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Emmanuel Faber
Chair
International Sustainability Standards Board (ISSB)
c/o IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Re: Exposure Draft ED/2022/S2 Climate-related Disclosures

Dear Mr. Faber,

We appreciate the effort of the ISSB to provide a global baseline on this important topic and we appreciate the opportunity to respond to the ISSB's invitation to comment. We limit our comments here to the Exposure Draft ED/2022/S2 Climate-related Disclosures.

The Responsible Finance & Investment (RFI) Foundation is a global non-profit working as a catalyst to promote adoption of responsible finance within Islamic finance and Islamic markets. In our work, which includes significant focus on countries currently classified as emerging and frontier markets, we have seen significant challenges for financial institutions and investors in navigating the emerging framework of ESG disclosure standards.

The current patchwork of guidance, frameworks and standards relating to climate-related disclosures has not always been fit for purpose for emerging & frontier markets.[1] The capacity of financial institutions and their customers to provide high-quality emissions data is significantly more constrained than in developed markets, and the ability to integrate this information into decision-useful metrics has been comparably more limited.

A global baseline standard such as the one proposed by the ISSB can thus become an important way to simplify some elements of reporting. Rather than having to navigate between different, sometimes conflicting frameworks, a global baseline standard can provide a starting point to allow financial

[1] For example, a study by MOBILIST found that ESG data "may risk diverting capital flows away from emerging and frontier markets, which tend to lack data or score poorly on ESG metrics as presently constructed" (MOBILIST. 2022. *Drivers of investment flows to emerging and frontier markets*. https://mobilistglobal.com/research-data/drivers-of-investment-flows-to-emerging-and-frontier-markets/)

institutions to focus more of their efforts and investments in capacity to analyze and respond to climate-related financial risks rather than just compliance efforts to report in line with many frameworks with subtle or substantial differences.

We view this as being particularly important for financial institutions who are impacted by challenges of their customers to report on various emissions scopes and analyze these as important components of their own Scope 3 emissions.

In particular, we appreciate the recognition of the importance of financed emissions and the Exposure draft's proposal to address industry-based metrics for financed emissions aligned with current norms and practice which have changed substantially since the most recent revision to the SASB Standard in 2018.

We provide our specific comments in response to the questions outlined in the Exposure Draft below.

Sincerely,

Blake Goud
CEO
RFI Foundation

RFI FOUNDATION

RFI Foundation Responses to Questions on the Exposure Draft IFRS S2 Climate-related Disclosures

Question 1—Objective of the Exposure Draft

(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?

The Exposure Draft's objective included in §1 includes only a focus on how climate-related risks impact an entity's enterprise value. Although we understand the rationale for limiting focus to a single materiality standard for the primary audience of these disclosures. We are nonetheless concerned that too narrow a focus on direct impact to enterprise value, abstracting from the entity's wider impact on its stakeholders, could create strategic myopia by focusing too narrowly on immediate financial materiality.

The reason for our concern in this respect is that financial materiality is often considered only where it can be quantified over the short-term. Climate-related financial risks will have the most direct impact on enterprise value by making it more costly to emit greenhouse gases, whether through market means with an explicit price or regulatory restrictions that impose costs indirectly for GHG emitters by limiting or restricting sources of emissions.

This type of approach, focused on the direct economic costs of emissions, is likely to produce a significant discounting by entities of the long-term relationship between an entity's response to its own climate-related risks and it's medium- and long-term enterprise value.

It is an arguable point about where the boundary of financial materiality lies in climate-related risks. In theory, an entity's misalignment with global climate objectives could subject it to reputational or legal risks in the future. However, in practice, because these risks are difficult to quantify for any specific entity, they are likely to be subject to much less transparent disclosure.

To take one recent example to illustrate the point. The European Central Bank (ECB) released a climate stress test in July 2022.[2] The stress test aggregated the results of individual bank analysis of the financial impact of various scenarios. The individual banks were able to make their own estimates about potential losses under different climate scenarios with input throughout the process from the ECB.

In describing the results of the stress test, the ECB noted that most banks had used their existing credit risk analytical tools with limited variation for climate-specific financial risks. The ECB's report explained

[2] European Central Bank. *2022 climate risk stress tests*. https://www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr220708~565c38d18a.en.html

that "carbon prices have often been used as the key (and often the only) explanatory variable, followed by energy prices and emissions data [added to credit risk modeling]".

This is not an isolated example, and is characteristic of the short-termism characterizing the approach of many investors and financial institutions' in response to climate-related financial risks. Using the financial cost of emissions as the only or primary input to assess the financial impact of climate change is far too narrow a view to capture cascading waves of climate-related financial impacts that entities will face. The short-term and most predictable impacts will be a rise in the direct cost of emitting GHGs. The medium- and long-term impact will include physical impacts that have already begun to manifest through more extreme weather systems and the response of human systems to these changes.

One way to clarify this position would be to modify Basis for Conclusions (BC) 16 to clarify that other sustainability-related risks may emerge as a result of an entity's response to financially material climate risks and that entities should consider the future trajectory of these risks whether they would be mitigated or exacerbated by the success or failure of the world to achieve long-term climate objectives. BC17 outlines how the draft Climate Disclosure Standard would "enable an entity to meet the requirements in [draft] IFRS S1 to provide material information about risks and opportunities related to climate change" but is not explicit about how resulting sustainability risks (especially social risks) could create feedback onto the ability of an entity to meet its climate-related targets.

Question 2—Governance

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?.

The governance disclosures in §5 outlines the disclosures made about the risk management & strategy functions, but it does not appear to contemplate requirements for disclosure about how the governance body evaluates the effectiveness of the contemplated processes, controls and procedures on an ongoing basis. Within this section (specifically §5(f)), it does reference §23-24 relating to disclosures of progress towards targets and industry-specific metrics, and within §5(f) also references "whether and how related performance metrics are included in remuneration policies".

Achievement of targets does not always correspond to effectiveness of internal processes, controls and procedures. It should be a responsibility of the board to ensure the effectiveness in the function of the processes, controls and procedures. However, in the current draft, disclosures relating as to "whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions" is included under §5(g) which relates to the role of the entity's management, not that of its board.

In BC60, the disclosures are said to "include disclosure about the governance body's involvement in overseeing the establishment of climate-related performance targets and monitoring the entity's progress against those targets, and its oversight of management's role in assessing and managing climate-related risks and opportunities".

However, the exposure draft of the standard limits the governance body's responsibility to overseeing the setting of targets and monitoring progress towards those targets. This excludes an important role for the governing body of oversight relating to how an entity's management works towards that target set. The standard should include among the governing body's responsibilities a responsibility to ensure the effectiveness of the entity's internal processes, controls and procedures relating to climate-related financial risk management.

Question 3—Identification of climate-related risks and opportunities

(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?

The proposed requirements are clear, and it is particularly useful to separate chronic and acute physical risks and to define the types of transition risk as "includ[ing] regulatory, technological, market, legal or reputational risks".

(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?

The proposed requirement to consider industry-specific disclosure requirements is an important feature of the draft standard. In particular, we welcome the detailed reasoning that inform the updates made to the SASB standard for the financial sector to include financed emissions that was not part of the previous SASB standard for financial institutions such as commercial banks. Awareness of climate-related financial risks to financial institutions has sharpened considerably since the last version of the SASB standard was adopted. As regulators increase their focus on climate-related risks connected to financed emissions, users of general-purpose financial reports have increasingly relied on disclosures relating to this type of risk for financial institutions.

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

(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?

The proposed disclosure requirement about significant climate-related risks and opportunities, in particular across the value chain, is important for entities to understand. It makes up an important part of the disclosures that users of general-purpose financial statements will rely upon. However, there will likely be substantial variability in the disclosure quality across entities. Therefore, it will be important to expand the disclosure requirement to also include a description about how the assessment was conducted, the assumptions used, and the reliance on third-party analytical tools to disclose significant climate-related financial risks in their value chains.

Taking an example to illustrate the importance of added disclosures about how business model and value chain risks and opportunities, the Bank of England's 2021 biennial climate exploratory scenario (BCES), found that "banks varied in their ability to scrutinise and understand the strengths and weaknesses of third-party models" and to adapt them to specific disclosure requirements. The Bank of England noted that insurers that were better able to adapt third-party models reported "materially larger losses".[3]

As the varying experience between banks and insurers demonstrates, the context about the types of assessments undertaken to identify business model and value chain risks will be critical for users of general-purpose financial reports.

(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?

There will be wide variability in the ability of entities to make quantitative disclosures about their business model and value chain risks and opportunities. Qualitative disclosures will be useful to explain how an entity plans to respond to different types of risks. However, quantitative disclosures are instrumental for users of general-purpose financial reports who are comparing one entity with another which cannot be substituted by using qualitative data alone.

Question 5—Transition plans and carbon 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."

(a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?

The proposed transition plans disclosures are welcomed and will provide significant improvement over current market practice for financial institution transition plans. However, the inclusion of 'avoided emissions' (the so-called Scope 4 emissions) should be separated entirely from emissions reduction targets for Scopes 1-3 until there exists a comparable standard adopted for their calculation under the GHG Protocol to Scopes 1-3.[4]

The transition plans and targets of non-financial corporate entities will be important inputs to the Scope 3, Category 15 emissions ("financed emissions") for financial entities. These are already facing some interpretation challenges as the scope of their customers' Scope 3 emissions to be included widens in line with the phase-in by sector as part of the PCAF standard.[5] These challenges would be substantially

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[3] Bank of England. 2022. Results of the 2021 Climate Biennial Exploratory Scenario (CBES). https://www.bankofengland.co.uk/stress-testing/2022/results-of-the-2021-climate-biennial-exploratory-scenario

[4] The GHG Protocol classifies its framework for reporting avoided emissions under Guidance and not under Standards, which includes the Corporate Value Chain (Scope 3) Standard (WRI. 2019. *Estimating and reporting the comparative emissions impacts of products*. https://ghgprotocol.org/estimating-and-reporting-avoided-emissions)

[5] PCAF. *Global GHG Accounting and Reporting Standard for the Financial Industry*, page 60. https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

increased if avoided emissions were commingled with other forms of emissions reductions across Scopes 1-3.

(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.

There are two elements that are missing that should be considered in the transition plans outlined in §13(a):

Provide disclosures about the types of scenario analysis that have been conducted to show that the targets will be sufficient under different macro-climate responses to meet any climate related alignment (e.g., Paris Agreement, 1.5° C or Net Zero), and 2) provide disclosure requirements for short-, medium- and long-term transition plan targets and how these definitions are linked to the entity's strategic planning horizons and capital allocation plans. This will help to align the target-setting framework with other established target-setting initiatives such as SBTi that limit the use of offsets to meet climate targets set for some time horizons.

(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) The proposed disclosures of the use of offsets and their credibility represent an improvement for users to understand how entities use carbon offsets. However, the utility of offsets for sectors that are not generally agreed to be 'hard-to-decarbonize' still present an opportunity for greenwashing if users of general-purpose financial statements combined the contribution of actual decarbonization in their operations and value chains from those created through the use of carbon offsets or avoided emissionsd) 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?

As noted in the response (c), users of general-purpose financial reporting will distinguish between emissions reduction from decarbonization activities, offsets and avoided emissions and will need to be able to disentangle one from the other. In order to improve users of the reporting, it would be beneficial to require that disclosures of emissions reduction don't include offsets and avoided emissions, and instead have those be disclosed entirely separately from emissions reductions.

Question 6—Current and anticipated effects

(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?

The disclosure of quantitative data is very important for users of general-purpose financial reports. The option for qualitative information to be provided, with explanation, will be important for smaller entities and those in emerging and developing countries. They will also be particularly important to qualify quantitative data for entities in financial services where an entity's ability to make these quantitative disclosures will depend heavily on unrelated entities over which they have limited influence and no control. Reporting of quantitative data by these entities will need to be supplemented with qualitative information to address the comparability of data inputs from counterparties and how it affects the reported climate-related risks and opportunities.

(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?*

In general, the disclosures outlined will be reasonable for users of the general-purpose financial reports. However, the limitation of disclosures about significant risks to the carrying value of assets and liabilities to only those changes expected within the next financial year could produce discontinuities relating to risks just over the horizon that are foreseeable based on available climate science.

To take a particular example, assume the entity owns a building situated near sea-level. Rising sea levels are unlikely to materially affect the carrying value of the asset for several decades, but it will increase both the ability of the entity to receive insurance cover over the building and its susceptibility to seasonal flooding or storm damage.

The location of the asset will clearly imply a significant risk to impairment of the carrying value of its assets and liabilities. Yet it is unclear when the risk would rise to a high enough level for the entity to expect a material impact on its carrying value. The limitation for disclosures only to be made within the next financial year would create a powerful incentive to always push the possibility that carrying value further into the future each year to be beyond the reporting horizon.

Delaying disclosure of likely carrying value of an asset or a liability until the year in which it is expected to be impaired will increase the likelihood that users of those financial reports will only become aware of a material risk after the point when the entity could have taken actions to mitigate those impairments. It would be more effective to match the timeline for disclosures of the likely future impairments of the carrying value of assets and liabilities with the strategic planning horizons for capital allocation relating to the asset rather than an arbitrary time period such as only impairments expected during the next financial year.

(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?*

This is a suitable proposed disclosure requirement, although the time frames used should match both the entity's own strategic planning horizons and capital allocation plans and the time frames of one or more climate scenarios.

Question 7—Climate resilience

(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?

The information outlined in paragraph 15(a) reflects important information but the dividing line between information disclosed in line with paragraph 14 and paragraph 15 is difficult to understand. It is not clear why the two sections wouldn't be combined. At minimum, paragraph 14 information could be limited solely to backwards-looking information about climate-related risks or opportunities that have already occurred during the reporting period, or as a subsequent event between the end of the reporting period and the date when the report is released. Paragraph 15 would then include only (and all) forward-looking information about the resilience to future climate-related financial risks and opportunities.

(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?

The alternative techniques are useful to include for smaller companies and those located in emerging and developing countries that may lack external data needed to conduct a scenario analysis in a way that is relevant to the climate-related risks that they actually face. However, there should be an expectation that entities move away from alternative methods or techniques over time.

(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?

Entities not reporting scenario analysis results and using alternative techniques for measuring climate resilience should be required to disclose the reason why, as well as the alternative techniques used. In addition, they should disclose the steps they are taking, if any, to be able to undertake scenario analysis in the future and a target for when they will begin able to undertake scenario analysis.

(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?

Applying a mandatory climate-related scenario analysis is unlikely to materially improve the quality of disclosures made. It will increase the perceived knowledge of users of general-purpose financial reports even if the comparability of this reporting is substantially less, such as due to lack of country-sector specific inputs. Quantitative data is valued by users of general-purpose financial reports because it is viewed as 'hard data' and forcing reporting entities that only have access to relevant qualitative

estimates of resilience to quantify those will lead some users to treat it as more precise than it actually should be.

As mentioned before, the combination of backwards- and forwards-looking data included together paragraph 14 reduces the clarity of what disclosures are based on actual data and what has been estimated, expected or modelled. Mandatory scenario analysis that increases the uncertainty in the forwards-looking data only exacerbates that issue.

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

We agree with the proposed disclosures about an entity's climate-related scenario analysis because it provides disclosures about methods, assumptions and the precision of the data used. Providing these underlying assumptions, sources and methods will allow users to evaluate how well the entity is able to understand the correct way to evaluate its climate resilience.

(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?

We agree with the proposed disclosures because they include key pieces of information about why the entity couldn't conduct a scenario analysis as well as details about the rigor of its alternative technique.

(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?

The proposed disclosure requirements appropriately balance costs and benefits provided that the scenario analysis is not made to be mandatory and entities are allowed to use alternative techniques with suitable disclosure about the reason, assumptions and methodologies employed.

Question 8—Risk management

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?

The proposed disclosure requirements are sufficient for the purpose of disclosing the evolution of the climate-related risk management systems for an entity, but we have similar concerns as we do for the governance bodies. It is well and good to describe risk management processes, controls and procedures, but there also needs to be disclosure about testing of the effectiveness of these processes, controls and procedures. The effectiveness of the systems may be evaluated through a review by external auditors or from internal audit functions. Whichever system an entity uses, they should show how the entity closes the link between governance or risk management and internal/external audit.

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

(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?

We believe the seven proposed cross-industry metric categories are applicable across a wide variety of industries and business models and will be useful in assessing enterprise value. We particularly welcome the update to industry-specific disclosures relating to financed emissions.

(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.

None.

(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?

For financial entities, the definitions of the GHG Protocol may conflict with other accounting methods used for financed emissions that are seeing increased take-up. For example, the PCAF standards for what the GHG Protocol defines as Scope 3, Category 15 emissions include a phased-in approach to incorporating the Scope 3 emissions of customers into a financial institution's Scope 3 emissions.

By contrast, the GHG Protocol is limited only to the Scope 1 + 2 emissions of customers. The Foundations Paper for Net Zero for Financial institutions notes the varying boundaries defined in other standards and proposes as a Guiding Principle that would align with PCAF after 2026.[6] "All relevant operational and financial activities, and scope 1, scope 2 and scope 3 GHG emissions (which should cover portfolio companies' scope 1, 2 and 3 emissions) should be aligned with global net-zero goals".[7]

Requiring financial institutions to report only their Scope 3, Category 15 emissions following the GHG Protocol will require that they make multiple different calculations of these emissions if they also report in line with PCAF standards and follow the SBTi Guiding Principles for their future guidance on science-based Net Zero target setting.

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the

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[6] PCAF, *op. cit.*

[7] SBTi. *Foundations for Science-based Net-Zero Target Setting in the Financial Sector*. Version 1.0, April 2022. https://sciencebasedtargets.org/resources/files/SBTi-Finance-Net-Zero-Foundations-paper.pdf

disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?

We believe that valuable information that users of general-purpose financial reports would like to have will be lost if only aggregated GHG data is reported. However, whether the amount of information lost is material for those users will be different depending on the sector, and introducing on an industry-specific basis will more effectively balance the costs and benefits for reporting entities and users of those reports.

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:

(i) the consolidated entity; and

Yes.

(ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

The separate disclosure of Scope 1 and Scope 2 emissions for the consolidated entity and other non-consolidated associates, joint ventures, subsidiaries and affiliates will provide investors with a fuller understanding of the sources of emissions across an entity.

(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?

Gross Scope 3 emissions is an important metric for a full understanding of an entity's climate-related risks. However, gross emissions, while material, may not provide the right metric particularly for vertically integrated companies across a value-chain because it will result in intra-entity double-counting. Rather than weakening requirement for absolute gross Scope 3 emissions, it would be better to include these emissions as well as a reconciliation showing what volume of reported Scope 3 emissions at the sub-entity level are eliminated upon consolidated.

<u>Question 10—Targets</u>

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

The proposed disclosure about targets is appropriate and provides information needed by users to evaluate the targets and compare them with other companies and with international agreements on climate change.

(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?

The latest international agreement on climate change is not sufficiently clear. There is ambiguity about whether that would indicate alignment with a global below 2° C target, a 1.5°C target (aspirational) or one of the many individual country-level NDCs. A clearer definition would either specifically define

which elements of an international agreement apply, or to allow the reporting entity to select and disclose which element of the international agreement on climate change its targets are referencing.

Question 11—Industry-based requirements

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

We support the proposed industry-based requirements focusing on those applicable to the financial sector. We would add the following notes to these requirements:

- In relation to 'facilitated emissions' the requirement for disclosure of these emissions should be separated from financed emissions. These emissions are important to have disclosed because emissions footprint related to transaction activity is significantly different from emissions for loans and securities held by financial institutions, and different methodologies and contexts relating to financed and facilitated emissions mean they will be interpreted in different ways by users of general-purpose financial reports.
- In relation to facilitated emissions, recent guidance by ICMA which oversees the Green Bond Principles about green securitizations creates ambiguity for some types of issuers including issuers of sukuk and banks involved in advisory and arrangement of sukuk issuance.[8] The guidance for issuers references all of the assets involved in structuring of a transaction, while in the past, green sukuk issuers have only focused on use of proceeds to ensure similar treatment as conventional green bonds. With the proposed draft including a requirement for reporting 'facilitated emissions', this ambiguity could make it less appealing for arrangers to participate in sukuk transactions compared to conventional bonds if the 'facilitated emissions' for two otherwise similar transactions (one a bond and one a sukuk) face uncertainty about how they would impact facilitated emissions differently.
- The requirement for disclosure of 'carbon-related assets' including as percentage of total gross exposure is sensible because the concentration of financed and facilitated emissions in a few sectors. However, there isn't a single definition provided or referenced about what 'carbon-related assets' includes and this could create substantial divergence if different definitions are used within different markets, particularly for entities that operate cross-border.
- We support the standard's inclusion of both drawn and total commitments for reporting purposes because of the use by users of general-purpose financial reporting for evaluating near-term and future climate-related financial risks.

(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.

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[8] RFI Foundation. "New ICMA guidance creates ambiguity about how its principles apply to green & social sukuk," 10 July 2022. https://www.linkedin.com/pulse/new-icma-guidance-creates-ambiguity-how-its-principles-/

None.

(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?

None.

<u>Question 12—Costs, benefits and likely effects</u>

(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?

We believe that developing a global baseline for climate-related disclosures will meaningfully improve the current state where the plethora of various standards cloud comparability and increase costs. The ability to phase in some disclosures, such as the use of scenario analysis with alternative techniques in the immediate term, will help to address cost challenges for smaller companies and those based in emerging & frontier markets.

<u>Question 13—Verifiability and enforceability</u>

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.

Verifiability (avoiding greenwashing) is a serious concern throughout climate-related financial disclosures. We support many of the disclosure requirements outlined in this draft standard because of the robust requirements to disclose assumptions and scenarios used, to explain use of qualitative data where quantitative data is preferred.

Much like financial reporting, climate reporting will face gradual improvements over time as auditors gain experience in reviewing climate-related statements. Users of the general-purpose financial reports will also become more savvy about the ways in which arguably true statements can be presented to convey something misleading. There will be a cat-and-mouse struggle between those setting implementation rules, auditors, reporting entities and regulators over time.

We believe verifiability is important but may require more phased-in approach to address cost considerations for smaller companies and those based in emerging & frontier markets. One of the most

important elements where there is room for maneuver using factual statements to create misleading reporting is to understand the specific intent of a reporting entity and its seriousness of purpose in making good faith efforts to follow the standards.

This is one point in which we have offered comments about claims made, whether in governance bodies' responsibilities or in risk management practices, that is missing critical disclosures about internal or external audit and the ability for these audit functions to demonstrate effectiveness (or lack thereof) in the processes, controls and procedures relating to climate risk governance and management.

We would encourage the disclosure standards to provide for more clear disclosures about efforts taken to ensure the effectiveness of governance and risk management systems in regards to climate-related risks and opportunities. This should apply whether specific verification or audit requirements are adopted as a way to provide better disclosure even in the absence of formal verification.

Question 14—Effective date

(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?

The effective date of the Exposure Draft should be earlier than the draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. There are already many entities that are making climate and sustainability reporting under various frameworks, and climate change brings an urgency of action that is stronger than other sustainability issues because of its multifarious impacts.

(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.

The effective date should be set to be phased in factoring in the preparations required of users. Those that are likely to be subject already to climate-related disclosures or face the most pressure to make these disclosures could be required to report in line with the standard covering their next full fiscal year. This would be large, international entities and those already covered by a national or mandatory exchange disclosure policy for climate-related financial risk disclosures.

Other entities, particularly smaller entities and those in emerging & developing countries, should have more flexibility about their full adoption of the standard. However, they should be encouraged to adopt the standard at the earliest possible date and this encouragement should come with substantial assistance for capacity building and creation of 'public good' data such as the data that informs scenario analysis from developed (G7) countries as an additional support to increase absorption capacity in emerging & developing countries to reach and exceed $100 billion per year of climate finance as soon as possible.

(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?

We believe that governance and strategy elements could be adopted earlier than some of the specific qualitative and quantitative risk management and metrics/targets. However, we believe that all elements should be phased in at the same time. However, the risk management and metrics/targets disclosed can begin with more flexible qualitative disclosures with a defined timeline for shift to quantitative disclosures phased in over a timeframe when the entity is likely to have access to cost-effectively collect and report the required quantitative data.

Question 15—Digital reporting

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)?

No comment.

Question 16—Global baseline

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?

The ambition particularly for forward-looking metrics of climate-related risks and opportunities and mandatory scenario analysis conforming to specific requirements could challenge the ability of this standard to become a 'global baseline'. The capacity limitations among companies, particularly smaller companies and those in emerging & developing countries, could also impair this draft standard from becoming a 'global baseline'.

The disclosure obligations related to climate change do represent a tangible cost for reporting entities. The scale of the risks that climate change poses to current and future generations, as well as businesses' economic futures, makes these costs proportionately small compared to the benefit that will come by mitigating the worst possible impacts of climate change.

That the benefits exceed the costs is necessary but not sufficient to spread the cost for preparing the disclosures across all reporting entities. There is a role for equity to factor into the application of the disclosure standards. This could come in a few sources including those previously mentioned such as:

- 'public good' data sources
- substantial investment by historically large emitters in emerging & developing countries that face significant climate risks but which have benefitted the least from the emissions, and

- use of these disclosures to create new investable opportunities in emerging & developing countries as G7 climate finance delivery accelerates.

These efforts will reduce the pushback on the disclosure standards becoming a global baseline and increase the resources going into climate change mitigation rather than into disclosure as purely a compliance matter.

Question 17—Other comments

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

None.