IIGCC The Institutional Investors Group on Climate Change

IIGCC response to the International Sustainability Standards Board's Exposure Draft IFRS S2 (Climate Exposure Draft)

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The Institutional Investors Group on Climate Change

About us

The Institutional Investors Group on Climate Change (IIGCC) is the leading European membership body enabling the European investment community in driving significant and real progress by 2030 towards a net zero and resilient future. IIGCC's 350 members, representing €51 trillion AUM, are able to catalyse real-world change through their capital allocation decisions, stewardship and engagement with companies and the wider market, as well as through their policy advocacy.

For more information visit www.iigcc.org and @iigccnews.

Executive Summary

IIGCC welcomes the efforts of the International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline for climate-related disclosures. Our members invest in companies across economic sectors and geographical regions, and need access to transparent, comparable, and science-based reporting to manage climate-related risks and opportunities and assess the alignment potential of their holdings. We also support the decision to align the proposals with the framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) framework,[1] which is well understood by users and preparers of reporting alike, and which will help to enhance the consistency and reliability of climate-related disclosures.

However, we believe that the proposed disclosures as they currently stand will not provide investors with the granular, consistent reporting that is needed to channel capital towards companies that are credibly aligning with a 1.5 °C world. To be truly decision-useful, the standards must build on the high-level TCFD framework with detailed, comparable disclosures that provide users with a holistic understanding of reporting entities' sustainability performance and their capacity to align with the net zero transition. IIGCC strongly recommends that the ISSB implements the following recommendations, grouped thematically, to ensure the requirements fulfil their intended role as a global baseline for decision-useful, consistent and comparable climate-related disclosures:

Enhancements to, and development of, the high-level TCFD framework

- More granular disclosures on how transition and physical climate risks and opportunities are identified and managed (rather than general references to climate-related risks and opportunities). This includes requirements for reporting entities to provide forward-looking information, such as undertaking scenario analysis to the extent they are able, in line with the TCFD's core recommendations. [Questions 1, 3, 5, 7, 8, 9]
- Building on the high-level TCFD cross-industry metrics by introducing consistent, standardised methodologies for calculating them. [Question 7, 9, 10, 11, 13]
- Additional requirements for reporting entities to disclose actions and activities to support the transition, as well as how they are identifying and managing climate-related risks and opportunities. Disclosures should support users' assessments of a reporting entity's capacity to align with a 1.5 °C world and reflect the best practice guidance and expectations

[1] The Task Force on Climate-related Financial Disclosures, more information available here.

established by a range of industry-led disclosure initiatives that support investors and wider stakeholders' information needs. To this end, IIGCC strongly recommends that the ISSB incorporates within the climate disclosure requirements the disclosure indicators established by the Climate Action 100+ Net Zero Company Benchmark[2] and recommended disclosures under the Paris Aligned Investment Initiatives' Net Zero Investment Framework[3] and the Investor Agenda's Investor Climate Action Plans expectations ladder.[4] [Questions 1, 2, 5, 6, 7, 10]

- Transition plan disclosures should account for actions relevant to climate adaptation, including through the introduction of more granular indicators and metrics for physical climate risks. [Question 5]
- Requirements for reporting entities to disclose the results of materiality assessments, so users can understand why climate-related information has or has not been disclosed. This should help to improve the completeness, consistency and verifiability of data. Guidance should be provided by the ISSB on how to conduct a materiality assessment. [Questions 1, 13]
- More emphasis on the need for quantitative, as well as qualitative reporting, to better enhance the comparability and verifiability of data (particularly for entities in carbon-intensive sectors). [Question 4, 5, 6, 7, 13]
- Ensuring offset-related disclosures emphasise that offsetting is not a science-based approach to achieve decarbonisation targets but a "beyond the value chain mitigation" measure (formerly known as "compensation") as SBTi recommends in its Net Zero Standard October 2021.[5] Avoided emissions offsets should not be used in the context of emissions targets. [Question 5]

Supporting a holistic view of exposure to climate-related impacts and corporate alignment potential through double materiality

- A focus on enterprise value alone will not provide investors with a holistic picture of their exposures to climate-related risks and opportunities. All investors need data on how climate-related factors will impact the financial performance of their investments, but they also need information on their investee's overall sustainability performance and their capacity to align with net zero. A double materiality approach to reporting enables greater understanding of the 'inside-out' impacts of reporting entities' activities, strategy and business model on climate change. This approach also provides clarity on the implications of these impacts for enterprise value over the short-, medium- and long-term, and can help investors to manage and mitigate the systemic risks posed by climate change. [Questions 1, 16]

[2] Climate Action 100+ Net Zero Company Benchmark, available here.
[3] Paris Aligned Investment Initiatives Net Zero Investment Framework, available here.
[4] The Investor Agenda Investor Climate Action Plans expectations ladder, available here.
[5] Science Based Targets Corporate Net Zero Standard (October 2021), available here.

Ensuring climate-related disclosures are implemented effectively

- Greater consideration of, and guidance for assessing, proportionality as part of materiality assessments and the granularity of information disclosed, based on the size of the reporting entity and the relative carbon-intensity of the sector in which the reporting entity operates. [Question 7, 9, 10, 11]
- Guidance reminding preparers of their responsibility to ensure any material consequences of foreseeable climate-related factors are considered in their statutory financial statements, in line with guidance from the International Accounting Standards Board (IASB) and a growing number of regulators, including the European Securities Market Authority, the UK's Financial Reporting Council and underscored in the SEC's proposed Rule on the Enhancement and Standardisation of Climate-Related Disclosure for Investors (File Number: S7-10-22).[6] Investors have explicitly set out their expectation that material climate considerations – including those associated with a transition to a 1.5 °C pathway – are visible in companies' financial statements. So, while we are supportive of complementary disclosure as proposed under IFRS S2 on implications for companies' financial position, this must not be a replacement to financial statement disclosures. [Question 6]
- Ensuring a differentiated approach between disclosures to be made by corporates and those made by investors, particularly in relation to transition plans. [Question 5, 11]
- Ensuring interoperability of the standards with national and regional reporting frameworks to allow for comparability of disclosures across multiple jurisdictions. The standards should uphold the 'building blocks' approach to interoperability, providing a common global baseline for climate-related disclosures on which regional reporting frameworks can build where they wish to go further (for example, where they apply a double materiality lens). The ISSB should continue to engage closely with key standard-setters (particularly in the EU, the UK and the United States) to minimise divergence and provide investors with consistent, comparable data they can assess across the jurisdictions in which they invest. Worked examples of how the standards relate to regional sustainability disclosure frameworks (similar to those the ISSB has published in relation to alignment with the TCFD framework), or a mapping exercise against other sustainability frameworks and standards (e.g. EFRAG), would also be helpful. [Question 9, 16]

We welcome your consideration of these concerns. Through our work with both our 350+ membership base and the companies in which they invest, IIGCC has developed a deep understanding of the information needs of investors, and the data required to credibly assess corporate progress on climate action. We stand ready to engage with the ISSB to ensure the standards establish a robust, internationally consistent baseline for climate-related disclosures.

[6] Securities and Exchange Commission proposed rule on 'The Enhancement and Standardization of Climate-Related Disclosures for Investors,' available here.

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?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

IIGCC acknowledges that the proposed objective for the Exposure Draft builds on the high-level framework established by the TCFD. This should help to increase the consistency, comparability, and decision-usefulness of disclosures, enabling investors to better understand the climate-related risks and opportunities that their investees are exposed to.

However, we propose that the following considerations should be considered in the context of the Exposure Draft's objective:

- The objective focuses on the disclosure of information relating to the management of climate-related risks and opportunities, but an overarching aim of climate-related disclosures should be to support users in understanding the transition-related risks and opportunities associated specifically with a 1.5 °C world (e.g. net zero). The Sixth Assessment Report by the Intergovernmental Panel on Climate Change (IPCC)[7] has highlighted the "persistent misallocation of global capital", driven by disclosure misalignment, that continues to hinder investors' ability to assess the alignment potential of reporting entities. To address this challenge, the Exposure Draft's objective should give greater weight to the need for consistent, comparable, and science-based information on how companies are aligning with the low carbon transition. Transition plan disclosures should be based on credible and consistent low-carbon pathways for regions and sectors to reduce the risk that reporting entities select a wide range of methodologies and approaches to modelling, which in turn produces varying assumptions about what is needed to reach net zero.

- Linked to the above point, investors need information on the impact of a reporting entity's activities on the climate, as well as the impact of climate change on enterprise value. These disclosures are critical for providing investors with a comprehensive view of their investees' exposures to climate-related risks and their capacity to align with net zero. There is often a significant overlap between financial materiality and the 'inside-out' impacts of companies' activities on the climate, with the latter able to influence financial performance and position over the short-, medium-, and long-term (e.g. via write-down or stranding of assets, reputational risk, misalignment with policy requirements/regulatory fines, etc). The Exposure Draft's objective should more clearly acknowledge the relevance of impact-related disclosures (e.g. reporting on actions taken to reduce emissions), to support a more holistic

[7] Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report (2022), available here.

understanding of a reporting entity's sustainability performance. While achieving real-world sustainability impact is a focus for a growing number of investors, managing the systemic risks posed by climate change is of vital importance for all investors, and particularly asset owners. Mitigating systemic risk is integral to fiduciary duty and requires disclosures by companies on the real-world sustainability impact of their activities. The Legal Framework for Impact programme and its approach to 'investing for sustainability impact' (IFSI) provides more detail on how a double materiality approach can support investing for sustainability impact and help investors mitigate systemic climate risks.[8]

(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?

- **Broadly Agree**
- Broadly Disagree
- Other

Please explain your answer:

By expanding on the information entities are required to disclose under the four TCFD pillars, IIGCC agrees that the objective focuses on the information that will help users of reporting to better understand the impacts of climate-related risks and opportunities on enterprise value. However, per our response to 1a), IIGCC would support a broader focus on information relating to the impact of the reporting entity on the climate (which is also relevant for enterprise value), as well as on the reporting entities' potential to align with net zero.

(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?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

The proposed disclosure requirements will help to support users of reporting in assessing the exposure of reporting entities to climate-related risks and opportunities, and how these risks and opportunities are being managed. However, as noted previously, users of reporting need more information on how preparers are aligning with the net zero transition to gain a holistic view of sustainability performance. Moreover, while the requirements go some way in providing a basis for more granular climate-related disclosures, more information is required to ensure reporting is truly comparable and decision-useful (particularly in relation to quantitative disclosures). As such, we recommend the disclosure requirements go further by:

[8] A Legal Framework For Impact, available here.

- Introducing requirements for reporting entities to disclose historic, current, and forward-looking actions and activities to support the transition, as well as how companies are identifying and managing climate-related risks and opportunities. Disclosures should support users' assessments of a reporting entity's capacity to align with a 1.5 °C world, incorporating the disclosure indicators established by the Climate Action 100+ Net Zero Company Benchmark[9] ('CA100+ Benchmark) and recommended disclosures under the Investor Agenda's Investor Climate Action Plans (ICAPs) expectations ladder[10]
- Greater specificity as to how transition and physical risks and opportunities are identified and managed, given that corporates and investors will approach these risks and opportunities in different ways and may be more or less exposed to one or the other categories
- Recognising the importance of the 'inside-out' impacts of reporting entities' activities, strategy and business model on climate change, and the implications of these impacts for enterprise value over the short-, medium- and long-term
- Requiring disclosure of the results of materiality assessments, so users can understand why climate-related information has or has not been disclosed, based on what has/has not been deemed material. This should help to improve the completeness, consistency, and verifiability of data. Guidance should be provided by the ISSB on how to conduct a materiality assessment across governance, strategy and risk management disclosure requirements
- Introducing a proportionality mechanism in relation to materiality assessments and the granularity of information disclosed, based on the size of the reporting entity and the relative carbon-intensity of the sector in which the reporting entity operates
- Ensuring a differentiated approach between disclosures to be made by corporates and those made by investors, particularly in relation to transition plans
- Placing more emphasis on the need for quantitative, as well as qualitative reporting, to better enhance the comparability and verifiability of data (particularly for entities in carbon-intensive sectors)
- Avoiding divergent approaches to the calculation and disclosure of climate-related metrics and targets through the introduction of more granular, consistent, and standardised reporting requirements, including around methodologies.

[9] Climate Action 100+ Net Zero Company Benchmark, available here.
[10] The Investor Agenda Investor Climate Action Plans expectations ladder, available here.

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?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

The proposed requirements go some way in providing users of disclosures with more detailed information on a reporting entity's governance and oversight of climate-related risks and opportunities.

While not explicitly mentioned in the TCFD recommendations, IIGCC recommends that the Exposure Draft also incorporates disclosures relating to climate policy engagement and lobbying practices. Investors recognise that corporate lobbying – by the company itself and through organisations such as trade associations, industry alliances and industry coalitions – has frequently opposed policy measures that would support the goal of delivering net zero emissions by 2050. Equally, responsible corporate lobbying has the potential to unlock action on climate transition initiatives. It is therefore vital to ensure that reporting entities deliver and disclose their lobbying positions and their direct and indirect lobbying activities, in line with the CA100+ Benchmark and work towards delivering the criteria set out in the Global Standard on Responsible Climate Lobbying.[11] Specifically, we recommend that an entity should disclose on an annual basis:

- Whether it has a Paris-aligned climate lobbying commitment that it applies to all areas of its business and operating jurisdictions, and whether its own lobbying activities are aligned with the goal of restricting global temperature rise to 1.5 °C degrees
- Paris-aligned lobbying expectations for the trade associations, alliances and coalitions of which it is a member, and a list of these
- Governance processes to ensure its trade associations, alliances, and coalitions lobby in accordance with the Paris Agreement, including what actions the company would take as a member if they do not
- Its overall assessment of the influence that its climate lobbying has had on supporting ambitious public climate change policy, as well as supporting the company's ability to deliver its own corporate transition strategy.

The CA100+ Benchmark also requires companies to demonstrate that the board has sufficient capabilities/competencies to assess and manage climate-related risks and opportunities (sub-indicator 8.3). IIGCC recommends that the ISSB introduces additional disclosure requirements to capture this information.

[11] Global Standard on Responsible Climate Lobbying, more information available here.

IIGCC also proposes that the Exposure Draft should require disclosures on the Just Transition.[12] To manage risks and opportunities stemming from climate change, reporting entities need to assess and develop measures to prepare for the impacts from transitioning to a lower-carbon business model on its workers and communities. The CA100+ Benchmark sets out the following indicators for disclosure in relation to the Just Transition, which we propose should be incorporated into the Exposure Draft as disclosure requirements:

- 9.1a. The company has made a formal statement recognising the social impacts of their climate change strategy—the Just Transition—as a relevant issue for its business
- 9.1b. The company has explicitly referenced the Paris Agreement on Climate Change and/or the International Labour Organisation's (ILO's) Just Transition Guidelines[13]
- 9.2a. The company has published a policy committing it to decarbonise in line with Just Transition principles
- 9.2b. The company has committed to retain, retrain, redeploy and/or compensate workers affected by decarbonisation
- 9.3a. The company engages with its stakeholders on Just Transition.
- 9.3b. The company, in partnership with its workers, unions, communities and suppliers has developed a Just Transition Plan
- 9.4a. The company supports low-carbon initiatives (e.g. regeneration, access to clean and affordable energy, site repurposing) in regions affected by decarbonisation
- 9.4b. The company ensures that its decarbonisation efforts and new projects are developed in consultation and seek the consent of affected communities
- 9.4.c The company takes action to support financially vulnerable customers that are adversely affected by the company's decarbonisation strategy.

[12] More information on CA100+ 'Need For Robust Just Transition Planning' here.
[13] International Labour Organization's Just Transition guidelines, available here.

<u>Question 3—Identification of climate-related risks and opportunities</u>

(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?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

It is not clear what constitutes a 'significant' climate-related risk or opportunity, as 'significant' has not been clearly defined in the Exposure Draft. IIGCC proposes that the ISSB should provide a definition of 'significant' risks and opportunities, which would support consistent and comparable disclosures against this requirement. Additionally, the relationship between 'material' information and 'significant' risks and opportunities could be strengthened (for example, by clarifying any differences between the two, if ISSB's intention is to treat these as discrete but interlinked concepts). Clear requirements for, and guidance on, materiality assessments (particularly in relation to impact materiality and how this relates to a focus on enterprise value) will also help to inform reporting entities' processes around the identification and management of climate-related risks and opportunities.

In addition, the recommendations should be strengthened by setting out more granular, consistent reporting requirements on:

- Identification and management of **<u>both</u>** transition and physical risk
- Disclosure of the scenarios models and methodologies that have been used in risk assessment
- Direct and indirect physical climate impacts
- Assessment and disclosure of material transition and physical climate risks across short-, medium-, and long-term time horizons
- Entities should disclose how materiality is defined and critical thresholds to differentiate between "tolerable" and "intolerable" level of risk.

Identification and disclosure of physical risks continues to be a key gap in company reporting and could be elaborated on in more detail in the disclosure requirements. Greater availability of information on physical risks and improved data quality from reporting entities is key to supporting investors and other users of disclosures. IIGCC's 'Building Resilience to a Changing Climate: Investor Expectations of Companies on Physical Risks and Opportunities'[14] provides numerous examples of the type of physical risk-related disclosures and metrics that users of reporting would benefit from, including:

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[14] IIGCC's Building Resilience to a Changing Climate: Investor Expectations of Companies on Physical Risks and Opportunities, available here.

- Physical asset registers, and disclosure of the location of these assets. Companies should also maintain an inventory of current and future climate-related risks in relation to those assets, with particular attention on major value chain assets
- Financial impacts of recent weather events
- Future anticipated physical risks from climate change
- Proportion of assets or business activities materially exposed to physical risks, based on key categories of commonly accepted risks (the recommended disclosure metric proposed in the TCFD's 2021 guidance on metrics, targets and transition plans)
- Development, implementation, and disclosure of the actions companies are taking to manage and respond to physical climate risks in the form of an adaptation strategy, or similar.

More granularity is needed for disclosure requirements on climate-related opportunities, which are at present less detailed than the requirements for climate-related risks. In addition to the proposed disclosures, and to ensure a more equal weighting between risks and opportunities, IIGCC therefore recommends that reporting entities should disclose whether the opportunities they have identified are physical or transition-related, and how these opportunities are being captured. For example, in IIGCC's 'Building Resilience' publication, we set out investors' expectations of companies in relation to enhanced disclosures on physical climate opportunities, which should include reporting on capex, opex and revenues associated with adaptation activities and solutions (such as building retrofits or upgrading equipment). In addition, the growing number of sustainable or 'green' taxonomies provide a basis for reporting entities to develop metrics to assess the alignment of revenues and capital expenditure with climate objectives, which the Exposure Draft should seek to incorporate to the extent possible. Disclosing metrics relating to climate and adaptation solutions will help to demonstrate to users of disclosures that reporting entities are adequately identifying and responding to transitional and physical opportunities, as well as risks. It will also provide a basis on which to estimate the positive contribution of reporting entities to climate change mitigation and resilience.

(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?

- **Broadly Agree**
- Broadly Disagree
- Other

Please explain your answer:

Consideration of cross-industry metrics categories and industry-based metrics should help to ensure greater comparability of sector-specific disclosures. However, IIGCC remains concerned that the cross-industry metrics established by the TCFD are too high-level and open to interpretation to be truly decision-useful for investors. As noted above, we recommend that the ISSB builds on the high-level TCFD cross-industry metrics by introducing consistent, standardised methodologies for calculating them as part of the disclosure requirements.

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

(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?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

To effectively manage climate-related risks across the value chain, it will be essential for reporting entities to implement and disclose processes for identifying, managing and mitigating principal adverse impacts within their value chains. In line with the UN Guiding Principles on Business and Human Rights,[15] an actual or potential adverse impact could be considered material where it ranks among the greatest impacts connected with the undertaking's activities based on: impact on climate, the number of individuals that are or could be affected, the scale of damage to the climate, and the ease with which the harm could be remediated. As highlighted in our previous responses, these impacts can influence the reporting entity's enterprise value. Clear guidance and expectations from the ISSB on how to define the scope of reporting entities' value chains, and how to assess materiality along the value chain, would also be helpful.

IIGCC further proposes that the qualitative disclosure requirements should be complemented with quantitative disclosures to the extent possible (e.g. where data and methodologies allow and recognising the need for proportionality). To enable users of reporting to gain a full understanding of a reporting entity's exposure to climate risks, the reporting entity should be required to disclose GHG emissions across the value chain.

(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?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

IIGCC acknowledges that it can be challenging to produce consistent, quantitative disclosures across the value chain, particularly for regions and sectors where relevant data is not yet readily available. Many of the 'measurement challenges' cited in the Basis for Conclusions (B67) as a justification for a lack of quantitative disclosure requirements (and which are not elaborated on in the Basis for Conclusions) are likely to prove transitional in nature as data quality and quantity improves, and

[15] The United Nation Guiding Principles on Business and Human Rights, available here.

methodologies are refined. For reporting entities operating in high impact sectors (or which are exposed to these sectors through their value chain), quantitative information is vital in enabling investors and other users of reporting to adequately determine the materiality of value chain risks to enterprise value. Moreover, while qualitative disclosures are useful, it is more straightforward to increase the consistency and comparability of climate-related reporting (a key demand of users of reporting) when information is disclosed in a quantitative format. Per our response to 4a), clearer guidance around how reporting entities can assess materiality along the value chain (e.g. whether these entities are operating in high-impact sectors) could be helpful in highlighting where quantitative data is most needed to inform the decision-making processes of investors and other users of reporting.

IIGCC suggests that the ISSB could opt to take a similar approach to that taken by the UK Financial Conduct Authority (FCA) in relation to quantitative climate-related disclosures to be made by asset managers and certain asset owners.[16] Under the FCA's approach, investors can explain why they have been unable to make quantitative disclosures in certain instances (e.g. due to data and or/methodological gaps). Where this is the case, qualitative information can be provided to plug gaps and provide narrative context. In addition, firms reporting under the FCA rules must disclose the nature of these gaps, why the firm has been unable to address them, and the steps the firm will take to address these gaps in future. Such an approach can help to drive improvements in the quality and quantity of quantitative disclosures, as well as providing users of reporting with a clearer view of any barriers to disclosure the reporting entity is facing.

[16] FCA Policy Statement 21/24: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers, available here.

Question 5—Transition plans and carbon offsets

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

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

IIGCC agrees that robust disclosure requirements for transition plans will be vital to accelerate ambition towards net zero. However, it is not fully apparent that the requirements set out in paragraph 13 relate to transition plans (instead focusing on broader implications of climate on strategy and decision-making). In addition, the proposed disclosures focus primarily on how companies address climate-related risks and opportunities in the context of their transition plans. This undermines the ability of users of reporting to evaluate company ambition in addressing climate change, and the actions they are taking to support the transition. IIGCC emphasises the need to disclose how their transition plans are compatible with the goals of the Paris Agreement and the need to limit global temperature rises to 1.5 °C.

We acknowledge and support the requirements to report on direct and indirect adaptation activities as part of the transition plan disclosures. However, the standards could go further by setting out more granular disclosures around climate adaptation plans. Even in the context of a 1.5°C scenario, physical climate risks will still materialise, and it is therefore important to promote both the mitigation and adaptation components of investor and corporate climate change strategies.

As highlighted in previous answers, IIGCC's 'Building Resilience' publication sets out numerous examples of the type of physical risk-related disclosures and metrics that users of reporting would benefit from, and we recommend that the ISSB considers implementing these disclosures and metrics to support more robust reporting on climate adaptation actions. Additionally, we would welcome the development of a wider range of high-level guidance and recommendations by the ISSB in relation to adaptation, to enable companies and investors to implement these components as part of their wider transition plan disclosures in a way that is appropriate for their organisations.

Paragraph 13, b) (iii) seems to imply that an offsetting strategy is a valid method to achieve emissions targets (i.e. "the intended use of carbon offsets in achieving emissions targets"). In this regard, IPCC SR15[17] (Pages 95, 96, 97) highlights that reliance on carbon removals (i.e. carbon offsets) increases the risk of overshooting temperature targets. SBTi Net Zero Standard, October 2021[18] (Pages 9, 10), in alignment with IPCC SR15, further specifies that offsetting strategies do not count towards achieving emissions targets. Instead, SBTi details through its "mitigation hierarchy" that companies should prioritise emissions reductions within their sectoral value chains before any offsetting measure. SBTi states in its Net Zero Standard October 2021 that offsetting should be considered as a "beyond the value chain mitigation" measure (formerly known as "compensation")

[17] IPCC SR15, available here.

[18] Science Based Targets Corporate Net Zero Standard (October 2021), available here.

and does not count towards achieving emissions targets. The upcoming IIGCC Principles for investors and corporate offsetting, while taking a less stringent view than SBTi on offsetting-related disclosures, states that offsetting should only be used to address residual emissions, it is not a substitute for emissions reductions. This is because an offsetting strategy does not protect companies from the transitional risks (e.g. legal, political, technological and demand-side challenges) created by climate change. As a result, the standards should be aligned with science-based recommendations on offsetting and clearly name offsetting as "beyond the value chain mitigation" measure (formerly known as "compensation") as recommended by SBTi Net Zero Standard, October 2021. Paragraph 13, b) (iii) also requires reporting entities to disclose whether offsets used to achieve emissions targets are reliant on emissions avoidance. IIGCC would not encourage the use of avoided emissions offsets, given the lack of scientific evidence on their impact or whether they provide value for money. We therefore recommend that avoided offsets should not be used in the context of emissions targets, and that reporting entities should instead prioritise removals and reduction offsets where necessary.

Finally, IIGCC notes that while the proposed disclosure requirements focus on the intended use of carbon offsets in achieving emissions targets, disclosure of the use of offsets for reported emissions is also necessary to inform investors' understanding of the credibility of reporting entities' transition plans.

(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.

- **Yes**
- No
- Other

Please explain your answer:

In line with the core asks established by the CA100+ Benchmark, the formation of comprehensive business strategies that fully align with the goals of the Paris Agreement and reaching net zero emissions by 2050 or sooner – and supported by Paris-aligned accounts - should be considered a critical component of a credible transition plan, particularly for companies operating in high impact sectors. These disclosures are also critical for investors using the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework (NZIF) to assess the alignment potential of their holdings. To this end, comprehensive net zero planning disclosures within the Exposure Draft should at the least include the elements laid out below, based on the TCFD recommendations and using the CA100+ Benchmark indicators as core metrics:

TCFD governance pillar:

- Climate Governance: Whether a company has established clear oversight of net zero transition planning and links executive remuneration to delivering the core net zero GHG targets (CA100+ Indicator 8)
- Climate Policy Engagement: Recognising the importance of policy in the net zero transition, how the company will ensure direct and indirect lobbying activities support the objective of achieving net zero (CA100+ Indicator 7)
- Just Transition: Whether the company has assessed and developed measures to prepare for the impacts from transitioning to a lower-carbon business model on its workers and communities (CA100+ Indicator 9).

TCFD strategy pillar:

- Commitment: Whether a clear commitment has been made to achieve net zero emissions by 2050 or sooner across all material GHG emissions (Scope 1, 2 and material Scope 3) (CA100+ Indicator 1). Companies should explicitly include a commitment that, to the best of the companies' abilities, their strategy and methodology are aligned with the best available science and a 1.5 °C temperature rise scenario. This should translate into appropriate short-, medium- and long-term targets
- Decarbonisation Strategy: Whether a quantified description has been provided setting out the measures that will be deployed to deliver the company net zero commitment and targets (CA100+ Indicator 5). CA100+ indicator 5 includes a sub-indicator for assessing whether companies headquartered in the European Union have set green revenue targets, aligned with the EU Taxonomy criteria for turnover (5.2b)
- Scenario Analysis: Whether the company uses both 1.5 °C and a 'worst case' scenario to analyse and test its strategic and operational resilience (CA100+ Indicator 10). This should include their transition and physical risks, how they mitigate and adapt for those risks, and what the operational and financial accounts impacts are.

TCFD risk management pillar:

- Capital Allocation Alignment: Whether an assessment of the consistency of capital expenditures with achieving net zero emissions by 2050 has been carried out (CA100+ Indicator 6). CA100+ indicator 6 includes a sub-indicator for assessing whether capital alignment metrics have been provided (6.2b).

TCFD metrics and targets pillar:

- GHG Targets: Whether a company has appropriate short, medium, and long term GHG targets (Scope 1, 2 and material Scope 3) (to meet CA100+ Indicators 2-4). Targets should cover at least 95% of total Scope 1 and 2 emissions and the most relevant Scope 3 categories for the company's sector (where applicable), and align with the goal of limiting global warming to 1.5 °C with low or no overshoot.

The CA100+ Benchmark is likely to continue to evolve over time. In addition to the above indicators, it is envisaged that the following disclosures could support investors in assessing the credibility of corporate transition plans:

- Disclosures setting out the expected contribution of divestment of carbon-intensive assets to the decarbonisation strategy should also be provided (as a last resort, where engagement and/or escalation has been exhausted or change is otherwise seen as infeasible)
- Separate targets to be set and disclosed for Scope 1 and 2 emissions (e.g. operational emissions targets). To benchmark these targets, it will be essential to ensure that disclosures on energy consumption (e.g. direct fossil fuel and electricity/heat) are reported on a consistent footprint
- Additional metrics, such as 'green capex' metrics consistent with EU and other international taxonomies and disclosure of investments in fossil fuel production.

In line with the principle of proportionality, emissions-intensive companies should provide supplementary, granular emissions disclosures to enable performance to be benchmarked against peers and the sector in which they operate. Entities operating in carbon-intensive sectors should provide more detailed disclosures to reflect their relatively greater exposure to climate-related risks and opportunities, and the more urgent need to transition. Conversely, smaller companies operating outside high impact sectors could be subject to streamlined or otherwise appropriately scaled reporting requirements to reflect their reduced exposure to climate-related risks and more limited capacity to report and manage them.

We also recommended that corporates provide enhanced disclosure in line with the sector-specific Global Investor Coalition on Climate Change (GIC) Expectations on Climate Change guidelines (where applicable), including oil and gas, banking, and real estate.[19]

For investors, IIGCC would highlight the Investor Agenda's ICAPs, which sets out key elements and actions of investor 'transition plans' for investors at all levels of ambition. Additionally, investors seeking to align their portfolios with net zero objectives should set out transparent climate action plans which outline how they intend to take forward action relevant to alignment, in line with the more detailed components of the NZIF. To support these disclosures, investors are recommended to report information in line with the four pillars of the TCFD framework.[20]

Finally, we recommended that corporates provide enhanced disclosure in line with the sector-specific Global Investor Coalition on Climate Change (GIC) Expectations on Climate Change guidelines (where applicable), including oil & gas, banking, and real estate.[21]

[19] Net Zero Standard for Oil and Gas companies, available here. Investor Expectations for the banking sector, available here. Investor Expectations for listed Real Estate companies, available here.
[20] See page 23 of the NZIF implementation guide.
[21] Net Zero Standard for Oil and Gas companies, available here. Investor Expectations for the banking sector, available here. Investor Expectations for listed Real Estate companies, available here.

(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?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

The disclosure points proposed in Paragraph 13, b) (iii) 1,2,3,4 are reasonable and aligned with the upcoming IIGCC Principles for corporate and investor offsetting. Again, the framing of these disclosures might give the impression to the reader that offsetting is a valid transition strategy. Hence, the need to state that offsetting is not a science-based approach to achieve decarbonisation targets but a "beyond the value chain mitigation" measure (formerly known as "compensation") as SBTi recommends in its Net Zero Standard October 2021. As noted in our response to Q5 a), avoided emissions offsets should not be used in the context of emissions targets, and that reporting entities should instead prioritise removals and reduction offsets where necessary.

Additional disclosure points, aligned with IIGCC upcoming offsetting principles for corporate and investor offsetting include:

- "Companies should disclose the average price and the total cost they have paid and expect to pay for their offsets" - The price paid for an offset does not, on its own, provide a guarantee of quality but it does provide a useful indicator and forward-looking price assumptions enable investors to understand the cost and risks of an offset strategy. Investors expect companies to clearly disclose the average price they have paid for any offsets purchased during the year and the price assumptions it is making for future offsets purchases.

(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

Paragraph 13, b) (iii) seems to imply that an offsetting strategy is a valid method to achieve emissions targets (i.e. “the intended use of carbon offsets in achieving emissions targets”). This would effectively make offsetting a valid strategy to achieve emissions targets making it equal to actions within companies’ sectoral value chains (e.g. installing renewables capacity in the power sector or producing electric vehicles in the auto sector). This approach by ISSB would contradicts scientific evidence by IPCC SR15 against this approach, and guidance by SBTi, TPI, and IIGCC. Consequently, ISSB should align with science-based recommendations on offsetting and clearly name offsetting as “beyond the value chain mitigation” measure (formerly known as “compensation”). This would effectively position offsetting as a secondary option to decarbonisation instead of a primary option as it stands now.

On the cost of reporting offsetting disclosures by companies, this cost is reasonable and IIGCC broadly agrees with ISSB recommended disclosure points.

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?

- Broadly Agree
- Broadly Disagree
- **Other**

Please explain your answer:

The proposed approach broadly aligns with the suggestions outlined in our response to Q4b). However, the disclosures would be more helpful to users of reporting if preparers were required to explain why they were unable to provide quantitative information, and where instances of non-disclosure are limited to specific circumstances (e.g. because of data/methodological challenges which could compromise the robustness of disclosures). To improve the quality of disclosures over time, and provide users with the quantitative data they need, it would also be beneficial for reporting entities to be required to explain how they will aim to address quantitative gaps in their disclosures over time.

(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?

- Broadly Agree
- Broadly Disagree
- **Other**

Please explain your answer:
IIGCC supports the proposed disclosure requirements but emphasises that requirements relating to the current reporting period should be made first and foremost in preparers' financial statements, in line with accounting rules and domestic solvency/capital maintenance requirements. Any disclosures provided under the proposed IFRS S2 standard must complement these financial statement disclosures, not act as an alternative to them.

IIGCC and its members have long argued for increased visibility of the financial consequences of climate change and the associated transition risks in companies audited financial statements.[22] We are not alone, as reflected in public statements by all the largest investor associations working on climate matters.[23] We have been clear that under existing regulation and accounting standards, companies should disclose how they have incorporated material climate factors such as anticipated reductions in demand for fossil fuels, rising carbon taxes, bans on carbon-intensive activities, etc, in

[22] Investor Expectations for Paris-aligned Accounts – IIGCC, available here.
[23] Investor groups call on companies to reflect climate-related risks in financial reporting (PRI), available here.

their forward-looking assumptions. Examples of critical accounting assumptions that could be impacted include commodity or carbon prices used in impairment testing, asset lives, commissioning obligations or discount rates.

Building on these expectations, in 2022 the CA100+ initiative added metrics on accounting and audit to their benchmark for assessing company performance on climate change.

The importance of ensuring material climate considerations are factored into existing financial reporting has been made clear by accounting and audit standard setters,[24] and regulators have increased their enforcement action to ensure this is implemented.[25] The US Securities and Exchange Commission has recently proposed a Rule that would likewise provide explicit requirements for these disclosures for US registrants including both disclosures of how transition and physical factors have been considered in critical accounting assumptions, estimates and judgements as well as disclosures of changes to specific line-items in the published statements.[26]

The above requirements and guidance have been welcome, given the considerable, persistent evidence that such requirements are not being consistently applied.[27] To the extent that the IFRS S2 could support more reliable financial statement reporting, this would be welcome. It is essential, however, that it is not view as an alternative to financial statement disclosure.

We would also like to underline investor demand for visibility of how a 1.5 °C scenario could impact companies' financial position. The current proposal speaks more generically of climate-related risks and opportunities, but this permits room for preparers to decide that they will assume 'Business as Usual' in drawing up their assessment of impacts. However, under the Paris Climate Agreement global governments have agreed to a well-below 2 °C and preferably 1.5 °C target, which is driving an accelerating policy response. Investors want visibility on how this Paris Agreement-aligned pathway might impact companies' financial position and believe this is a reasonable basis for seeking disclosure.

In our view, this explicit investor demand makes these disclosures 'material' to investor decision-making, and thus required under the existing financial reporting rules. If directors choose not to use Paris-aligned assumptions in their core accounts as they view this pathway as unlikely, they should provide details in the Notes to the Financial Statements on sensitivity analysis for how Paris-aligned assumptions might be expected to impact the reported financial statements.

We would similarly expect the ISSB to reflect investor expectations in this regard and require 1.5 °C and/or well-below 2 °C sensitivity disclosures. Once again, it is important that these disclosures complement those provided within the financial statements, rather than replace them.

[24] IFRS - Educational material: the effects of climate-related matters on financial statements prepared applying IFRS Standards, available here.
[25] European enforcers target COVID-19 and climate-related disclosures (europa.eu), available here.
[26] Securities and Exchange Commission proposed rule on 'The Enhancement and Standardization of Climate-Related Disclosures for Investors,' available here.
[27] Flying Blind (Carbon Tracker Initiative, available here.

For further detail on precisely what disclosures investors are seeking, please refer to IIGCC's Investor Expectations paper for Paris-aligned Accounts.[28] This document set out the context and rationale for investor expectations, and the following five disclosures expected from preparers:

- Board Affirmation that a 2050 net zero pathway has been considered in drawing up the accounts
- Adjustments to critical assumptions and estimates: an explanation for how critical accounting judgments are consistent with net zero carbon emissions in 2050. If directors choose not to use Paris-aligned assumptions, they must explain why in the Notes to the accounts
- Sensitivity analysis: if the directors have chosen not to use Paris-aligned assumptions in their core accounts, they should provide sensitivity analysis in the Notes of how Paris-aligned assumptions would impact the reported financial statements
- Dividend resilience: implications for dividend paying capacity of Paris-alignment (e.g. threshold assumptions that would trigger cuts to dividends). This is particularly important where companies have not used Paris-aligned assumptions in their core accounts
- Consistency: affirmation by Board of consistency between narrative reporting on climate risks and the accounting assumptions, or an explanation for any divergence.

On a final matter, IIGCC notes the apparent equal treatment of anticipated costs and opportunities associated with future climate-related impacts. We would suggest a more conservative approach. In particular, keeping with the principle of prudence in financial reporting, to avoid overstating a company's position or performance, it is vital that expected losses are included whereas the expected gains are treated with greater scepticism. This is also consistent with solvency/capital maintenance rules which tend to apply a higher threshold before booking gains than losses to offset the natural optimism of management teams and protect against unnecessary insolvencies.

(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?

- Broadly Agree
- Broadly Disagree
- **Other**

Please explain your answer:

As highlighted in our response to 6(b), we are supportive of disclosures for how anticipated climate-related impacts will affect companies' financial position and performance. We emphasise that these disclosures should be incorporated first and foremost into the current year's financial statements where material. We also highlighted our desire to see a sensitivity analysis to a 1.5 °C/well below 2 °C pathway included in the Notes to a preparer's accounts.

[28] Investor Expectations for Paris-aligned Accounts (IIGCC), available here.

IIGCC would also welcome additional scenario analysis requirements, as proposed in IFRS S2, that explore the short, medium, and longer-term impacts for an entity's financial condition for different temperature pathways and associated strategies deployed by the company, and that provide greater visibility on alternative futures that would not be captured in a company's financial statements. See our response to Question 7 for more detail.

We view this as complementary to the financial statement disclosures, but it is vital they are consistent.

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?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

Investors need a broader range of information to adequately assess the climate resilience of reporting entities' strategies – particularly in relation to their alignment with the goals of the Paris Agreement. As with many of the proposed disclosures, the items listed in paragraph 15(a) will only provide transparency on the resilience of an entity's strategy to climate-related risks and opportunities. In addition, climate resilience could be defined in the proposals more clearly. To support greater consistency with existing, widely recognised definitions of climate resilience, IIGCC recommends that the Exposure Draft adopts the formal definition of resilience established by the IPCC, namely:

- "the capacity of…environmental systems to cope with a hazardous event or trend or disturbance, responding or reorganizing in ways that maintain their essential function, identity, and structure, while also maintaining the capacity for adaptation, learning, and transformation."

This will help to provide more clarity not only on how companies adjust to uncertainty related to climate change, but its identification/mitigation of adaptation-related risks, as well as opportunities (e.g. adaptation solutions).

We also emphasise the need for more granular disclosures on scenario analysis, noting that both investors and their investees will approach scenario analysis for physical risk and transition risk in different ways.

For transition risk, under the disclosure criteria established by the CA100+ Benchmark indicator 10, companies should be undertaking climate scenario analysis, including quantitative elements, against both a 1.5 °C scenario with low/no overshoot and a 50+% probability, and a 'worse case' scenario to analyse and test its strategic and operational resilience. Cumulative reliance on offsets in these scenarios should be disclosed.

Furthermore, scenario analysis may be conducted separately for transition and physical risk. For physical risk, IIGCC recommends that companies follow the recommendations below, in line with TCFD recommendations in relation to scenario analysis:

- Assess direct and indirect impacts on the business over the short-, medium- and long-term. (TCFD recommends that companies 'define timeframes according to the life of their assets, the profile of the climate-related risk they face, and the sectors and geographies in which they operate')

- Determine and disclose the most appropriate type of risk assessment based on the time horizon under assessment e.g. probabilistic approach over the shorter term (1-5 years) and scenario analysis for longer-term time horizons
- Select and disclose at least two relevant and recognized climate scenarios (e.g. the IPCC's Representative Concentration Pathways (RPCs),[29] including a 'worse case' scenario whereby average global temperatures rise by 4 °C by 2100 and a more optimistic scenario, such as those based on current climate policies
- Ensure adequate in-house expertise to develop and integrate scenario analysis into business decision making processes on an ongoing basis, proportionate to the reporting entity's size, resources, and the sector in which it operates
- Review scenario analysis annually to account for any factors that might affect a company's exposure and vulnerability to climate change, such as those arising from operational decisions, changes to supply chains, or investment decisions. Every five years, companies should review the scientific basis of climate scenario analysis. Regular reviews will ensure changes to climate science, public policy, and market conditions are accounted for, and the company's strategy for managing physical climate risk and building climate resilience is underpinned by the most recent data and information.

(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?

- Broadly agree
- **Broadly Disagree**
- Other

Please explain your answer:

Undertaking scenario analysis is a core recommendation under TCFD and an essential tool to support investors in understanding companies' exposures to transition and physical risks, and how they are managing these risks. It also allows investors and other users of reporting to understand the impact of climate change on the long-term enterprise value of the reporting entity. The general expectation of investors, therefore, is that large companies undertake scenario analysis and disclose relevant information, as described above.

However, IIGCC recognises that scenario analysis can be a challenging exercise, and that small and medium-sized companies, as well as companies in emerging markets and developing economies, can sometimes lack the resources and capabilities at present to undertake full, quantitative assessments.

[29] More information on the IPCC RCPs, available here.

In addition, companies operating in less carbon-intensive sectors may also choose to undertake a more proportionate approach to scenario analysis.

Nevertheless, alternatives to scenario analysis are preferred to no action at all. Alternative analyses (e.g. undertaking a 'walk-through assessment describing how climate-related impacts could crystallise over time) can still provide decision-useful information for users of reporting and can provide a basis to move towards a more sophisticated, quantitative approach over time.

All companies should aim to improve their capabilities to conduct scenario analysis over time, and improvements to the analysis undertaken should be evident in annual updates. Reporting entities can rely on a growing range of resources to support them with their scenario analysis activities, including those developed and recommended by the TCFD itself.[30] Dedicated materials for investors and other financial services firms have also been published by IIGCC[31] and the UK's Climate Financial Risk Forum.[32].

(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?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

In line with the TCFD's core recommendations, reporting entities should undertake scenario analysis to the extent they are able. IIGCC suggests that the proposed disclosures should elaborate further on the circumstances under which it would be permissible to undertake only limited or qualitative scenario analysis (e.g. due to business size; operating outside a material sector; market development as per jurisdiction; substantial data gaps/methodological challenges), where there is a risk that disclosures are misleading or inaccurate as a result. In this case, reporting entities should be required to disclose the steps they will take to enhance their scenario analysis capabilities in future.

(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?

Yes – in line with previous responses.

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

- **Broadly Agree**

[30] TCFD guidance on scenario analysis, available here.
[31] IIGCC's Navigating climate scenario analysis – a guide for institutional investors (IIGCC), available here.
[32] Climate Financial Risk Forum Guide 2020 (scenario analysis),available here.

- Broadly Disagree
- Other

Please explain your answer:

IIGCC is broadly supportive of the proposed disclosures on scenario analysis, which are consistent with the recommended disclosures to be made under TCFD. In addition to the proposed requirements, IIGCC recommends the inclusion of additional disclosures set out below:

Transition risk

In line with CA100+ Benchmark indicator 10, IIGCC recommends that reporting entities undertaking scenario analysis against both a 1.5 °C and a 'worse case' scenario to analyse and test their strategic and operational resilience to climate change.

Physical risk

Recommendations can be found in Question 7a. Of note, companies should:

- Assess direct and indirect impacts on the business over the short-, medium- and long-term. (TCFD recommends that companies 'define timeframes according to the life of their assets, the profile of the climate-related risk they face, and the sectors and geographies in which they operate')
- Determine and disclose the most appropriate type of risk assessment based on the time horizon under assessment e.g. probabilistic approach over the shorter term (1-5 years) and scenario analysis for longer-term time horizons
- Select and disclose at least two relevant and recognized climate scenarios (e.g. the IPCC's Representative Concentration Pathways (RPCs), including a 'worse case' scenario whereby average global temperatures rise by 4 °C by 2100 and a more optimistic scenario, such as those based on current climate policies.

(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?

- Broadly Agree
- **Broadly Disagree**
- Other

Please explain your answer:

Per the responses above, IIGCC encourages all reporting entities to build the capacity to undertake scenario analysis in some form (even if qualitative initially). However, where this is likely to be challenging or excessively resource-intensive, alternative approaches to assessing climate resilience are preferred to no action at all. To support comparability of disclosures, the Exposure Draft could be improved by elaborating in more detail as to how reporting entities could undertake the alternative methods or techniques outlined in the proposals.

(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?

- **Broadly Agree**
- Broadly Disagree
- Other

Please explain your answer:

The benefits of undertaking scenario analysis ultimately outweigh the costs. In addition, the costs of undertaking scenario analysis will decrease as the number of off-the-shelf tools rises, and as best practice guidance and expectations develop further.

There are high level, "top-down" sensitivity analyses and heatmaps by sector and region that can be applied to help corporates understand if their business operations and/or value chain is exposed to climate related risks. Corporates that do not have resource to conduct in-depth or bespoke scenario analysis may utilise such tools. However, materiality of these risks to a specific company is only likely to become clear post scenario analysis and assessment.

<u>Question 8—Risk management</u>

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?

- **Broadly Agree**
- Broadly Disagree
- Other

Please explain your answer:

IIGCC welcomes proposals to broaden out the disclosures to better account for the identification and prioritisation of climate-related opportunities, as well as risks. To ensure reporting remains focused on the risks and opportunities that are most important to investors' decision-making, IIGCC proposes that the requirements reference 'material' climate-related risks and opportunities.

In line with previous responses, we would support more granular disclosure requirements on transition and physical climate-related risks and opportunities, on the basis that reporting entities will treat them differently and may be more/less exposed to one or the other category. We also recommend that the ISSB ensures the requirements for managing climate-related risks set out in paragraph 17 (e.g. assessment of likelihood and effects associated with risks, input parameters, etc) are also applied to climate-related opportunities in the interest of consistency.

In addition to the proposed disclosure requirements, IIGCC also recommends that disclosures relating to risk and opportunity management should include reporting on whether planned capital expenditure is consistent with achieving net zero emissions by 2050 (in line with CA100+ Indicator 6).

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?

- **Broadly Agree**
- Broadly Disagree
- Other

Please explain your answer:

IIGCC agrees that the cross-industry metrics are useful for assessment of enterprise value, and support alignment with the TCFD recommendations. However, the high-level nature of the cross-industry metrics leaves excessive room for divergent interpretations between reporting entities as to how they should be calculated. This in turn undermines the ability of investors and other users of reporting to directly compare climate-related disclosures across their holdings.

IIGCC acknowledges that a degree of flexibility is needed to enable the broad adoption of cross-industry metrics. However, to effectively operationalise these metrics, it will be vital for the ISSB to build on the metrics developed by TCFD by introducing consistent, standardised methodologies for calculating them. The proposed disclosures should provide detailed guidance to reporting entities on how to implement these metrics in practice, as well as example metrics across the seven categories. We recognise that the illustrative guidance published alongside the Exposure Draft attempts to address some of the challenges around the broadly defined metrics, and that it is difficult if not impossible to produce a truly exhaustive set of example metrics. However, the guidance is still far too high-level to promote decision-useful and comparable disclosures and appears only to replicate a selection of the example metrics included in the TCFD's October 2021 guidance on metrics, targets, and transition plans.[33]

(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.

- **Yes**
- No
- Other

[33] TCFD Guidance on Metrics, Targets, and Transition Plans, available here.

Please explain your answer: In addition to the cross-industry metric categories proposed, IIGCC recommends the inclusion of the following metrics:

- Green revenue **and** green capex metrics that align with international taxonomies. The ISSB standards should help to facilitate the development of green taxonomies by supporting the underlying disclosures that corporate and investors will need to make in relation to them. This could be specified in more detail under (d) capital deployment
- More granular metrics for physical risk, including a disaggregation of risk per hazard-type, a physical asset register which include location (latitude/longitude) of assets and an inventory of current and future climate-related risks in relation to those assets, with particular attention on major value chain assets, as noted in the answer to question 3(a), and forward-looking metrics to assess the potential future financial impacts of physical risk on enterprise value (e.g. climate value-at-risk, projected changes in production, revenues, opex or capex as a result of exposure to physical risk).

(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?

- **Broadly agree**
- Broadly disagree
- Other

Please explain your answer:

IIGCC agrees that the GHG Protocol provides a sound basis for defining and measuring Scope 1, 2 and 3 emissions. There are exceptions where lifecycle emissions accounting approaches are more suitable, such as in the real estate, mining and infrastructure (e.g. PAS 2080) sectors. In these circumstances, additional metrics for measuring lifecycle emissions should be considered (e.g. embodied carbon metrics for companies operating in the real estate sector).

The boundaries chosen for emissions disclosure should be comprehensive, including equity stakes and covering the “widest part” of the reporting entity's footprint (ie not just the smaller upstream for oil and gas). Additional Scope 1 and 2 disclosures for businesses with operational control will also be beneficial for users of reporting.

Supplemental emissions disclosures should be made for certain subsidiaries, consolidated entities, activities should be considered, as highlighted in previous answers.

(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 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))?

- Broadly agree

- Broadly disagree
- **Other**

Please explain your answer:

Typically, emissions disclosure should also be broken down by gas for specific sectors including mining, oil and gas, electricity and food and beverages where it can be material with a recognition that the conversion ratio (28:1) may change over time.

Scope 1, 2 and 3 emissions should be disclosed on a consistent organisational footprint to enable them to be added (noting our recommendations for a differentiated approach for how investors measure and set targets for Scope 3, as outlined in Q10(a) below).

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries, and affiliates? Why or why not?

- **Broadly agree**
- Broadly disagree
- Other

Please explain your answer:

Agree. Separate disclosure for both footprints enable the extent of the company's influence to be measured and reduces the transferring of emissions through small ownership changes. In addition, the energy consumption of the entity should be stated on a basis consistent with emissions.

(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?

- **Broadly agree**
- Broadly disagree
- Other

Please explain your answer:

Yes, Scope 3 emissions should always be assessed and disclosed.

Question 10 —Climate Related Targets

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

- Broadly agree
- **Broadly disagree**
- Other

Please explain your answer:

IIGCC acknowledge the proposed disclosures are consistent with those established under the TCFD recommendations. However, they will not provide users of reporting with sufficient detail on the specific information companies should be disclosing in relation to climate-related targets, as well as suitable methodologies for developing these targets.

IIGCC recommends that companies should disclose quantitative net zero targets in a standardised format and against more specific, granular criteria, including the indicators established by the CA100+ Benchmark and the NZIF Implementation Guide. This should include long-term, medium-term and short-term targets for reducing GHG emissions on a clearly defined Scope of emissions. Companies should disclose the how the targets set are aligned with and informed by science-based net zero scenarios provided by robust and credible sources (such as the IPCC and the IEA), and how regional and/or sectoral science-based pathways have influenced the target. The following, supplementary criteria for target-setting should also be considered to ensure targets are comprehensive:

- Targets should cover all activities across all divisions, regions, equity stakes, and material emissions
- Targets can be based on absolute and/or intensity metrics but should indicate how an intensity target translates into absolute emissions, and vice versa
- Reporting entities should focus on reducing gross emissions; the total expected impact of measures to "net off" residual gross emissions should be reported
- Per previous answers, separate targets for operational emissions (Scope 1 and 2), which should imply reduction in emissions of 50% in absolute terms by 2030. Reporting entities should disclose their energy consumption to understand what these targets imply for the carbon intensity of consumption.

IIGCC also emphasises the need for a differentiated approach between the climate-related targets to be developed and disclosed by investors, and those to be made by corporates. Investors should set targets to increase the proportion of their assets that can be considered net zero or aligned to a net zero pathway over time, based on the key indicators highlighted above (e.g. targets, emissions performance against targets, decarbonisation strategy, capital allocation alignment) and undertake a set of actions that will drive improved performance at the asset-level and real economy emissions reductions in line with net zero. IIGCC recommends that investors seeking to align their portfolios with net zero should disclose the following targets in line with the TCFD framework, as currently set out in the disclosure section of the NZIF:

- The targets, and metrics associated with these targets, as set out in the NZIF including: Emissions reduction targets (Scope 1 and 2) covering listed equity, fixed income, real estate, expressed in absolute or intensity terms (CO2e/$mn invested). Scope 3 to be phased in over time and measured separately
- A target for increasing the percentage of assets under management (AUM) invested in assets in material sectors that are i) net zero, or meeting criteria to be considered net zero ii) 'aligned' to a net zero pathway iii) 'aligning' to a net zero pathway
- A target for allocation to climate solutions representing a percentage of revenues or capital expenditure (capex) from AUM, where 'climate solutions' are defined in accordance with the EU Taxonomy mitigation criteria where possible
- A description of how these targets were calculated, and evidence and information that was used to inform the target setting process
- The science-based scenario(s) or pathway(s) used to guide target setting and assess the alignment of companies, including the name of the relevant model(s), and critical assumptions used
- The datasets or methodologies used to assess alignment of assets, and the extent to which these are consistent with the key features of the methodologies
- Performance against targets over time, and any updates or adjustments to targets that are relevant.

Finally, the incorporation of a consistent template for disclosures into the standards will help to improve the comparability of targets across reporting entities. The London Stock Exchange Group has developed a compact template[34] that companies can use to disclose climate-related targets. The template aligns with the TCFD recommendations and leverages data that many companies will already be disclosing (e.g. through CDP). We recommend that companies should report in line with the template to promote a more standardised approach to climate target disclosures.

(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?

- Broadly agree
- **Broadly disagree**
- Other

Please explain your answer:

IIGCC acknowledges that the ISSB does not wish to define 'science-based' targets in a manner that locks in current agreed norms. However, the IPCC's 2018 Special Report on Global Warming[35] made

[34] London Stock Exchange Group guide to climate reporting, available here (Annex 4, p.73).
[35] IPCC SR15, available here.

clear that to avoid the worst effects of climate change, it will be necessary to limit global temperature rises to 1.5 °C, which necessitates reaching net zero emissions by mid-century. Emission reduction targets that align with 1.5 °C are also needed by investors that have made commitments to align their portfolios with net zero under the Paris Aligned Investment Framework, and to assess company alignment and identify priority engagements under the CA100+ Benchmark. To uphold this ambition globally, IIGCC therefore proposes that reporting entities should be required to disclose how their targets compare with both the latest international agreement on climate change and the latest, UN-backed scientific consensus, as established by the IPCC.

Question 11— Industry-based requirements

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

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:
N/A

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

Please select which industries you would like to comment on. If you would like to comment on all industries, select 'All industries.'

- All industries
- Aerospace & Defence
- Agricultural Products
- Air Freight & Logistics
- Alcoholic Beverages
- Apparel, Accessories & Footwear
- Appliance Manufacturing
- Asset Management & Custody Activities
- Auto Parts
- **Automobiles**

Should disclose the volume of EV sales splitting our pure EV and PHEV numbers. In addition to Scope 1 & 2 disclosure Automakers should disclose Scope 3 cat 11 and cat 1 emissions for new vehicles sold. Cat 1 intensity broken out by steel, aluminium and lithium etc (tCO2e/t etc) using established industry methodologies.

Should set emissions targets based on the emissions of the intensity of new cars sales, with operational emissions, Scope 3 category 11 and category 1 components split out.

To align with sector emissions modelling automakers should aim to provide separate disclosure for "trucks" and cars recognizing that there are not standardised definitions regionally.

- Biofuels
- Building Products & Furnishings
- Casinos & Gaming
- Chemicals

- **Coal Operations**

Should disclose total production and sales output segmented by metallurgical and thermal output. State capital investment in coal segmented by metallurgical and thermal.

Set production short-, medium- and long-term production/emissions targets (including Scope 3) including phase out dates by mine. Also set capital investment targets and forward-looking investment budgets (again split by metallurgical and thermal)

Methane is increasingly recognised issue for coal miners. Miners should disclose methane in CH4 units

- **Construction Materials**

Should disclose volumes of steel and cement procured. The mix of steel (Primary (BT-BOF, DRI-EAF) and secondary (EAF-Scrap)) carbon intensity of steel and cement procured. Set targets to reduce emissions intensity of both steel and cement (Scope 3 cat 1).

- Containers & Packaging
- Cruise Lines
- Drug Retailers
- E-Commerce
- **Electric Utilities & Power Generators**

Disclose Scope 1 generation (a subset of total Scope 1) and Scope 3 cat 1, cat 11 and 15 (minimum) Disclose total electricity generation (TWh) and split by region. Disclose total emission intensity of generation by region.

Set targets for electricity generation, and separate regional targets. Set Scope 3 emissions targets covering sold energy (Scope 3 cat 11) and sold electricity Scope 3 cat 1, specifying the contribution of both towards the target.

- Electrical & Electronic Equipment
- Electronic Manufacturing Services & Original Design Manufacturing
- Engineering & Construction Services
- Food Retailers & Distributions
- Forestry Management
- Fuel Cells & Industrial Batteries
- Gas Utilities & Distributors
- Hardware
- Health Care Delivery
- Health Care Distributors
- **Home Builders**
- Hotels & Lodging

- Household & Personal Products
- Industrial Machinery & Goods
- Insurance
- Internet Media & Services
- Investment Banking & Brokerage
- **Iron & Steel Producers**

Disclose total steel output and emissions intensity splitting out output and intensity by primary (BT-BOF, DRI-EAF) and secondary (EAF-Scrap). State also the input of secondary material. Emissions intensity by site (Scope 1 & 2 and Scope 3 upstream – consistent with res steel standard/CRU).

- Leisure Facilities
- Marine Transportation
- Meat, Poultry & Dairy
- Medical Equipment & Supplies
- **Metals & Mining**

Disclose green revenue/production including (minimum) copper, lithium, nickel and cobalt and other (based on IEA/IMF etc). Disclose Scope 3 cat 1, 3, 10 and 11 emissions. Disclose absolute capex in coal, split between thermal and met. Set a forward-looking capex budget.

Disclose Green capex based on same metals as defined above.

- Mortgage Finance
- Multiline and Speciality Retailers & Distributors
- Non-Alcoholic Beverages
- **Oil & Gas – Exploration & Production**
- **Oil & Gas – Midstream**
- **Oil & Gas – Refining & Marketing**
- **Oil & Gas – Services**

See Exhibit 12 of IIGCC's Net Zero Standard for Oil & Gas.[36] Disclose total energy sold externally with no adjustments for fossil fuel equivalents. Disclose emissions on the same footprint including Scope 1 & 2 and Scope 3 cat 11 minimum. Companies should also disclose Scope 3 cat 1. Methane disclosure on a CH4 basis and consistent with OGMP 2.0.

In addition to their main target integrated companies should disclose separate upstream emissions targets. Companies should indicate absolute implications of their targets and state the contribution of carbon neutralization measures. Companies should set production and methane targets.

[36] Net zero Standards for Oil & Gas (IIGCC), available here.

Capital investment: disclose total forward looking investment budget, forward looking capex in fossil fuels, upstream capex and exploration capex. Investment in greenfield capex, investment in "green energy".

- Processed Foods
- Pulp & Paper Products
- Rail Transportation
- **Real Estate**

See IIGCC's Investor Expectations for Listed Real Estate Companies.[37]

- Restaurants
- Road Transportation
- Semiconductors
- Software & IT Services
- Solar Technology & Product Developers
- Telecommunication Services
- Waste Management
- Water Utilities & Services

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

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:
N/A

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?
Please select which industries you would like to comment on. If you would like to comment on all industries, select 'All industries'.

- All industries
- **Asset Management & Custody Activities**
- Commercial Banks
- Insurance
- Investment Banking & Brokerage

[37] IIGCC Investor Expectations for Listed Real Estate Companies, available here.

Please explain your answer:

Disagree. The most comprehensive GHG accounting methodology for asset managers and other institutional investors is provided by PCAF, which is in turn accredited by the GHG Protocol. IIGCC recommends that investors disclose financed emissions in line with the PCAF Standard.

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

- **Broadly agree**
- Broadly disagree
- Other

Please explain your answer:

IIGCC proposes that asset managers should also report on their exposure to carbon-related (or material/carbon-intensive) sectors. Disclosing this metric could help to provide investors with insights as to where actions to reduce emissions and increase engagement will have the greatest impact.

The Paris Aligned Investment Initiative defines carbon-intensive ('material') sectors as those in NACE code categories A-H and J-L. IIGCC acknowledges that the NACE categorisation system relates specifically to the EU, and the approach to classification won't always be consistent with SASB. However, we propose that the following industries are also categorised as 'carbon-related', alongside those listed in the proposals for commercial banks and insurance entities:

- Agriculture, forestry and fishing
- Manufacturing
- Water supply; sewerage; waste management and remediation activities
- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Transporting and storage
- Information and communication
- Financial and insurance activities.

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

- **Broadly agree**
- Broadly disagree
- Other

Please explain your answer:

For transparency purposes, IIGCC supports the disclosure of both absolute emissions and emissions intensity of the portfolio. As investment portfolios can change over time (for example, due to change in asset mix, sectoral exposure, regional exposure, resulting from money inflows and outflows) and thus impact the emissions profile of an investment portfolio, it is important to monitor both metrics to provide additional transparency and explanation for any increase or decrease in portfolio emissions.

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

- **Broadly agree**
- Broadly disagree
- Other

Please explain your answer:

The PCAF GHG accounting approach is still expanding across asset classes and evolving over time, particularly following increased market participation. Disclosure of methodology will support transparency in the industry as variations to the accounting standard may be adopted.

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

- Broadly agree
- **Broadly disagree**
- Other

Please explain your answer:

As above, IIGCC recommends that investors follow the PCAF methodology as the most comprehensive and robust standard in the market. ISSB should seek to promote standardisation and reduce the variation of reporting standards.

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

- Broadly agree
- Broadly disagree

- **Other**

Please explain your answer:

Financed emissions can be one indicator of transition risk. However, as financed emissions provides only a "snap-shot" of current emissions at a single point in time, if taken in isolation, it can be misleading. To give a more accurate and forward-looking indicator of transition risk, IIGCC through the NZIF, along with CA100+ Benchmark, recommends that financed emissions should be assessed alongside a range of other metrics that indicate whether an asset is well positioned to transition over time. These indicators include:

- Short-, medium-, and long-term targets, aligned with science-based net zero scenarios
- Disclosures of Scope 1, 2, and material Scope 3 emissions
- Emissions performance against targets
- Decarbonisation strategy for achieving targets
- Capital allocation plan

A portfolio's financed emissions may be above a relevant benchmark and therefore, at a single point in time be considered high However, the portfolio may have exposure to a range of underlying investments that satisfy multiple current- and forward-looking indicators noted above, and, at a future point in time, may have reduced exposure to transition risks.

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

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:
N/A

(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.

- Yes
- No
- Other

Please explain your answer:
N/A

(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?

- Yes
- No
- Other

Please explain your answer:
N/A

Question 12—Costs, benefits and likely effects

(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?

Please explain your answer:

N/A

(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

N/A

(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?

- Yes
- No
- Other

Please explain your answer:

N/A

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

a) **Are there any disclosure requirements proposed in the Exposure Draft that would present 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.**
   - **Yes**
   - No
   - Other

Please explain your answer:

While the Exposure Draft on general sustainability-related disclosure standards provides a definition of 'materiality', there does not appear to be any requirement for reporting entities to disclose the results of their materiality assessments. This means that users of reporting (including investors), as well as auditors, are unable to verify whether the information disclosed by reporting entities provides an accurate picture as to how they are addressing material climate-related risks and opportunities, and whether they are providing complete and relevant datasets.

Given the range of disclosures entities will need to make under the proposed standards, many of which will require detailed judgements/assumptions on complex climate-related issues, it will be vital to ensure the standards require transparency over the methodologies used and any related assumptions, including use of sensitivity analysis.

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?

- Earlier
- Later
- **The same as**

Please explain your answer:

We believe the effective date of the Exposure Draft should be consistent with the effective date of the General Requirements Exposure Draft. Issuing the Climate Exposure Draft after the General Requirements Exposure Draft would deprive investors of decision-useful information on the exposure of their investees to climate-related risks and opportunities and undermine their capacity to assess their alignment potential. Conversely, issuing the Climate Exposure Draft prior to the General Requirements Exposure Draft could reduce the ability of investors to understand the broader sustainability factors impacting their holdings, which interact with, and should not be considered in isolation from, their climate-related exposures.

(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.

Please explain your answer:

In acknowledgement of investors' urgent need for granular, comparable climate-related disclosures that can inform investment decision-making, the effective date for the Standard should be set as soon as is feasible on the final Standard is issued. Given that the proposed disclosures build on the existing TCFD framework, which many investors and companies are reporting against on a voluntary or mandatory basis, implementation of the requirements are unlikely to impose significant additional reporting burdens.

(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?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:

N/A

Question 15—Digital reporting

a) **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)?**

N/A

Question 16—Global baseline

a) **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?**

- **Yes**
- No
- Other

Please explain your answer:

The Exposure Draft does not elaborate on the climate-related disclosure requirements already established by TCFD in sufficient detail. In the absence of more granular reporting, disclosed in a standardised format, it will be difficult for entities to produce decision-useful, comparable and consistent disclosures, and for users of reporting, including investors, to assess whether reporting entities (particularly those operating in high impact sectors) are taking meaningful action to transition to a net zero economy.

Per our response to Q1(a), investors need information on the impact of a reporting entity's activities on the climate, as well as the impact of climate change on the entity, to fully assess that entity's overall sustainability performance and capacity to align with net zero. The narrow focus on enterprise value risks diluting the ambitions of the Exposure Draft and fails to account for the fact that reporting on an entity's impact on the climate can also affect that entity's ability to generate value and financial returns.

Related to the above point, it will therefore be vital for the ISSB to work closely with regional standard setters (including EFRAG in the EU and the various UK stakeholders responsible for developing Sustainability Disclosure Requirements) to ensure the standards are fully interoperable with regional reporting and disclosure frameworks, including those which incorporate a double materiality perspective. IIGCC supports the 'building blocks' approach proposed by the ISSB, which should allow the Exposure Draft to provide a global baseline which other standard setters can build on. Ensuring this works in practice will be resource-intensive and require considerable coordination with multiple stakeholders throughout the development process. IIGCC therefore welcomes the agreement established between the IFRS Foundation and the Global Reporting Institute which seeks to establish an interconnected approach for sustainability disclosures, and stands ready to support both organisations to accelerate progress on this collaborative initiative. A collaborative mapping exercise between ISSB and other major standard setters (e.g. EFRAG, GRI) could be helpful in identifying the area where climate-related disclosures converge, where divergence between the standards arises, and any forward-looking activities that are planned to support further convergence in the interest of greater interoperability.

Question 17—Other comments

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

N/A

Disclaimer: *This response was developed in collaboration with a number of IIGCC members but does not necessarily represent the views of the entire membership, either individually or collectively.*