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International Sustainability Standards Board
The IFRS Foundation Columbus Building,
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Date: 18 July 2022

Dear sir,

Sub: *Feedback on Exposure Draft: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft: IFRS S2 Climate-related Disclosures*

On 31 March 2022, the International Sustainability Standards Board (ISSB) published two exposure drafts: Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (*General Requirements* Exposure Draft) and Exposure Draft IFRS S2 *Climate-related Disclosures* (*Climate* Exposure Draft), which are open for comments for 120 days.

Tata Steel Limited (Tata Steel) is among the top global steel companies with an annual crude steel capacity of 34 million tonnes per annum. It is one of the world's most geographically diversified steel producers, with steel making and mining operations across India, Netherlands, United Kingdom, Canada and South East Asia. The Tata Steel group recorded a consolidated turnover of US$ 32.83 billion and net profit of US$ 5.62 billion in the financial year ending March 31, 2022.

Tata Steel welcomes the global baseline approach adopted by the IFRS foundation and is very supportive of consolidation of multiple standards setting bodies under the umbrella of the IFRS foundation. This would not only reduce the reporting burden on prepares but also bring about sharper and more focused reporting and go a long way in bringing the quality of non-financial reporting at par with financial reporting.

As requested by ISSB, Tata Steel would like to provide the following feedback on the two exposure drafts:

FEEDBACK ON GENERAL REQUIREMENTS EXPOSURE DRAFT

A. **The General Requirements Exposure Draft requires an entity to disclose information about its *significant* sustainability-related risks and opportunities that is *useful to the primary users of general-purpose financial reporting* when *they assess enterprise value* and decide whether to provide resources to the entity.**

   The exposure draft also clarifies that "Enterprise value reflects expectations of the amount, timing and certainty of future cash flows over the short, medium and long term".

   Comment A.1*: The* General Requirements Exposure Draft *is focused on addressing the needs of the* **primary users of general-purpose financial reporting**, i.e. *investors, lenders and creditors. Accordingly, the draft focuses on the impact of significant sustainability-related risks and opportunities on the organization (but does not (directly) cover the impact of the organization on society and environment.*

   Whilst the draft clarifies that "Sustainability-related financial information could include information on entity's reputation, performance and prospects as a consequence of the actions it has undertaken", the standards would likely not ***fully*** *address the needs of the remaining key stakeholders (governments and regulators / communities / civil societies). As a result, entities might need to incorporate additional reporting under other standards to satisfy the requirements of other key stakeholders. It will also likely reduce the incentive for regulators to adopt the ISSB standards in their geographies as the primary reporting framework, as that would address only a part of their own requirements.*

Tata Steel would urge ISSB to consider incorporating aspects of other globally accepted standards and frameworks – like the United Nation's Sustainable Development Goals (SDG) – to address the gap in disclosure needs of other key stakeholders. These additional requirements may be sought as additional voluntary requirements but should be encouraged as best practice.

Comment A.2: *The General Requirements Exposure Draft aims to provide information to providers of capital to better assess the enterprise value of an entity. As resource providers have limited capital to allocate to multiple companies across sectors and within the same sector, assessment of what constitutes '**significant**' sustainability-related risks and opportunities' becomes critical.*

Whilst Tata Steel is supportive of the judgement on 'Significant sustainability-related risks and opportunities' residing with the reporting entity, it should be noted that the average reporting capability on sustainability reporting is far behind those of financial reporting, given the more recent adoption of sustainability reporting. There is a risk that in the initial years the robustness of the assessment of what is significant might vary greatly based between entities and geographies and key risks might get excluded.

It is recommended that additional prescriptive guidance be provided in the initial years on what constitutes 'Significant' till such time as sustainability reporting practices mature. This could include use of checklists aligned with SDGs to review and report the reasons when risks and opportunities associated with the any of 17 SDGs have not been considered.

Furthermore, while assessing whether an issue is significant, entities should be encouraged to apply multiple lenses – global lens, regional lens and sectoral lens. For example, it is possible that fresh-water consumption might not be a significant issue in a particular geography, but its considerable global impact may require reporting on efficient water consumption by entities nonetheless from an investor's own footprint perspective. Only by looking by the widest possible lens can all significant issues be identified.

The additional prescriptive guidance may be considered a transition requirement, till such time as reporting practices mature.

__Comment A.3__: The draft does not specify any thresholds for what constitutes short, medium and long term for assessing the enterprise value. This would require judgement by the reporters and could differ across entities and could vary greatly bases on the judgement of reporting entities.

It is recommended that additional prescriptive guidance be provided in the initial years on what constitutes short, medium and long term till such time as sustainability reporting practices mature.

B. General Requirements Exposure Draft based on the TCFD framework of governance; strategy; risk management; and metrics and targets.

__Comment B.1__: We are very supportive of this structure, as it would allow integration of the existing work done by reporters and builds on a robust reporting framework that is widely accepted by investors and lenders.

C. The draft provides a core framework for the disclosure of material information about all significant sustainability-related risks and opportunities across an entity's value chain.

__Comment C.1__: The draft however does not specify any thresholds for materiality. Whilst Tata Steel is supportive of judgement on 'Materiality' residing with the reporting entity, additional guidance on robustness of the process to assess materiality and disclosure on how materiality was assessed would help in increasing the quality of reporting. ISSB might also consider providing additional guidance on setting quantitative thresholds for what constitutes material in the initial years.

D. An entity is required to disclose information required by IFRS Sustainability Disclosure Standards as part of its general-purpose financial reporting. An entity is also required to provide information that enables users of general-purpose financial reporting to assess the connections between various sustainability-related risks and opportunities, and to assess how information about these risks and opportunities is linked to information in the general-purpose financial statements.

Comment D.1*: Tata Steel is very supportive of the integrated nature of the proposed reporting and encourages integrated reporting of financial and non-financial data at the same time and in the same document. Tata Steel supports the use of Integrated Reporting (IR) Framework to integrate financial and non-financial reporting.*

Comment D.2*: The requirement to disclose "how information about … [sustainability related] risks and opportunities is linked to information in the general-purpose financial statements" in our view is* ***necessary but very onerous****. It is very difficult to assess the* ***quality*** *and* ***completeness*** *of this linking. Tata Steel would support issuance of additional guidance on which areas of sustainability risks and opportunities could be linked with financial reporting and possible methodologies and metrices. Some sample areas to consider are:*

a. Separate disclosure on actual financial impact of physical climate risk in the financial statements.
b. Separate disclosure on actual spend on building resilience to climate related risks in the financial statements.
c. Proportion of capital expenditure and other investments aligned with SDGs.
d. Proportion of revenue aligned with climate related opportunities in the reporting period (e.g., sale of green steel products).

Comment D.4: *Entities should be encouraged to use relevant frameworks to disclose how the governance process uses sustainability related risks and opportunities in its investment decision making. Tata Steel has undertaken a prioritization of SDGs which it will use for evaluation of capital expenditure project. We find the approach very powerful and would recommend entities use either the SDGs or other similar frameworks in their investment decision making.*

Comment D.5*: There will be a significant increase in the level of information that an entity is required to disclose under the proposed exposure drafts, particularly those with complex business models that sit across multiple industry classifications and geographies. This would be further complicated by entities reporting under various national regulations, which may or may not immediately align with ISSB standards.*

Accordingly, an appropriate transition process and timelines for adoption should be considered to encourage adoption.

E. **The draft asks entities to "disclose quantitative information, unless it is unable to do so, on significant sustainability related risks and opportunities"**

Comment E.1*: We are very supportive of disclosure of quantitative information, as it is helpful in comparison of reporting entities. We also recognize the challenges associated with quantifying the impact of sustainability related risks and opportunities, especially for new reporters. However, this exemption to not quantify should not be perpetual and should be available only in the initial years to facilitate capability building. The exemption needs to be phased out over a period of time, with potentially longer transition period to be provided to smaller firms.*

Comment E.2: *Given the potential impact of the disclosure on the value of entities, it is very important to harmonise the quantification process. For example, it is possible that some entities might look at only first order effect to quantify the impact (Loss in EBITDA in case of increase in carbon costs) while other entities might consider both first and second order effect (EBITDA increase in case of pass through of CO2 costs to customer based on relative emission performance of the reporter). This would make comparison of reporting entities inconsistent.*

Tata Steel would support guidance on best practices to quantify climate related risks and opportunities.

CLIMATE EXPOSURE DRAFT

F. **The Climate Exposure Draft is also based on the TCFD framework of governance; strategy; risk management; and metrics and targets. In terms of metrices and standards, the framework provides for certain cross-sectoral metrices on greenhouse gas emission and also adopts the sectoral approach of SASB**.

Comment F.1*: Tata Steel is very supportive of the alignment of the exposure draft with the TCFD framework.*

__Comment F.2__: Tata Steel is also supportive of incorporation of sector specific approach of SASB, which brings out key KPIs relevant for various sectors and allows for better comparison within the sector. Tata Steel is also supportive of updating the sector specific guidance to replace references to US regulations with global regulations.

__Comment F.3__: The addition of industry-based metrics would significantly increase the level of information that an entity is required to disclose, which may be challenging and would require preparation. Companies would have to be provided sufficient time to set up their internal systems and conduct the relevant risk assessments to be able to report.

__Comment F.4__: ISSB should also consider providing guidance on incorporating other frameworks under development (e.g., TNFD) that they would consider building into the overall ISSB reporting universe, so that companies may be encouraged to engage in the relevant consultation process and are adequately prepared for future disclosures.

G. Exposure Draft has identified the GHG Protocol standard for Scope 1, 2 and 3 emission reporting.

__Comment G.1__: Tata Steel supports this positive step in standardisation of reporting across sectors.

__Comment G.2__: Whilst the exposure draft has asked for disclosure on categories of Scope 3 Emissions not included in the reported numbers, reporters should also be encouraged to publish a 'Basis of Reporting' document to provide transparency to the investors for other sector specific KPIs (e.g., water).

__Comment G.3__: The GHG Protocol provides for more than one method of consolidation of emissions: equity method or control method. We are supportive of the need for entities to disclose the method used for consolidation and the reason why the chosen method is appropriate for the reporting entity.

H. **The metrices section of the disclosure incorporate two sets of disclosures:**

i. Cross-industry metrices covering GHG emission and intensity
ii. Sector specific metrices – for Tata Steel, the applicable standards are iron and steel, metals and mining and coal.

Comment H.1*: Tata Steel is broadly supportive of this approach, as it allows greater comparability within the sector, but we have a few comments from a steel industry perspective:*

i. Emission intensity is used to enable comparison between different reporting entities in the same sector but with different capacities. However, quite often steel companies are integrated (e.g., both mining and steel making operations). In such cases, the standards should encourage splitting of total and specific emission between different parts of the value chain to allow fair comparison.

ii. Similarly, scrap and ore-based steel making processes have vastly different emission intensities. Investors would like to know the overall CO2 efficiency of the steel company as well as the CO2 efficiency of their scrap based and ore-based steel making operations. Therefore, reporters may be asked to split the total emission and emission intensities for different production routes (if applicable).

iii. Entities need to report "Gross global Scope 1 emissions, percentage covered under emissions limiting regulations". This metric is insufficient as it does not differential between the quality of emissions limiting regulations and the cost of carbon associated with such regulation. We recommend including the total financial impact of emissions limiting regulations on the reporting entities for the reporting period.

I. **The exposure draft asks for disclosure on targets, including information on whether the target was derived using a sectoral decarbonisation approach.**

Comment I.1: *Tata Steel is supportive of including targets derived using sectoral decarbonisation approach. This enable every industry to define a pathway to* *decarbonisation which is non-disruptive in the context of the industry. There are several such initiatives in the steel industry.*

*However, for any reporting entity, there could be wide differences between companies in the same sector but in different geographies. For example, different nations might have different trajectory of infrastructure development necessary for decarbonisation. ISSB should instead consider disclosing "**whether target(s) are aligned with national decarbonisation targets or sectoral decarbonisation approach or both**".*

***Comment I.2**: We also welcome splitting the emission reduction target between reduction in the value chain and reduction using carbon offset (nature based or technological removal). Tata Steel views carbon offsets as essential to achieve net zero in most of the industries (including steel) and transparency on reporting on carbon offsets would encourage development of a robust voluntary carbon markets.*

J. The exposure draft seeks disclosure on significant climate-related risks and opportunities that could reasonably be expected to affect the entity's access to finance and its cost of capital

***Comment J.1:** We are supportive of disclosure on the expected impact of climate related risks and opportunities on access to finance. ISSB should also consider seeking disclosure on the proportion of financing which are either linked to climate related performance or are dedicated for climate impact mitigation related investments.*

We would like to congratulate the ISSB and the IFRS Foundation on the initiative and look forward to continued engagement in development of the standards.

Warm regards,

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Tata Steel Limited