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## ISSB meeting

Date	July 2022
Projects	<b>General Sustainability-related Disclosures, Climate-related Disclosures</b>
Topic	<b>Overview of exposure drafts (S1 and S2) and feedback received as at 7 July 2022</b>
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# Purpose of this presentation

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- On 31 March 2022 the International Sustainability Standards Board (ISSB) Chair and Vice-Chair 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.
- During this 120-day comment period, the ISSB and technical staff are gathering feedback from stakeholders.
- The purpose of this presentation is to provide a summary of preliminary feedback gathered during the market outreach to date, including technical discussions with preparers, users and other stakeholders.
- The ISSB will not be asked to make any decisions at this meeting.
- The staff aims to provide a summary of feedback at the September 2022 ISSB meeting, following the comment period ending **on 29 July 2022**.

# Agenda

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1. Background

2. Sources of feedback

3. Preliminary market feedback

3A. *General Requirements* Exposure Draft

3B. *Climate* Exposure Draft

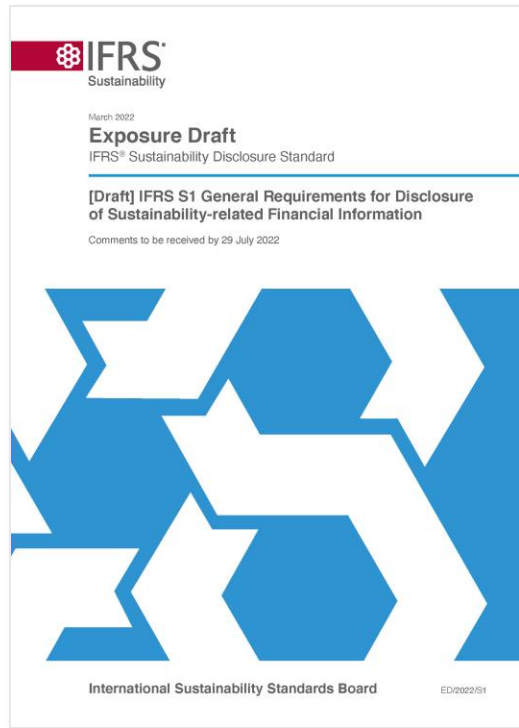


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## 1. Background

# Two proposed IFRS Sustainability Disclosure Standards

1



*General Requirements*  
Exposure Draft

2

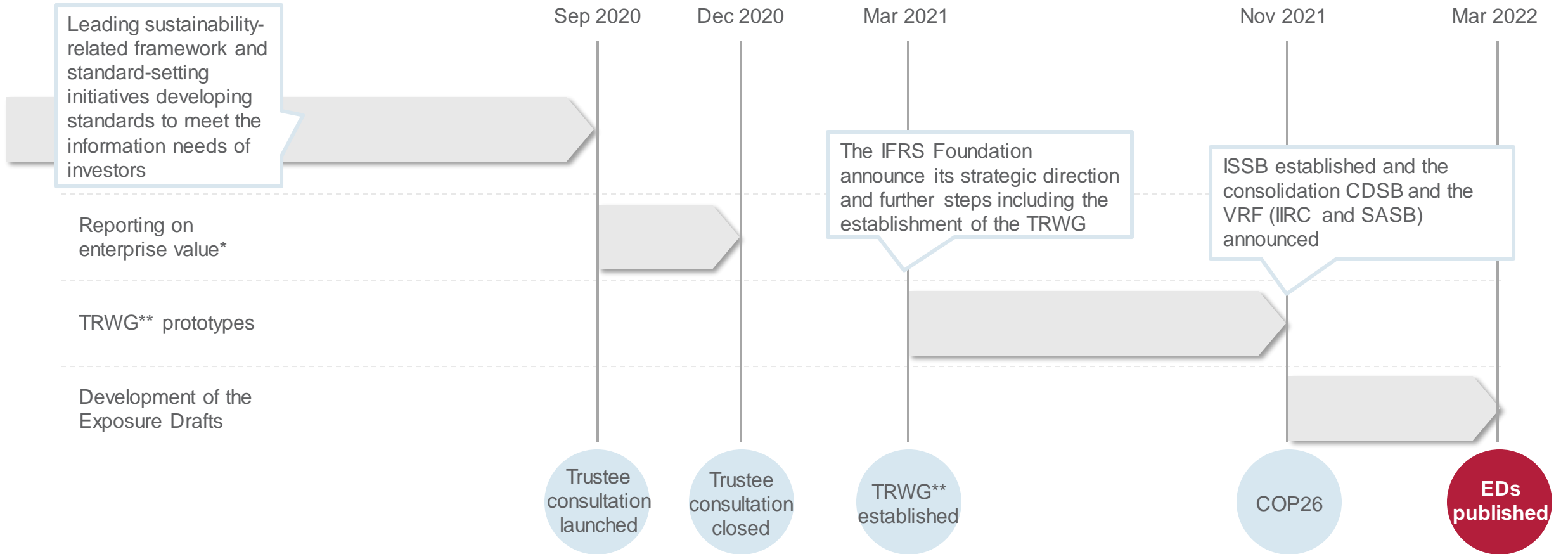


*Climate*  
Exposure Draft

**Published**  
31 March 2022

**Comment  
deadline**  
29 July 2022

# The development of the IFRS S1 and S2 Exposure Drafts



\*Drafted by CDP, the former Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the former International Integrated Reporting Council (IIRC) and the former Sustainability Accounting Standards Board (SASB)

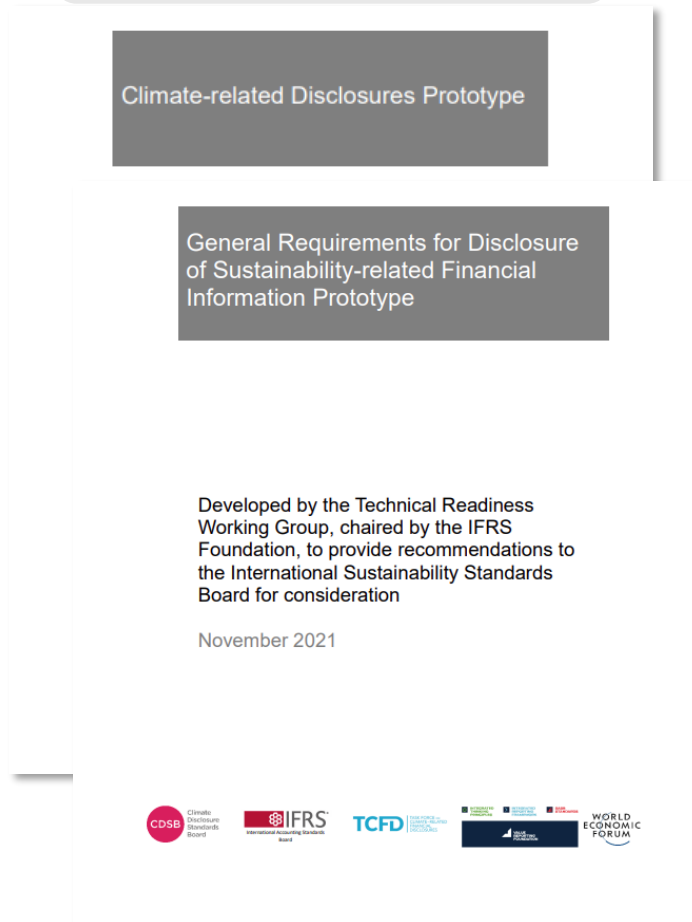
\*\* Technical Readiness Working Group, consisting of the above members (except GRI), the World Economic Forum and the International Accounting Standards Board

# Building on existing standards and frameworks

December 2020  
'Group of Five'  
Prototype



November 2021  
Prototype



IFRS Exposure Drafts



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## 2. Sources of feedback



# Outreach events – overview of approach

## Objectives

### Educational

- Educate stakeholder groups on the proposals and about the ISSB and its objectives

### Drive engagement

- Encourage feedback on the consultation
- Understand areas of particular interest
- Respond to stakeholder questions to facilitate feedback

### Technical input

- Obtain technical feedback to support redeliberation

## Formats



Webinars

Panel discussions



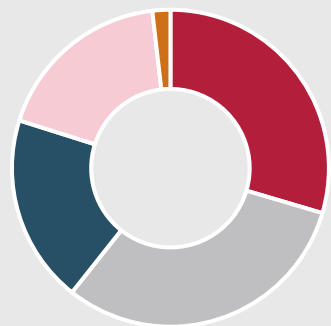
Large group meetings

Targeted / smaller meetings



# Market outreach—statistics

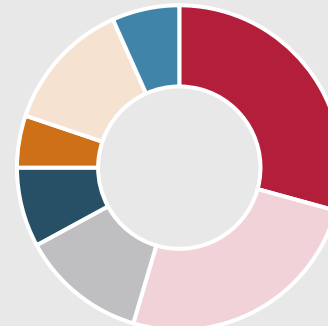
## By Jurisdiction—Number of events



	#	%
Global	97	30%
Americas	102	31%
Europe	63	19%
Asia Oceania	60	18%
Africa	6	2%
<b>Total</b>	<b>328</b>	

Number of attendees: **approximately 30,000**

## By Stakeholder Type—Number of events



	#	%
Companies	96	41%
Investors	83	36%
Accounting and auditors	41	18%
Regulators and policy makers	26	11%
Standard-setters	17	7%
Mix	43	19%
Other*	22	9%
<b>Total</b>	<b>328</b>	

\*Other includes public interest, media, commercial partners, academia, students, 'other'

## Engagement with key stakeholders



# Overview of sources of feedback

## Outreach events

- Outreach events have allowed staff to identify questions and areas of particular interest for stakeholders

## Technical discussion

- Technical discussions with targeted stakeholders have been conducted, including those with the audit and assurance standard setter and those that are specific to climate reporting, such as current methodologies and practice for GHG emissions reporting

## Comment letters

- 26 comment letters, of which 17 have so far been submitted for general requirements and 9 for climate

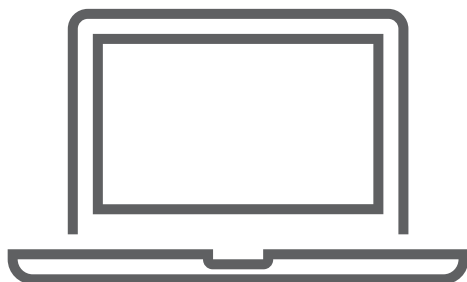
## Online surveys

- 36 completed surveys, of which 23 have so far been completed for general requirements and 13 for climate

The basis for  
today's  
discussion

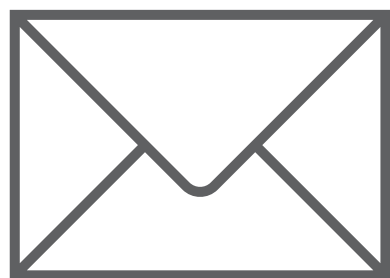
# Consultation period still ongoing—ending 29 July

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Survey

or



Comment letter

**Deadline:**  
29 July 2022

**Visit:**  
[ifrs.org/projects/open-for-comment/](https://ifrs.org/projects/open-for-comment/)

Comments are published on [ifrs.org](https://ifrs.org)

# Digital reporting taxonomy: Staff request for feedback

Staff documents published – send comments by 30 September 2022

- Staff request for feedback
- Staff draft of the IFRS Sustainability Disclosure Taxonomy
  - in XBRL format (machine-readable format)
  - illustrated in a simplified, visual PDF format (human-readable format)

Purpose:

Support staff with the development of proposals for the Taxonomy

Set out the initial thinking for staff recommendations and alternative approaches considered, but rejected

Focused on fundamental matters that need to be considered early to enable the ISSB to publish a Taxonomy on a timely basis

These document supplements the required due process documents. It is a staff document. The ISSB will need to publish an exposure draft at a future date in order to establish digital taxonomy requirements to accompany the required disclosures.

# Next steps and questions for the Board

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Following the comment period ending on 29 July 2022, the staff plan to provide a summary of feedback from the outreach and comment letters at the September 2022 ISSB meeting.

## Question for discussion

- Do ISSB members have any comments on the outreach activities?



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**3A. Preliminary market feedback—  
*General Requirements Exposure Draft***

# Preliminary market feedback on the *General Requirements Exposure Draft*

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- The following slides provide an overview of important aspects of market feedback as identified by the ISSB technical staff, as part of the ongoing consultation.
- This overview is based on a combination of comments presented orally by stakeholders, questions raised by webinar or meeting participants, webinar polling questions, and technical discussions with targeted stakeholders.
- In September, the ISSB technical staff aims to present board papers summarising comment letters and feedback from outreach, which will represent a more comprehensive review of the stakeholder feedback received.
- **Please note that the consultation period is currently open through 29 July 2022 – so this feedback is currently incomplete.**



# Preliminary market feedback: High level messages

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## General feedback

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Support the core content requirements being based on the four TCFD thematic areas

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Emphasise the need for connected standard-setting to facilitate a package of financial and sustainability-related financial reporting

## Investors

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Support global standards resulting in consistent and comparable sustainability disclosure for investors

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Desire for the development of these standards to continue at pace

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Query whether the resulting disclosures per the proposed standards will be subject to assurance and if so to what level

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Query how the ISSB exposure drafts fit with other developments, for example the SEC and EFRAG proposals

## Preparers

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Desire guidance in relation to various proposed requirements

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Emphasise challenges with some specific proposed requirements, and for smaller companies and companies in emerging economies in applying the proposed requirements

# Preliminary—Areas for which few or no concerns have been expressed to date in outreach

Areas		Market feedback
1	<b>Positioning of the Exposure Draft</b>	<ul style="list-style-type: none"> <li>Broad support for the positioning of the <i>General Requirements</i> Exposure Draft as the overarching IFRS Sustainability Disclosure Standard</li> </ul>
2	<b>Requirements on core content disclosures</b>	<ul style="list-style-type: none"> <li>Broad support for the requirements structured around the four core content areas that are based on the TCFD recommendations (apart from some specific requirements, such as disclosure on the current and anticipated financial effects)</li> </ul>
3	<b>Fair presentation</b>	<ul style="list-style-type: none"> <li>Stakeholders support the fair presentation requirements that are consistent with IFRS Accounting Standards, except for questions or concerns raised related to the requirements contained within 'Identifying sustainability-related risks and opportunities and disclosures'</li> </ul>
4	<b>Connected information</b>	<ul style="list-style-type: none"> <li>Support the concept of connectivity with financial reporting, although questions raised on the implications of some specific proposals</li> </ul>
5	<b>Reporting entity</b>	<ul style="list-style-type: none"> <li>Limited concern on the definition of reporting entity, although questions raised on the implications for measurement across the value chain</li> </ul>
6	<b>Comparative information, sources of estimation and outcome uncertainty, errors</b>	<ul style="list-style-type: none"> <li>Very few comments or concerns raised on these sections within 'General Features', which are based on and consistent with IFRS Accounting Standards</li> </ul>
7	<b>GAAP agnostic</b>	<ul style="list-style-type: none"> <li>Broad support that IFRS Sustainability Disclosure Standards may be applied when the entity's related financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP</li> </ul>

Conceptual understanding and support by stakeholders on these issues, but challenges may arise in application by preparers

# Preliminary—Priority areas that are likely to require further consideration

Areas		Stakeholders:
1	Enterprise value	<ul style="list-style-type: none"> <li>Seek a greater understanding on the extent to which the ISSB proposals consider the ‘impact’ of a company on people, planet and the economy</li> </ul>
2	Breadth of reporting	<ul style="list-style-type: none"> <li>Raise some concerns on the potential breadth of reporting required when disclosing material information on <b>all</b> significant sustainability-related risks and opportunities, including which matters are considered within the scope of sustainability-related financial information</li> <li>Request a greater understanding on what constitutes a ‘<b>significant</b>’ sustainability-related risk or opportunity, including its relationship with materiality</li> <li>Provide mixed feedback on the proposed requirement for preparers to consider the sources of guidance listed in paragraphs 51 and 54 of the exposure draft (‘Identifying sustainability-related risks and opportunities and disclosures’)</li> </ul>
3	Materiality application	<ul style="list-style-type: none"> <li>Query about how preparers should assess ‘materiality’ when preparing sustainability-related financial reporting, including the use of quantitative thresholds</li> </ul>
4	Current and anticipated financial effects	<ul style="list-style-type: none"> <li>Raise concerns on the challenge of providing disclosure on current and anticipated financial effects, including: <ul style="list-style-type: none"> <li>quantifying the financial effects</li> <li>measurement uncertainty due to assumptions and estimates for longer-term risks and opportunities</li> <li>attributing financial effects to a single risk/opportunity in isolation</li> </ul> </li> </ul>
5	Timing of reporting	<ul style="list-style-type: none"> <li>Raise the challenges in publishing sustainability-related financial disclosures at the same time as the financial statements</li> </ul>

**Overarching areas:**

1. Application by smaller entities / entities in emerging economies
2. Capacity building

**Note:** this is not a comprehensive list and there may be other areas that require the Board’s consideration following analysis of the comment letters and survey responses.

# Enterprise value

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## Context

- Information required under the proposed requirements includes information about the impacts of a company on people, the planet/ environment and the economy **when** necessary to assess enterprise value.
- During outreach sessions we have emphasised the focus of the ISSB, in line with the IFRS Foundation, is to meet the information needs of investors (primary users), who will be interested in the impact an entity has when it affects assessments of enterprise value.
- We have typically presented our view on the building blocks approach as – the IFRS Foundation addresses the reporting needs of investors via the IFRS sustainability disclosure standards (along with the IFRS accounting standards), while providing a baseline for sustainability reporting focusing on broader information needs including the impacts on people, planet and the economy (multi-stakeholder focus).

## Market Feedback – highly preliminary

- Even with the emphasis on the ISSB focus, which is understood by many participants, most outreach sessions have resulted in questions around impact and double materiality.
- Questions revolve around the extent to which the ISSB considers ‘impact’ and whether it has taken a ‘double materiality’ approach.
- Similarly, participants have also queried whether users include stakeholders beyond investors.
- Questions are sometimes linked to how the ISSB proposals fit with the views taken by the GRI Standards or EFRAG proposals.
- Some questions are in the nature of clarification whereas some are because the suitability of the approach is being questioned.

# Breadth of reporting

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## Context

- The objective of draft IFRS S1 requires an entity to disclose material information about all of its **significant** sustainability-related risks and opportunities that is useful to primary users when they assess enterprise value.
- Although a definition for 'significant' is not provided, the Basis for Conclusions explains that the significance of risks and opportunities is entity-specific and determined according to the entity's risk management processes and informed by the entity's strategy, objectives and risk appetite. Significant risks and opportunities are therefore those that an entity prioritises for management responses.
- It was intended that focusing on significant sustainability-related risks and opportunities, rather than all sustainability-related risks and opportunities, would ease application for preparers while not reducing the usefulness of information provided to users (nor changing what is disclosed given that the information has to be material ie could reasonably be expected to influence an investor's decision making).
- The word 'significant' was included as a response to concerns raised in initial outreach with companies when preparing the TRWG prototype.

## Market Feedback – highly preliminary

- Without a clear understanding of the application of the word 'significant', concern has been raised as to the breadth of disclosure required to meet the requirement to disclose material information about **all** of an entity's significant sustainability-related risks and opportunities, especially in the absence of a specific IFRS Sustainability Disclosure Standard.
- When understood, there is an appreciation that disclosure is not required on all sustainability-related risks and opportunities, only that which is determined to be significant.
- However, stakeholders have asked for a definition of significant, as well as desiring a threshold for significant, as well as examples / guidance to illustrate what is meant by significant.
- Mixed views on whether the word 'significant' is problematic or the idea of a filter.
- Clarity has been sought on the distinction between significant and material – the distinction between what risks and opportunities are 'important' enough to be considered (ie are significant) and what information is important enough to be disclosed (ie is material).
- Stakeholders have also requested clarity for which matters are considered within the scope of 'sustainability-related financial information' per the proposed standards.

# Materiality application

## Context

- The definition for materiality is based on the IASB's definition of information that could reasonably be expected to influence decisions by primary users, if omitted, misstated or obscured.
- However, the ISSB's focus is on material sustainability-related financial information that could reasonably influence user's assessment of an entity's enterprise value: preparers will have to consider financial implications over longer time periods than those considered in preparing financial statements and consider the activities, interactions and relationships and to the use of resources along the entity's value chain, if it could influence the assessment of enterprise value.
- The Exposure Draft is supplemented with Illustrative Guidance to illustrate how to assess materiality, but is not considered to be mandatory in applying the proposals. The status of this material was intentional as the Guidance is sourced from IFRS Foundation/IASB material which is not mandatory. Changing its status would have implications for the IASB.

## Market Feedback – highly preliminary

- The definition of materiality, overall, is well-recognised by stakeholders.
- Questions have been raised frequently on the application of materiality in relation to sustainability-related financial information, including:
  - how to determine the threshold for materiality when considering this from a quantitative perspective;
  - how to consider different time horizons; and
  - the implications of considering enterprise value in contrast to traditional financial materiality.
- Materiality also has a different meaning for those stakeholders with a sustainability background that are more accustomed to think of materiality as a concept that is applied to 'issues' rather than 'information'.
- Preparers have asked whether the ISSB will be providing further guidance on how to assess and apply the materiality requirements per the Exposure Draft.

# Current and anticipated financial effects

## Context

- As part of an entity's disclosures on strategy, the *General Requirements* Exposure Draft proposes that an entity shall disclose information about 'the effects of significant sustainability-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'.
- A similar requirement is proposed in the *Climate* Exposure Draft, in relation to the current and anticipated financial effects of significant climate-related risks and opportunities.
- Both exposure drafts propose that quantitative information is disclosed (single amounts or a range), unless an entity is unable to do so in which case qualitative information shall be provided.

## Market Feedback – highly preliminary

- Investors are supportive of this requirement with stakeholders understanding that this builds on similar expectations of the TCFD recommendations (per the 2021 TCFD status report 9 in 10 users find disclosure of financial effects useful with disclosure on effect on financial performance more common than effect on financial position).
- Frequent feedback has been received as to the challenges in actually providing disclosures on the current and anticipated effects, including:
  - difficulties in quantifying the financial effects of risks and opportunities;
  - concern that anticipated effects in relation to longer term risks and opportunities will involve significant measurement uncertainty as based on significant assumptions and judgements; and
  - difficulty in attributing finance effects to a single risk/opportunity in isolation.
- Desire from preparers for guidance in estimating the financial impact of sustainability/climate-related risks and opportunities.

# Timing of reporting

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## Context

- The *General Requirements* Exposure Draft proposes that an entity's sustainability-related financial disclosures shall be reported at the same time as the financial statements.
- This is proposed to ensure sustainability-related financial disclosures are provided in a timely manner to investors and facilitates connectivity between the financial statements and sustainability-related financial disclosures.
- It was also intended to facilitate the provision of assurance.

## Market Feedback – highly preliminary

- The requirement and the reasoning behind the requirement is understood by stakeholders.
- However, concerns raised by stakeholders as to the challenge of providing sustainability-related financial disclosures at the same time as the financial statements.
- Some of the timing concerns reflect the challenges of meeting the proposed requirements relative to the current reporting provided, so may improve over time, whereas some are more fundamental (eg the challenges of providing Scope 3 information at the same time as the financial statements).



# Next steps and questions for the Board

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Following the comment period ending on 29 July, the staff plan to provide a summary of feedback from the outreach and comment letters at the September 2022 ISSB meeting.

## Questions for discussion

- Do ISSB members have any comments on the outreach activities?



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**3B. Preliminary market feedback—  
*Climate Exposure Draft***



# Preliminary market feedback on the *Climate Exposure Draft*

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- The following slides provide an overview of important aspects of market feedback as identified by the ISSB technical staff, as part of the ongoing consultation.
- This overview is based on a combination of comments presented orally by stakeholders, questions raised by webinar or meeting participants, webinar polling questions, and technical discussions with targeted stakeholders.
- In September, the ISSB staff aim to present board papers summarising comment letters and feedback from outreach, which will represent a more comprehensive review of the stakeholder feedback received.
- **Please note that the consultation period is currently open through 29 July 2022 – so this feedback is currently incomplete.**

# Preliminary market feedback: High level messages

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## General feedback

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Welcome the ISSB issuing a *Climate* Exposure Draft

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Commend the quality of the *Climate* Exposure Draft

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Value how the Exposure Draft is building upon TCFD Recommendations, CDSB and the SASB Standards

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Emphasise the need for urgency

## Investors

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Emphasise the importance of global baseline for consistency and comparability for investors

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Emphasise the importance of not letting perfect be the enemy of the good

## Preparers

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Value the global baseline approach / interoperability in reducing reporting burden

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Emphasise the challenges with some specific proposed requirements, and the importance of proportional reporting requirements for smaller companies and in emerging economies

# Preliminary—Areas for which few or no concerns have been expressed to date in outreach

Area	Market feedback
<b>1</b> Scope of the Exposure Draft	<ul style="list-style-type: none"> <li>Stakeholders appear to broadly agree with the proposed scope of the Exposure Draft</li> <li>A few stakeholders have queried whether we could include further guidance on the meaning of climate-related opportunities</li> </ul>
<b>2</b> Governance	<ul style="list-style-type: none"> <li>Stakeholders appear to broadly agree with the proposed governance disclosure requirements</li> </ul>
<b>3</b> Strategy <i>Climate-related risks and opportunities</i>	<ul style="list-style-type: none"> <li>Stakeholders appear to broadly agree with the proposed strategy disclosures</li> <li>On a few occasions, staff have had to clarify that the short, medium and long term is defined by the entity and not proposed to be specified, however this does not seem to have raised significant concern by stakeholders</li> <li>A few stakeholders have asked whether climate-related opportunities should be categorised in further sub-buckets (risks are already required to be categorised into physical risks and transition risks)</li> </ul>
<b>4</b> Risk management	<ul style="list-style-type: none"> <li>Stakeholders appear to be supportive of the proposed risk management disclosure, including climate-related opportunities</li> <li>Concerns raised in the target outreach conducted by the Technical Readiness Working Group that there were some duplications between these requirements and the strategy requirements seem to have been addressed</li> </ul>

# Preliminary—Priority areas that are likely to require further consideration

Area	Stakeholders
<b>1</b> Transition planning (incl. carbon offsets)	<ul style="list-style-type: none"> <li>Value potential alignment with global and jurisdictional initiatives</li> <li>Query the rationale and appropriateness of including carbon offsetting</li> <li>Seek greater clarity on what ‘counts’ as carbon offsetting</li> </ul>
<b>2</b> Current and anticipated effects	<ul style="list-style-type: none"> <li>Raise challenges in providing disclosures on the current and anticipated effects, including difficulties in:             <ul style="list-style-type: none"> <li>quantifying the financial effects of risks and opportunities</li> <li>dealing with measurement uncertainty due to assumptions and estimates for anticipated effects for longer-term risks and opportunities</li> <li>attributing financial effects to a single risk/opportunity in isolation</li> </ul> </li> </ul>
<b>3</b> Climate resilience	<ul style="list-style-type: none"> <li>Seek more guidance or more prescriptive disclosure requirements</li> <li>Raise concerns related to litigation risks, commercial sensitivities, and analytical uncertainty associated with disclosure of forward-looking analyses and metrics</li> <li>Seek greater clarity on what is meant by being ‘unable to do’ a scenario analysis</li> </ul>
<b>4</b> Cross-industry metric categories: GHG emissions	<ul style="list-style-type: none"> <li>Have differing views on the use of the GHG protocol versus other methodologies</li> <li>Raise concerns around the choice of reporting boundary available in the GHG protocol</li> <li>Raise challenges associated with data collection (Scope 3 emissions)</li> </ul>
<b>5</b> Industry-based requirements	<ul style="list-style-type: none"> <li>Have a range of views regarding the industry-based requirements</li> </ul>
<b>6</b> Proportionality	<ul style="list-style-type: none"> <li>Emphasise the importance of proportional reporting requirements for smaller companies, emerging economies, and entities and industries that have less experience with climate-related disclosures</li> </ul>

Significant overlap between the two exposure drafts in this area; likely to need a consistent approach. As such, this issue was covered in the general requirements section

# Transition planning

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## Context

- In the *Climate* Exposure Draft, transition planning is characterised as a subcomponent of an entity's overall strategy.
- The *Climate* Exposure Draft proposes a range of disclosure requirements related to an entity's strategy and decision-making, including transition plans, such as:
  - paragraph 13, which proposes that an entity disclose how it is responding to significant climate-related risks and opportunities, its climate-related plans and targets, and how it plans to achieve its targets including its use of carbon offsets in achieving emission targets;
  - paragraph 21, which proposes that an entity disclose its absolute gross Scope 1-3 GHG emissions and its GHG intensity for each scope; and
  - paragraph 23, which proposes that an entity disclose information about its climate-related targets.
- The proposed disclosure requirements build upon the TCFD recommendations and guidance.
- There are a number of important initiatives working on transition planning, target setting, and carbon offsets, including GFANZ, UK TPT, TPI, SBTi, TSVCM, VCMI, IETA and the GHG Protocol/WRI.

## Market Feedback – Highly preliminary

- Stakeholders appear positive to the proposed disclosure requirement on transition planning. Investors, in particular, strongly support additional clarity on how entities intend to achieve their emissions reduction targets and progress made.
- Concerns have been raised by European stakeholders and NGOs in particular over whether the inclusion of carbon offsetting means that entities will use these as a replacement for reducing avoidable emissions within the entity's value chain. These concerns are driven in part by the fact that carbon offsetting has often lacked transparency, with investors finding it challenging to evaluate the use of carbon offsets.
- Stakeholders are often interested to learn about, and supportive of, the ISSB's engagement with other global initiatives, like the GFANZ, as well as work at a jurisdictional level, in developing the global baseline.
- Some stakeholders asked whether the *Climate* Exposure Draft includes a requirement to have emission reduction targets. When this has been raised, staff have clarified that the standard does not mandate or require an entity to have an emission reduction target. However, if an entity has not set an emission reduction target it may be considered material for it to state it has not set such a target to comply with the proposed requirements.

# Climate resilience

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## Context

- Paragraph 15 of the *Climate* Exposure Draft proposes that an entity disclose the results of the analysis of the climate resilience of its strategy as well as how the analysis has been conducted. This requirement builds on the TCFD recommendations.
- In the proposal, an entity is required to perform a climate-related scenario analysis if it is able to do so. However, if an entity is unable to perform climate-related scenario analysis, it can use alternative methods or techniques instead of scenario analysis to assess the climate resilience of its strategy.
- Given the differing effects of climate-related risks for entities in various sectors and circumstances, the Exposure Draft does not prescribe particular scenarios that an entity should use nor propose that standard or specific reference scenarios be applied. Stakeholders suggested such a prescriptive approach is not practical.
- The provision of information about the assumptions used in any analysis of strategy resilience is intended to facilitate comparisons by users of general purpose financial reporting.

## Market Feedback – Highly preliminary

- Feedback indicates that most stakeholder groups broadly agree with including a proposed strategy resilience requirement.
- Many entities have begun to undertake climate resilience analysis for a variety of reasons, including impacts of climate change on their business model, regulatory pressure, mandated TCFD disclosures, and investor demand. However, while many investors say information about scenario analysis is highly relevant, scenario analysis remains one of the least disclosed elements of the TCFD recommendations.
- Preparers in particular, raise concerns, including:
  - the cost-benefit ratio, highlighting the need for further guidance (ideally sectoral guidance) on conducting decision-useful climate-related scenario analysis;<sup>1</sup>
  - the litigation risks, commercial sensitivities, and analytical uncertainty associated with disclosure of forward-looking analyses and metrics; and
  - what being ‘unable to do’ a scenario analysis means.
- Stakeholders have also suggested that the ISSB should set the scenarios to be used or require the use of Paris-aligned scenarios, in order to facilitate consistent and comparable reporting.

<sup>1</sup> Both the TCFD and the WBCSD have published further guidance on using scenarios and conducting scenario analysis.



# Cross-industry metric categories: GHG emissions

## Context

- Paragraph 21 in the *Climate* Exposure Draft proposes that an entity be required to disclose its absolute GHG emissions for the period, measured in accordance with the GHG Protocol Corporate Standard, for its Scope 1–3 emissions.
- For Scope 1–2 emissions, the entity would be required to disclose emissions separately for (1) the consolidated accounting group (the parent and its subsidiaries) and (2) the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group.
  - The GHG protocol includes three approaches to consolidate GHG emissions: the equity share approach, the operational control approach and the financial control approach.
  - For example, for an asset that the entity fully owns and operates, reported Scope 1 and 2 emissions will be the same whichever approach is used. However, if, for example, an entity owns part of the voting equity shares in another entity, the resulting disclosed emissions may differ depending on the approach used.

## Market Feedback – Highly preliminary

- Feedback indicates that stakeholders are broadly supportive of the proposed requirement on Scope 1–2 GHG emissions.
- Preparers typically highlight the data and methodology challenges associated with measuring and reporting Scope 3 emissions, and the level of assumptions and estimation associated with such disclosures. Preparers have also questioned the materiality of Scope 3 and sought guidance on which categories are most relevant in their sector/industry.
- Many investors, however, appear supportive of the inclusion of the proposed Scope 3 requirement, despite the measurement uncertainty and the data challenges for preparers.
- Many jurisdictions and entities welcome the ISSB’s draft requirement for entities to disclose in accordance with the GHG Protocol; however some jurisdictions and sectors have flagged that entities in their regions or sectors use other approaches (eg national reporting schemes, ISO standards, sector-specific approaches, etc) ie the GHG protocol is not truly ‘global’.
- Stakeholders have raised a concern that the GHG Protocol’s options for emission quantification, use of global warming potential, and reporting boundaries make comparing companies difficult.

# Industry-based requirements

## Context

- Paragraph 20 in the *Climate* Exposure Draft proposes that an entity be required to disclose industry-based metrics (as set out in Appendix B) which are associated with disclosure topics and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry.
- The Exposure Draft includes 350 industry-based metrics across 68 industries, which is approximately 5 metrics per industry, although this varies by the individual industry. In many cases, industry-based metrics will be closely related to, and supportive of, cross-industry metrics categories.
- Thirty-six of the industry-based metrics (approximately 10%) were identified as requiring additional technical refinement to enhance their international applicability, addressed through 12 focused technical amendments and three revision approaches. The Exposure Draft includes these proposed changes.
- The industry-based requirements also include a proposal for the disclosure of financed emissions for four industries—commercial banks, investment banks, insurers and asset managers. Disclosure of financed emissions is broadly in line with the latest 2021 TCFD guidance for the financial sector and PCAF.

## Market Feedback – Highly preliminary

- There is strong investor support for the inclusion of mandatory industry-based disclosure requirements in the *Climate* Exposure Draft derived from the industry-based SASB Standards.
- Other stakeholder groups have raised concerns around Appendix B being included as part of mandatory disclosure requirements instead of as voluntary application guidance.
- Non-US based stakeholders have raised concerns about the international applicability of the requirements. In these instances, staff has described the internationalisation project undertaken ahead of publishing the Exposure Draft. While there have been a few verbal examples of which metrics are challenging, the technical staff is unable to fully assess the feedback without the detailed responses in the comment letters and survey following 29 July.
- Due to the technical and targeted nature of the proposed financed and facilitated emission metrics, technical staff are currently undertaking targeted outreach on financed and facilitated emissions, which will be shared in later ISSB meetings.

# Proportionality

## Context

- While all disclosures in the *Climate* Exposure Draft would be required, subject to materiality, there are a few instances in which the Exposure Draft aims to accommodate the fact that some preparers will find particular disclosures more challenging, such as entities in industries that are less familiar with climate disclosures, smaller entities and those in emerging markets:
  - paragraph 14 – Financial position, financial performance and cash flows: ‘An entity shall disclose quantitative information **unless it is unable to do so**’. If the entity is unable to do so, it can disclose the information qualitatively;
  - paragraph 15 – Climate resilience: ‘The entity shall use climate-related scenario analysis to assess its climate resilience **unless it is unable to do so**’. If the entity is unable to do so, it can use alternative methods; and
  - appendix C2 includes transition relief for comparative information in the first period in which an entity applies the standard.
- This approach would provide preparers, including those in smaller entities, with relief, recognising that these disclosures can be resource intensive. Importantly, there is a requirement for the entity to explain why they are ‘unable to do so’.

## Market Feedback – Highly preliminary

- Stakeholders appear to broadly agree with the approach to build upon existing initiatives such as the TCFD recommendations and the SASB industry-based standards, recognising that this facilitates an easier transition for entities to report on the disclosure requirements in the *Climate* Exposure Draft.
- The different levels of capacity, capabilities and experience between different organisations in reporting on climate-related risks and opportunities have been highlighted by many stakeholder groups, in particular stakeholder groups from emerging economies and smaller entities.
- When the ISSB staff presented to the IFRS Foundation’s Emerging Economies Group (EEG), there were three areas in particular that were highlighted and mirrored similar comments from other stakeholders:
  - quantification of current and anticipated effects (paragraph 14);
  - scenario analysis (paragraph 15); and
  - Scope 1-3 GHG emissions (paragraph 21), including the requirement to use the GHG Protocol, which is less adopted in some emerging markets, and the disclosure of Scope 3 emissions.

# Next steps and questions for the Board

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Following the comment period ending on 29 July, the staff plan to provide a summary of feedback from the outreach and comment letters at the September 2022 ISSB meeting.

## Questions for discussion

- Do ISSB members have any comments on the outreach activities?