compliance to assert that they are complying with all aspects of the ISSB standards. As noted above, local regulators will then need to determine whether to permit a phased approach to their adoption.

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)?

Please refer to our response to Question 15 in Appendix A.

Question 16—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

We are not aware of any aspects that would prevent the ISSB standards from being used as a global baseline. We believe that, ultimately, there should be as much global alignment with respect to reporting requirements as possible. Such global alignment will provide investors with comparable reporting wherever in the world it is issued. It is also necessary to achieve a high-quality global baseline of relevant information for investors. We have identified critical areas where we think that alignment is important, while acknowledging that jurisdictional standard setters might wish to provide for additional disclosures.

Please refer to our single cover letter for the global alignment areas that we believe have the highest priority.