July 28, 2022

VIA ELECTRONIC SUBMISSION

IFRS Foundation c/o International Sustainability Standards Board
7 Westferry Circus
Canary Wharf
London, E14 4HD

**Re: International Sustainability Standards Board
Exposure Draft, IFRS S2 Climate-Related Disclosures**

Ladies and Gentlemen:

On behalf of its members, the Risk Management Association's Climate Risk Consortia ("RMA Consortia") thank the International Sustainability Standards Board ("ISSB") for the opportunity to comment on its exposure draft for climate-related disclosures ("Exposure Draft").[1]

Representing 42 leading U.S. and international banking organizations, the RMA Consortia aim to advance climate risk management practices in the banking industry and assist banks in integrating climate risk management throughout their operations, preparing the industry to help economies transition to a low-carbon future.[2]

The majority of RMA Consortia members have disclosed climate-related information in public reports consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD"). The RMA Consortia, therefore, appreciate the ISSB's objective of promoting climate-related disclosures that are "more consistent, complete, comparable and verifiable."[3] The RMA Consortia also support the Exposure Draft's general emphasis on the disclosure of climate-related information that is material and its approach in multiple proposed disclosure items of requiring disclosure of qualitative information when an entity is unable to disclose quantitative information.

As the ISSB acknowledges throughout the Exposure Draft, producing some of the required climate-related disclosures presents several challenges, particularly as it relates to calculating quantitative information that relies on incomplete and unreliable data, as well as methodologies

1 ISSB, Exposure Draft IFRS S2 Climate-related Disclosures (Mar. 2022), https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf [hereinafter, "Exposure Draft"].

2 The RMA Consortia consist of two groups: the Climate Risk Consortium for large financial institutions (having total consolidated assets of $100 billion or more) and the Regional Bank Climate Risk Consortium.

3 Exposure Draft, at Introduction.

that are still developing. We encourage the ISSB to take these challenges into consideration when determining the effective date in the final Standard and recommend a phase-in period sufficiently long to account for the current limitations in climate-related quantification capabilities.[4]

In this letter, we suggest making the applicability of the materiality standard in the exposure draft for sustainability-related disclosures ("Sustainability Disclosure Exposure Draft") to the climate-related disclosures more express and modifying particular proposed disclosure items, primarily to clarify the level of generality expected of the disclosures.[5] These revisions would help prevent the adaptation of the final Standard's disclosure items into more prescriptive mandates that are more likely to compel disclosure of immaterial, inconsistent and potentially proprietary information. Specifically, the letter addresses potential modifications to the following proposed items in the Exposure Draft: (1) materiality standard; (2) metrics; (3) significant climate-related risks and opportunities; (4) financial position, financial performance and cash flows; (5) climate resilience; and (6) governance and risk management.

I. Materiality Standard

The RMA Consortia appreciate the ISSB's inclusion of a materiality standard in the Sustainability Disclosure Exposure Draft and the direction in the introduction to Appendix B to focus on materiality when disclosing the information specified in the industry-specific appendices.[6] We agree that materiality should guide an entity's sustainability- and, specifically, climate-related disclosures. Determining the materiality of climate-related information should be an entity-specific exercise, particularly given the relative nascence of climate-related data and methodologies for quantitative climate metrics, evolving climate-related risk management practices and the variability in entities' exposures to climate-related risks.[7]

However, jurisdictions may require entities to incorporate climate-related disclosures into their general purpose financial reporting, which already may be subject to a materiality standard. Financial reporting that incorporates two distinct materiality standards—the ISSB's and a jurisdiction's existing standard—would risk confusing users of the financial reporting and impose unnecessary complexity and disclosure risk on reporting entities.

Recommendations: The final Standard should clarify that the materiality standard applicable to a jurisdiction's general purpose financial reporting should apply to the climate-related disclosures in the final Standard. Jurisdictions with financial reporting that is not subject to a

4 This recommendation is responsive to Question 14.

5 *See* ISSB, Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (Mar. 2022), https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf, at para. 56 – 62 (describing the materiality standard applicable to sustainability-related disclosures) [hereinafter, "Sustainability Disclosure Exposure Draft"].

6 *Id.*; Exposure Draft, at para. B5 – B7.

7 Sustainability Disclosure Exposure Draft, at para. 58 – 59.

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materiality standard should incorporate the materiality standard outlined in paragraphs 56 through 62 of the Sustainability Disclosure Exposure Draft.

Although the Exposure Draft suggests the materiality standard in the Sustainability Disclosure Exposure Draft is applicable to the proposed climate-related disclosure items,[8] the RMA Consortia ask that the final Standard make its applicability more explicit. An express statement also would help to clarify the discussion of materiality in the instructions to Appendix B, and ensure consistent treatment of the climate-related and other sustainability-related topics in Appendix B.

Furthermore, to ensure appropriate and efficient reporting under the final Standard, the materiality determinations should be made at the consolidated company level.

II. Metrics[9]

As described below, the RMA Consortia suggest clarifying and modifying the proposed disclosure items related to (A) executive remuneration; (B) capital deployment, carbon pricing and greenhouse gas ("GHG") emissions; and (C) portfolio exposure metrics.

A. *Executive Remuneration*

The Exposure Draft would require entities to describe how climate-related considerations are factored into executive remuneration and the percentage of executive remuneration linked to climate-related considerations.[10] At least in the United States, entities are not required to publicly report how risks are factored into executive remuneration. Introduction of a standard for disclosing climate-related considerations in executive remuneration may encourage entities that are not otherwise required to disclose the inclusion of risk considerations in executive remuneration to focus on climate-related factors in remuneration to the exclusion of other risk considerations.

Recommendation: We recommend that the executive remuneration provision be made voluntary or, if retained in the final Standard, it should comport with existing voluntary climate disclosure regimes, such as CDP, which does not require disclosure of the quantitative value or percentage of climate-related incentives.[11] Moreover, as discussed in Section I, each jurisdiction's materiality standard, or the Sustainability Disclosures Exposure Draft's materiality standard if the jurisdiction has no applicable materiality standard, should apply to this disclosure item.

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8 *See* Exposure Draft, at Question 14 (explaining that the Sustainability Disclosure Exposure Draft requires entities to disclose all material information about sustainability-related risks and opportunities and that it is intended that the Sustainability Disclosure Exposure Draft be applied in conjunction with the Exposure Draft); Exposure Draft, at para. B5 – B7 (describing the materiality standard that applies to industry-based disclosures outlined in Appendix B).

9 This section is in part responsive to Questions 9 and 11.

10 Exposure Draft, at para. 21(g), 5(f).

11 *See* CDP, CDP Climate Change 2022 Reporting Guidance, C1.3a, https://guidance.cdp.net/en/guidance?ctype=ExternalRef&idtype=RecordExternalRef&cid=C1.3a&otype=Guidance&incchild=0%C2%B5site=0&gettags=0.

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B. *Capital Deployment, Carbon Pricing and GHG Emissions*

The Exposure Draft would require disclosure of the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities as well as the carbon price an entity uses to assess the costs of its GHG emissions and an explanation as to how the entity is applying the carbon price in decision-making.[12] The Exposure Draft also would require an entity to disclose the Scope 1 and Scope 2 GHG emissions for the consolidated parent company and associates, joint ventures and unconsolidated subsidiaries or affiliates not included in the consolidated parent company.[13] Detailed information regarding the purpose of capital deployments and how carbon pricing is incorporated into decision-making may contain proprietary business information. Moreover, calculating climate-relate financial metrics generally is a new field, as discussed in more detail in section IV, making these disclosures difficult to produce and unlikely to be comparable at this stage. For example, as there are no widely-adopted standards for accounting for capital deployment as climate-related rather than for some other purpose, the capital deployment disclosures across entities are unlikely to be comparable. Similarly, calculating GHG emissions is challenging, as entities must rely on third-party data, estimates, assumptions and methodologies that are still developing. Quantifying GHG emissions by entity rather than on a consolidated basis adds unnecessary complexity and difficulty to an area that's already challenging.

Recommendations: To avoid compelling disclosure of proprietary business information, the final Standard should not require disclosure of capital deployment or carbon pricing information related to climate-related risks and opportunities. If retained in the final Standard, we recommend that the ISSB clarify that only high-level information related to an entity's internal carbon prices and capital deployment related to climate-related risks and opportunities is required to be disclosed. The final Standard should not require disclosure of Scope 1 and Scope 2 GHG emissions for entities below the parent company level.

C. *Portfolio Exposure Metrics*

The Exposure Draft would require banks to disclose exposure information using the Global Industry Classification Standard ("GICS") six-digit industry-level codes.[14] GICS provides codes to classify companies by sector, industry and sub-industry depending on the purpose of the classification. Using codes with more digits results in more granular classifications. Classifying exposures using six-digit codes could reveal inappropriately granular information about the assets in a bank's portfolio. Less granular codes would still provide users with material information regarding the extent of an entity's exposures to carbon-intensive sectors.

Recommendations: The final Standard should adopt two-digit codes for the disclosure of gross exposure to carbon-related industries to avoid compelling disclosure of proprietary information while still providing users of general purpose financial reporting material information. Rather than requiring disclosure by industry, the ISSB should require aggregate disclosure by carbon-

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12 Exposure Draft, at para. 21(e).

13 *Id.*, at para. 21(a)(iii).

14 Appendix B Industry-based disclosure requirements: Volume 16—Commercial Banks, at FN-CB-4, para. 3 [hereinafter, "Appendix"].

intensive industries and non-carbon-intensive industries. Given gaps in data, segmentation of data by industry may result in proportionally greater reliance on estimates, potentially diminishing the consistency of the disclosures.

III. Significant Climate-Related Risks and Opportunities[15]

The Exposure Draft could be interpreted expansively to require disclosure of uniquely granular, and potentially proprietary or commercially sensitive, information regarding an entity's current and forward-looking business model and strategy. The Exposure Draft would require an entity to describe the significant climate-related risks and opportunities that could reasonably be expected to affect its business model, strategy, cash flows, access to finance and cost of capital, as well as, among other things, the current and anticipated effects of such climate-related risks and opportunities on its business model, including changes to its strategy, resource allocation and mitigation efforts.[16] The Exposure Draft would direct an entity to refer to the detailed industry-specific disclosure topics in preparing its disclosures, suggesting potentially that entities should make disclosures that are similarly detailed.[17] Detailed information regarding climate-related risks and, particularly, opportunities, as well as current and anticipated effects on strategy and resource allocation could contain commercially sensitive or proprietary information.

Recommendations:[18] Disclosures regarding climate-related opportunities should be made optional in the final Standard. The final Standard also should clarify that the required information on climate-related risks may be high-level to avoid compelling disclosure of commercially sensitive information related to a bank's risk management strategy.

IV. Financial Position, Financial Performance and Cash Flows[19]

The Exposure Draft would require an entity to disclose quantitative information related to the financial impacts of climate-related risks and opportunities during the reporting period, and their anticipated financial impacts over the short, medium and long term.[20]

Although the RMA Consortia appreciate that the Exposure Draft would not prescribe the specific quantitative metrics an entity would need to disclose, and ask the ISSB to retain that approach in the final Standard, producing any material quantitative information on the financial impacts of climate-related risks and opportunities would present considerable challenges. Very few companies attempt to calculate climate-related financial statement impacts today, even for

[15] This section is in part responsive to Questions 3 and 4.
[16] Exposure Draft, at para. 9, 12, 13(a).
[17] *Id.*, at para. 10.
[18] These recommendations are responsive to Question 3.
[19] This section is in part responsive to Question 6.
[20] Exposure Draft, at para. 14.

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internal purposes.[21] Climate-related financial statement analysis is, generally, an undeveloped and highly complex analytical field that is just beginning to be explored.[22] The data and methodologies necessary to produce quantitative disclosures are evolving.

Disclosure of forward-looking financial impact assessments poses additional challenges, as well as the risk of potentially divulging proprietary information. As the ISSB acknowledges in the Exposure Draft, the likelihood, magnitude and timing of climate-related risks and opportunities are complex and uncertain.[23] The results of such quantitative forecasting are likely to be particularly unreliable at this point. Moreover, mandating disclosure of financial forecasts also would depart from the U.S. public company disclosure framework.[24]

Recommendations: [25] The final Standard should retain the Exposure Draft's approach of not mandating specified financial statement disclosures and enabling financial institutions to provide qualitative information when unable to disclose quantitative information. Entities are best positioned to determine the appropriate presentation of financial disclosures related to climate-related risks, particularly as data and quantification capabilities required to produce these disclosures continue to develop. However, given the nascent state of climate-related data and methodologies, the final Standard should not retain the requirement in the Exposure Draft that an entity explain why it is unable to disclose quantitative information. In addition, the final Standard should not require disclosure of anticipated financial impacts of climate-related risks and opportunities, since such information would likely be unreliable in the near term and could require disclosure of potentially commercially sensitive or proprietary information.

V. Climate Resilience[26]

The Exposure Draft would require an entity to use climate-related scenario analysis to assess the resilience of its strategy to climate-related changes, developments and uncertainties and disclose information regarding the results of climate-related scenario analysis. An entity unable to use scenario analysis would be permitted to use an alternative method to assess climate resilience.[27]

Quantitative disclosures of the results of a bank's climate-related scenario analysis would be unlikely to provide material insight into the climate resilience of a bank's strategy. Climate-related scenario analysis is in its infancy and has limited use as a reliable analytical tool due to significant gaps in data and methodological immaturity. The data and methodological challenges associated with climate-related scenario analysis are well-documented and acknowledged by the

21 *See* TCFD, 2021 Status Report, at 62 (Oct. 2021), https://www.fsb.org/wp-content/uploads/P141021-1.pdf (finding that the vast majority of companies surveyed do not currently estimate financial impacts and even fewer disclose financial impacts).
22 *See, e.g.*, *id.* at 64–66.
23 *See* Exposure Draft, at Question 7.
24 *Id.*, at para. 14(c), (d).
25 These recommendations are responsive to Question 6.
26 This section is in part responsive to Question 7.
27 Exposure Draft, at para. 15.

ISSB,[28] as well as U.S. and international bank regulatory bodies, which also note the limited reliability and usefulness of climate-related scenario analyses today.[29]

Moreover, financial institutions generally do not use scenario analysis to assess climate resilience. Rather, as the Federal Deposit Insurance Corporation ("FDIC") recently stated, scenario analysis is "an emerging and important approach for identifying, measuring, and managing climate-related risks."[30] Many banks run scenario analyses using extreme, stressed scenarios that are not probable to occur in order to help set risk tolerances, rather than to test business resilience. Such scenario analyses typically do not reflect risk mitigation efforts. It would be difficult to ascertain the actual risk from the results of an unmitigated scenario and quantitative disclosures may confuse users of financial reporting. In other cases, financial institutions develop scenarios that focus on the most prominent, likely exposures to climate risk based on their unique portfolios. As a result, the proposed scenario analysis disclosures would vary across financial institutions and from year to year, diminishing their comparability and consistency.

Finally, the Exposure Draft could be interpreted expansively to require disclosure of detailed information related to, for example, assumptions and inputs, which may contain commercially sensitive or proprietary information. The inputs draw on a bank's strategies and methods (*e.g.*, credit strategy, risk scoring methodology, risk appetite) for managing risk, which is the core business of banks. Detailed disclosure of scenarios designed to assess the impact of physical risks may also pose information security concerns, as such information may provide too much information on the location or vulnerabilities of critical data infrastructure.

Recommendations:[31] The final Standard should require disclosure of only generalized, qualitative information regarding an entity's scenario analysis exercises and results to better account for the current state and use of scenario analysis and avoid compelling disclosure of proprietary information. In addition, the final Standard should clarify that neither proprietary information nor commercially sensitive information is required to be disclosed.

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28 *See id.*, at Question 7 ("[a]lthough 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.").

29 *See e.g.*, FSOC Report, Financial Stability Oversight Council, Report on Climate-Related Financial Risk, at 95–96 (Oct. 2021), https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf [hereinafter, "FSOC Report"] (detailing the data and modeling challenges specific to scenario analysis); Financial Stability Board, The Availability of Data with Which to Monitor and Assess Climate-Related Risks to Financial Stability, at 31–35 (Jul. 7, 2021), https://www.fsb.org/2021/07/the-availability-of-data-with-which-to-monitor-and-assess-climate-related-risks-to-financial-stability/ (explaining the data shortcomings and modeling uncertainty specific to scenario analysis); Office of the Comptroller of the Currency, Proposed Principles for Climate-Related Risk Management for Large Banks, (Dec. 16, 2021), https://www.occ.gov/news-issuances/bulletins/2021/bulletin-2021-62.html; Federal Deposit Insurance Corporation, Statement of Proposed Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 87 Fed. Reg. 19507 (Apr. 4, 2022) [hereinafter, "FDIC Principles"]; Basel Committee on Banking Supervision, Principles for the Effective Management and Supervision of Climate-Related Financial Risks (June 15, 2022), https://www.bis.org/bcbs/publ/d532.htm.

30 FDIC Principles, *supra* note 29, at 19509. *See* FSOC Report, *supra* note 29, at 66.

31 These recommendations are responsive to Question 7.

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VI. Governance and Risk Management[32]

The Exposure Draft would require disclosure of granular and unique risk management process that may require the divulgence of proprietary information.[33] For example, detailed disclosures of risk management inputs could entail disclosure of bank credit and liquidity strategies, which are proprietary.[34] For financial institutions in particular, their core business strategy revolves around managing risk, so granular risk management disclosures would not be appropriate.

The RMA Consortia appreciate the importance of robust oversight and governance of a company's material risks. However, descriptions of the idiosyncratic processes by which the board discusses and is informed of climate-related risk and the frequency of discussions are unlikely to provide reliable insight into the adequacy or effectiveness of the registrant's response to climate-related risks.[35] The level of detail required by the Exposure Draft would meaningfully exceed the detail required in the governance disclosures of other disclosure regimes.

Recommendation:[36] The final Standard should clarify that only high-level and generalized governance and risk management information is required to be disclosed to avoid compelling disclosure of idiosyncratic governance and risk management information that may constitute commercially sensitive or proprietary information.

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Thank you for your consideration of these comments. If there are any questions, please do not hesitate to contact me.

Sincerely,

Fran Garritt
Director
Risk Management Association

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32 This section is in part responsive to Questions 2 and 8.
33 Exposure Draft, at para. 5, 16, 17, 18.
34 *See id.*, at para. 17(b)(iii).
35 *See id.*, at para. 5(d), (e).
36 This recommendation is responsive to Questions 2 and 8.

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