International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD

22 June 2022

Re: ISSB's Exposure Draft for IFRS S2 Climate-related Disclosures

The Financial Reporting Council (FRC) welcomes the publication of the Exposure Draft IFRS S2 Climate-related Disclosure (IFRS S2) and congratulates the ISSB for this momentous achievement. The FRC strongly supports the development of high-quality global standards for sustainability reporting and welcomes the opportunity to provide comment on this Exposure Draft. We recognise that climate and wider sustainability and ESG data is increasingly being used for capital allocation decisions, and therefore, needs to be as reliable and comparable as financial reporting.

The FRC regulates auditors, accountants and actuaries, issues accounting, audit, assurance, and actuarial standards and guidance, sets the UK's Corporate Governance and Stewardship Codes, and the ethical standard. Our work promotes transparency and integrity in business and is aimed at investors and others who rely on company reports and audits. In addition, our new proposed remit as we transition to become the Audit, Reporting and Governance Authority is "*to protect and promote the interests of investors, other users of corporate reporting and the wider public interest*". Under this remit, our objective is to leverage our role and responsibilities, alongside other regulators, the market, and other stakeholders, to help support a framework that allows for the growth of sustainable businesses.

The FRC has engaged in several projects that support this, including the development of the UK Guidance on the Strategic Report[1], the current review of mandatory TCFD aligned disclosures conducted by our Corporate Reporting Review team, and projects being conducted by the FRC Lab in relation to ESG data, Net Zero disclosure, and Cyber, Digital and Data risk. We have also published a number of reports on relevant topics, including TCFD[2], risk and opportunities[3], scenario analysis[4], and we complete annual reviews of Corporate Governance reporting[5]. Our extensive research and experience give us valuable insight into reporting of non-financial information by UK entities in areas that the Exposure Draft covers. In particular, we would like to highlight the 2020 Climate Thematic Review[6] which reviewed climate-related considerations by boards, companies, auditors, professional bodies and investors.

This letter highlights some overarching comments for consideration in relation to IFRS S2 and is followed by Appendix A which includes our detailed responses to the specific questions posed by the ISSB. We have also prepared comments for Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-

[1] https://www.frc.org.uk/accountants/accounting-and-reporting-policy/clear-and-concise-and-wider-corporate-reporting/narrative-reporting/guidance-on-the-strategic-report
[2] https://www.frc.org.uk/getattachment/09b5627b-864b-48cb-ab53-8928b9dc72b7/FRCLab-TCFD-Report_October-2021.pdf
[3] https://www.frc.org.uk/getattachment/c9c271c4-1e74-413a-a767-ca1c1e6909e7/FRCLab-Risk-Report-2021.pdf
[4] https://www.frc.org.uk/getattachment/0d28d5e8-ff89-4028-88a8-49e837db6022/FRC-Climate-Scenario-Analysis-in-Corporate-Reporting_October-2021.pdf
[5] https://www.frc.org.uk/getattachment/b0a0959e-d7fe-4bcd-b842-353f705462c3/FRC-Review-of-Corporate-Governance-Reporting_November-2021.pdf
[6] https://www.frc.org.uk/our-purpose/climate-thematic-review-2020

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

related Financial Information in a separate letter. We hope that in providing these comments, we can help the ISSB further strengthen the effectiveness of the proposed standards in a way that will support high-quality, consistent and comparable reporting.

Building on the TCFD recommendations

The TCFD recommendations are a globally recognised framework for reporting climate-related financial information and, as they are already mandated in the UK, we welcome the formalisation of the TCFD disclosure requirements into IFRS S2. We believe that using this as the foundation of the proposed standard will support its use as a global baseline.

Industry-based requirements

We understand the benefit of industry-specific requirements to enable primary users to understand specific industry matters and be able to compare entities with similar characteristics. The industry-specific requirements should supplement the disclosure requirements in the Exposure Draft's core content and provide additional application guidance that is considered necessary for the application of the cross-industry requirements. However, we do not believe that the current industry-based requirements fully meet this purpose, and strongly recommend that the material at Appendix B should be redesignated as non-mandatory guidance rather than mandatory requirements.

Clarity in terms used and accessibility of the standard

Further work is required to ensure the proposed standard is clear, concise, understandable and accessible for all expected audiences. In some instances, repetition adds to complexity. For example, paragraph 13 (b) and paragraph 23 both contain requirements relating to climate-related targets.

There are also several instances where the terminology used in the Exposure Draft is internally inconsistent and requires further clarification. In particular, further clarity is needed on what is meant by 'significant' as it is a key determining factor that will influence how the proposed requirements will be applied. Additionally, the terms 'strategy' and 'business model' are used inconsistently, and sometimes interchangeably, and this is especially confused when referring to an entity's strategy for addressing climate-related risks and opportunities with the effects of these risks and opportunities on the entity's business model, strategy and decision-making.

Connection with financial reporting

We welcome the requirements for entities to disclose information about the effects of climate-related risks and opportunities on their financial position, performance and cash flows. However, entities should be further encouraged to cross-refer to the financial statements as much as possible to ensure the information required by paragraph 14 is aligned with information in the financial statements. This is especially critical for climate-related information given the increasing scrutiny on net-zero targets and the implications for the financial statements. This proposed standard should therefore clarify the expectation that information and assumptions used for climate-related reporting should be consistent with that in the financial statements, or to justify when it is not.

Connection to IFRS S1

As noted in our response to IFRS S1 Exposure Draft, we believe that IFRS S1 should deal with holistic and common disclosure requirements, therefore leaving topic-specific requirements to the specific disclosure topic standards. Currently, there are some disclosure requirements in IFRS S2 that are identical to the requirements in IFRS S1, which is somewhat unnecessary.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

It may be more conducive to remove the general requirements from IFRS S2 thereby keeping the focus on topic-specific requirements. For example, paragraph 23 lists the characteristics for the disclosure of targets, most of which are generic and already outlined in IFRS S1. We therefore strongly recommend that cross-cutting requirements should be removed from IFRS S2, which should only focus on topic-specific elements in relation to climate change.

Timely publication and due process

As noted in the introduction to the Exposure Draft, there is a clear and urgent need for IFRS Sustainability Disclosure Standards, and we acknowledge the challenges this can pose to standard-setting processes. A balanced approach is needed to ensure the timely publication of the standards, whilst not compromising on the quality and due process required to ensure these standards are of high-quality, drive high-quality reporting and are globally accepted. Jurisdictions will need sufficient time to endorse and adopt the standards. Therefore, we strongly encourage the ISSB to allocate sufficient time to finalising these standards and to address the concerns raised during the consultation process.

For instance, a phased approach to the effective date will not only provide reporting entities with sufficient time to create or amend the required data systems and internal controls they need to support high-quality reporting but will also help the ISSB prioritise requirements that can, and should be, adopted quicker.

Finally, we welcome the opportunity to continue to work with the Board in setting future standards and would be happy to discuss the content of this letter in more detail. If you would like to discuss these comments, please contact Sarah-Jayne Dominic (s.dominic@frc.org.uk) and Gemma Clements (g.clements@frc.org.uk).

Mark Babington
Executive Director, Regulatory Standards
DDI: 020 7492 2323
Email: m.babington@frc.org.uk

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.
Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

Appendix A

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?

1.1 We agree with the objective set out in paragraphs 1-2. These objectives are appropriate and reflect the ambitions of the TCFD recommendations.

(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?

1.2 We agree that the objective of the Exposure Draft will support the disclosure of information relevant for users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value.

(c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

1.3 We believe the proposed disclosure requirements set out in the Exposure Draft meet the objectives outlined in paragraph 1.

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?

2.1 Our comments on governance requirements in IFRS S2 reflect our comments on the equivalent requirements in IFRS S1. We broadly agree with the proposed disclosure requirements for governance processes, controls and procedures. However, in some areas, further information could be requested so that we are able to better understand how the governance processes lead to actions. For example, further information could be provided in paragraph 5(d) about how the board considers and acts on the information it receives in relation to climate-related risks and opportunities.

2.2 We welcome the additional requirements that go beyond the TCFD recommendations in relation to skills and competencies, and information on how climate-related risks and opportunities are reflected in terms of reference and board mandates. To provide further helpful information, entities may also provide information about how the terms of reference and mandates are reviewed and how these lead to action. For example, even though climate change related responsibilities are in the terms of reference, this doesn't mean that these responsibilities are effectively discharged.

2.3 In paragraph 5(e), entities are expected to disclose information about how the governance body oversees strategy, including any assessments of trade-offs. The concept of trade-offs is important,

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.
Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

especially when addressing the relationship between climate change and broader sustainability matters. This is a new area of disclosure which is underdeveloped, and therefore we recommend that further guidance is provided about trade-off assessments and their treatment in the governance process.

2.4 We welcome the clarification in paragraph 6 relating to the overlapping governance requirements in IFRS S1. Where entities have governance structures that encompass sustainability more broadly, we would not expect them to also create additional structures specifically for climate change. By clarifying the relationship between the proposed requirements in IFRS S1, this requirement reduces unnecessary reporting.

Question 3—Identification of climate-related risks and opportunities

(a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

3.1 The proposed requirements to identify and disclose significant climate-related risks and opportunities are clear. However, we recommend the ISSB provides a definition for 'significant' which could be highly subjective. It is unclear how entities should determine which climate-related risks and opportunities are considered significant, especially in relation to different time horizons which will impact the level of 'significance'. For example, changes in climatic conditions resulting in increased flooding may not be considered significant in the short-term, but will possibly have a significant impact in the medium- to long-term.

3.2 Whilst we recognise the challenges in defining short-, medium- and long-term time horizons that are suitable for every entity, we believe further guidance is necessary. In the UK, entities are required to provide a Viability Statement (expected to be replaced by a Resilience Statement) which is prepared to disclose longer term issues which may affect an entity's prospects or viability. Boards are expected to determine the appropriate time horizon and provide justification for why they consider that period to be appropriate, and it should align with an entity's business cycle. The default position of many reporters is a three-year reporting horizon which may not be appropriate for climate-related risks. Therefore, it is important that the ISSB provides guidance on how entities should establish time horizons. It might also be helpful to require entities to provide justification when the time horizons do not align with the strategic planning horizons and capital allocation horizons. Entities should also consider and describe how the chosen time horizons interact with asset lives, and timing of liabilities and provisions in the financial statements and justify when these time horizons do not align.

(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?

3.3 It is unclear whether the disclosure topics defined in the industry requirements are intended as mandatory or non-mandatory guidance. The proposed wording in paragraph 10 states that entities "shall refer" which leaves room for interpretation. Whilst we believe the disclosure topics are helpful,

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

we do not agree that entities should be required to apply the disclosure topics defined in the industry requirements and therefore the proposed standard should make it clear that these disclosure topics are non-mandatory guidance.

3.4 The disclosure topics outlined in Appendix B are helpful guidance for reporting entities to refer to when identifying and describing the risks and opportunities they are exposed to. However, these risks are not necessarily climate-specific and further work is required to explain the connection to climate-related risks and opportunities. For example, the requirement for entities to classify risks as transition or physical risks in paragraph 9(c) is misaligned with the presentation of disclosure topics in Appendix B. To connect to the proposed requirements in the main content of the Exposure Draft more effectively, the disclosure topics outlined in Appendix B should be mapped to specific climate-related issues and categorised by transition and physical risks. This additional context will help to establish and explain why these topics are relevant in relation to climate change.

3.5 For example, on page 576 of Appendix B the requirements for Software and IT Services includes the disclosure topic "Environmental Footprint of Hardware Infrastructure" and includes metrics about total energy consumption. This is only helpful in relation to climate-related risks and opportunities once it has been more clearly connected to climate change and categorised by transition or physical risks. In this example, the environmental footprint of hardware infrastructure (disclosure topic) and the energy consumption metric could be helpful if the entity anticipates increasing costs associated with energy supply (transition risk).

3.6 Comparability within sectors is helpful, especially when assessing performance. However, by referring to a pre-selected list of topics there is a risk that this requirement, if mandated, may prevent entities from applying their own processes to identify and assess risks and opportunities. We therefore strongly recommend that the disclosure topics outlined in Appendix B should be referred to as non-mandatory reference guidance to support the identification of risks and opportunities rather than a requirement.

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?

4.1 We mostly agree with the proposed disclosure requirements outlined in paragraph 12. These requirements are in line with the recommendations of the TCFD framework.

4.2 Whilst the requirement in paragraph 12 focuses on business model, the subsequent requirements in paragraphs 12(a) and (b) focus on the impact on the value chain. Whilst the two are linked, they are not necessarily the same thing. Appendix A includes two separate definitions for business model and value chain, and whilst the value chain is an important part of the business model, it should be treated separately. Entities should be required to consider the effects of climate-related risks and opportunities on the business model separately from the effects on the value chain and therefore we recommend that this paragraph is split into two to ensure the requirements on business model and value chain are distinct.

4.3 The ISSB may also consider whether entities are expected to identify risks and opportunities in the value chain to the extent they will impact the business model. This distinction will prevent

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.
Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

immaterial information from obscuring information that will affect assessments of an entity's enterprise value.

(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?

4.4 We agree that the concentration of climate-related risks and opportunities should be disclosed as qualitative information. This information should provide context for the quantitative information required in paragraph 14.

Question 5—Transition plans and carbon offsets

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

5.1 Transition plans are an important element of the Exposure Draft, however, we do not fully agree with the proposed disclosure requirements for transition plans.

<u>Meeting the needs of investors</u>

5.2 The FRC has worked with other regulators in the UK on a number of net zero and transition plan projects. In March and April 2022, and in collaboration with the Financial Conduct Authority, we conducted a number of workshops with issuers, investors and wider stakeholders to understand how to encourage purposeful engagement on climate-related issues between investors and issuers. In particular, we considered what information on net zero transition plans would best support investor engagement. These workshops were incredibly insightful and highlighted a number of areas where disclosure could be improved. For example, there was a consensus that standardisation by sector would be useful, whilst acknowledging that transition plans are likely to be unique to the context of the entity. We would welcome the opportunity to discuss our findings with the ISSB and believe this would be helpful in supporting the ISSB to develop further industry-based guidance on preparing and disclosing transition plans.

<u>Beyond transition plans</u>

5.3 It was not immediately clear that paragraph 13 related specifically to transition plans. Instead, the first paragraph suggests that transition plans are just one element of the disclosure requirement, with further information being required on the broader effects on strategy and decision-making. Entities may decide to respond to climate-related risks and opportunities using different approaches. By limiting this requirement to only focus on transition plans, this Exposure Draft risks excluding other appropriate and innovative approaches adopted by entities.

5.4 Transition plans focus on transition risks and do not adequately respond to physical climate-related risks. Although there is mention of adaptation in paragraph 13(a)(i)(2), transition plans are designed to address entities' plans to transition to a low-carbon economy. In the TCFD Guidance on Metrics, Targets, and Transition Plans[7], the TCFD acknowledges the difference between transition and adaptation plans. As the focus of this requirement is only on the transition plans, entities are not required to disclose information about how they are responding to physical climate-related risks.

[7] https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

We recommend, therefore, that paragraph 13 is redrafted and restructured to allow entities to disclose activities they have undertaken other than transition plans. Additionally, a requirement should be added to address physical climate-related risks and adaptation plans.

Inconsistent use of terminology

5.4 The terms "strategy" and "business model" are used interchangeably in this section. It is conceivable that an entity may be required to change its strategy in relation to climate change, but this may not necessarily impact the business model. For example, an entity may need to change its strategy in relation to sourcing raw materials for a particular product due to climate-related matters without needing to amend the business model or product offering. The proposed standard must ensure consistent use of terminology and align with *Practice Statement 1 Management Commentary* which already distinguishes between business model and strategy.

5.5 This section also confuses an entity's strategy for addressing climate-related risks and opportunities with the effects of these risks and opportunities on the entity's wider strategy and decision-making. On initial reading, the first paragraph asks an entity to provide information to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making which is different to the entity providing information on its strategy for responding to these risks and opportunities. Whilst these overlap, it is important to distinguish and separate the requirements. For example, an entity might identify significant physical risks in a specific location, which may lead to write-offs and early retirement of existing assets due to property damage. Disclosure of such information addresses the current and anticipated exposure of the entity's business-as-usual strategy to climate-related risks. Further requirements would then address the strategy taken by the entity to mitigate or adapt to these risks.

5.6 In the same regard, the disclosure objective outlined in the "Strategy" section is misaligned with the proposed requirements. The objective focuses only on the entity's strategy for addressing significant climate-related risks and opportunities and does not address the disclosure requirements for the effects of these risks and opportunities on the business model, strategy and decision-making. This objective could be amended to "*enable users of general purpose financial reporting to understand the impact of significant climate-related risks and opportunities on an entity's business model, strategy and financial position, and its strategy for addressing these risks and opportunities*." Whilst there are overlaps, it is important that the proposed requirements differentiate between implications of climate change on the entity's overall strategy, and its proposed strategy for addressing these risks and opportunities.

5.7 We therefore recommend that the object of this section is amended, and paragraph 13 is split to distinguish and address the two elements described above.

Overlap with target section

5.8 The proposed requirements in paragraph 13(b) overlaps with the proposed requirements in paragraph 23. Duplication should be removed and clear reference should be provided on the connection between the requirements on transition plans and relevant climate-related targets. We provide further details about this overlap and our recommendations in response to Question 10.

(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.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

5.9 As outlined in our response to Question 5(a), paragraph 13 requires redrafting and restructuring to ensure activities and plans other than transition plans can be disclosed by entities. The proposed requirements specifically on transition plans are sufficient, and we do not believe any additional disclosure requirements are needed.

(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?**

5.10 We agree with the proposed disclosure requirements on carbon offsetting and believe that additional transparency on this topic is helpful to primary users in understanding carbon reduction strategies and the credibility of carbon offsets. Further guidance in the Basis for Conclusions is helpful in explaining the disclosure requirements and the challenges associated with assessing the credibility and integrity of carbon offset schemes.

5.11 The ISSB should consider the benefit of requiring entities to describe whether carbon offsets are used for 'residual' emissions. Emissions targets should clearly indicate direct emissions reduction plans separate from offsets. This information would provide insight into whether the entity's business model will need to change to meet emissions reduction targets and the extent to which the entity is relying on offsets to meet its targets.

(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?**

5.12 The proposed requirements on carbon offsetting are appropriately balanced and will support the transparency and credibility of the use of offsets within carbon reduction strategies. Whilst we recognise that the requirements for offsets is disproportional from the other requirements in paragraph 13(b), we believe that the additional detail will support users when assessing the credibility of entities plans, especially when targets are claimed to be net zero.

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?**

6.1 We welcome the requirement to disclose quantitative information unless an entity is unable to do so. However, we believe this should extend to including an explanation as it why it was not able to disclose quantitative information. For example, reasons may include where there is a high level of uncertainty or where there is a lack of available information.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

(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?

6.2 We welcome requirements for entities to disclose information about the effects of climate-related risks and opportunities on financial position, performance and cash flows. Entities should be further encouraged to cross-refer to the financial statements as much as possible to ensure the information disclosed in accordance with paragraph 14 is aligned with information in the financial statements. For example, where key assumptions for impairment calculations are disclosed in the financial statements and therefore may not need to be repeated in the narrative report.

6.3 Paragraph 14(b) is aligned to requirements in IAS 1 (paragraph 125) which requires similar disclosures for line items when there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the financial statements. For example, assumptions about the expected level of carbon pricing in a particular market may already be used in the financial statements. Where there may be duplication, entities should be encouraged to provide a description of this connection or cross-refer to the financial statement.

6.4 However, it is also important for an entity to identify when the assumptions are not consistent or when IFRS Accounting Standards do not permit assumptions to be aligned with data used for sustainability-related disclosure. For example, IAS 36 requires the use of a base case estimate, whereas the climate standard requires disclosure of various scenarios which are likely to be different from best estimates in many cases. This may be evident in forward-looking analysis where a best case estimate may be a 2.4°C warming pathway which is used in the financial statements, which would be different to additional pathways based on 1.5°C and 3°C warming disclosed by the entity in the narrative report. Another example is when applying a 'Value in Use' impairment test, as this method restricts when benefits from restructuring or asset enhancements can be taken into account, i.e. only when an entity has committed to the restructuring, or began to incur expenditure.

6.5 Therefore, we suggest that this proposed standard includes a requirement for entities to clearly explain when assumptions in sustainability-related financial reporting differ from those required to be used in the financial statements, and why. This is something that investors are actively asking for, especially in the context of climate change, and would help to link the narrative reporting with the financial statements.

6.6 The proposed standard should explicitly acknowledge that climate-related financial reporting is based on risks and opportunities which may not qualify for recognition or require disclosure in the financial statements.

(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?

6.7 Information regarding 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 is critical for investors to understand how profitability and asset valuations may change over time as physical and transition risks materialise.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

6.8 Whilst entities which are heavily affected by climate change should be able to disclose most of the information required by paragraphs 14 (c) and (d), others may find this challenging. In particular, the proposed requirement to disclose planned sources of funding (paragraph 14(c)(ii)) is problematic as it goes beyond current expectations for financial reporting. It is not appropriate to expect entities to provide financial information about planned sources of funding to implement the strategy due to the sensitivity of this information. We recommend that this requirement is removed from the Exposure Draft.

6.9 The proposed requirement in paragraph 14(d) expects entities to provide information on future financial performance and how this is likely to change over time, with no supporting guidance as to what this means. Paragraph 14(b) only requires entities to provide insight into material adjustments to the carrying amounts of assets and liabilities in the financial statement for the next financial year, which is very short in relation to climate-related risks. This is where IFRS S2 should differentiate from IFRS S1 and provide climate-specific requirements which extend beyond one year. Many climate-related risks are long-term in their nature and therefore limiting disclosure to the next financial year would limit the usefulness of this disclosure.

6.10 This forward-looking financial information could be defined as sensitive information and may therefore be challenging to disclose. We recommend that future financial effects of climate-related risks and opportunities should be moved to the climate resilience section as it is more closely aligned to the objectives and outcomes of scenario analysis and entities will be able to provide information on the financial impact for different scenarios.

Question 7—Climate resilience

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

7.1 We mostly agree that the proposed items listed in paragraph 15(a) reflect information primary users need to understand the entity's climate resilience. However, we believe the proposed requirements in paragraphs 15(a)(iii)(1), (2) and (3) go beyond information that entities will be able to realistically provide. Whilst we understand the rationale for these requirements, this information could represent sensitive information. Additionally, we are concerned that the unrealistic nature of these forward-looking disclosures requirements could result in increased risk of greenwashing when entities don't have access to the relevant information.

7.2 Some of these requirements would only be relevant for entities that operate in high-impact sectors and may be more appropriate as part of the industry-specific requirements. Research commissioned by the FRC[8] found that best practice in scenario analysis disclosure is increasingly sector-specific as the modelling will depend on sector-specific inputs. Whilst it isn't the role of the ISSB to develop scenarios, they may consider sector-specific disclosure requirements.

7.3 The ISSB may consider asking all entities to describe how the results from the climate resilience analysis are taken into account in the strategy and financial planning processes, with further and more specific industry-specific requirements where appropriate. A qualitative description should provide users with sufficient information that would support their assessment of whether the entity has the capacity to adjust or adapt its strategy and business model.

[8] https://www.frc.org.uk/getattachment/0d28d5e8-ff89-4028-88a8-49e837db6022/FRC-Climate-Scenario-Analysis-in-Corporate-Reporting_October-2021.pdf

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

(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?

(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?

(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?

7.4 We agree that if an entity is unable to perform scenario analysis it should use an alternative method and explain why. For consistency, it would be helpful for all entities to be required to undertake scenario analysis to assess resilience. However, it is not within the scope of the ISSB to determine the approach taken by entities and therefore we agree with the proposals in the Exposure Draft.

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

7.5 We agree with the proposed requirements about the process for how scenario analysis is conducted. This information should provide sufficient insight into the methodological approach and the assumptions used in the assessment. This additional transparency will support primary users, assurance providers and regulators when reviewing conclusions made by the reporting entity.

(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?

7.6 We agree with the proposed requirements about how alternative methods are used for the assessment of resilience. In particular, we welcome the alignment between the requirements in paragraphs 15(b)(i) and 15(b)(ii) which will enable comparable disclosure regardless of the method used by the entity to assess resilience.

(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?

7.7 In the FRC's 2020 Climate Thematic Review[9], our research found that reporting on scenario analysis is a key area of interest for investors. Whilst the assessment of climate resilience is regarded as one of the more challenging aspects of the TCFD recommendations, we believe that the proposed

[9] https://www.frc.org.uk/getattachment/6d8c6574-e07f-41a9-b5bb-d3fea57a3ab9/Reporting-FINAL.pdf

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

requirements in the Exposure Draft appropriately balance the cost of applying the requirement with the benefits of providing the information.

Question 8—Risk management

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

8.1 Our response to this question mirrors our comments for IFRS S1. Whilst we agree that the disclosure of climate-related opportunities is as important as climate-related risks, we do not agree that entities should be required to provide information about the processes used to identify, assess and manage climate-related opportunities. The inclusion of opportunities in the governance, strategy and metrics and targets section is clear and appropriate, but we recommend that it is removed from the risk management section.

8.2 There is no existing regime that would require companies to disclose detailed information about how opportunities are identified for broader financial issues, and therefore it is not appropriate to include it in relation to climate-related opportunities. For example, entities would not be required to disclose information about how they have assessed opportunities associated with new product lines, and therefore it would be unreasonable to expect this information for sustainability-related information. We recommend that opportunities are removed from the risk management section. This would include the removal of paragraphs 26(a)(ii), 26(c), 26(d)(ii) and 26(f).

8.3 However, we recognise that investors value information about opportunities. To encourage entities to provide insight into how opportunities are considered by management, further requirements could be added to the governance and strategy section that explicitly requires entities to provide information on how they have assessed opportunities and how this is connected to the strategy, which should be supported with additional guidance.

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?

9.1 We broadly agree with the seven proposed cross-industry metrics that have been adopted from the 2021 updated TCFD Implementation Guidance.

9.2 Further clarification could be provided where entities are asked to disclose the amount and percentage of assets or business activities vulnerable to transition or physical risks. We recommend the ISSB explores additional industry-specific financial metrics connected to this requirement that provide further detail about which assets entities should disclose. For example, it could be helpful for entities in the real estate industry to disclose the percentage of buildings within the portfolio located in areas exposed to physical risks, whereas banks could disclose the percentage of their loan portfolio related to green products.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

(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.

9.3 The ISSB could consider energy use as a cross-industry metric. In the UK, the *Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018* (SI 2018/1155) implement the government's policy on Streamlined Energy and Carbon Reporting (SECR). This places requirements on large companies to disclose energy use data alongside GHG emission data. Energy use and GHG emissions are inextricably linked, and data on energy usage would inform the adoption of energy efficiency measures, lower energy costs and help mitigate GHG emissions.

(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?

9.4 We agree that entities should be encouraged to use the GHG Protocol to calculate GHG emissions as it is generally accepted and globally recognised, and in some cases required by national regulation. However, it should not be a prescribed requirement of this proposed standard especially as it is not maintained by the ISSB and has not been through the same due process.

9.5 Entities should be encouraged to describe the methodologies used to prepare data, regardless of whether they choose to use the GHG Protocol or not. However, we recommend an additional requirement for entities to describe the methodology they have chosen to use, and to justify their decision if they choose an approach other than the GHG Protocol. For example, there may be national and regional legislation requiring the disclosure of climate-related data which specifies metrics or methodologies. In the UK, the SECR requires reporting entities to use the Government's published conversion factors for company reporting of greenhouse gas emissions. Entities should be required to provide insight into, and to justify, the approach taken.

(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 CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2))?

9.6 Although it is not clear within the Exposure Draft that entities are required to provide an aggregation of all seven GHG emissions gases, we agree that entities should provide aggregated data expressed in CO_2 equivalent. As part of SECR in the UK, entities are not required to give individual figures for each GHG gas, although it is an option that some may wish to take in addition to aggregated data if they so choose.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.
Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

(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?

9.7 We mostly agree that entities should be required to separately disclose Scope 1 and 2 emissions for the consolidated entity and other reporting boundaries. However, further consideration should be given to whether this requirement aligns with the reporting entity requirement in IFRS S1, particularly in relation to the treatment of equity accounted entities. The ISSB should also consider whether the boundaries (operational control, financial control and equity share) and the requirements for consolidation prescribed by the GHG Protocol are aligned with the requirements of IFRS S2.

(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?

9.8 We agree that absolute gross Scope 3 emissions should be included as a cross-industry metric category. However, entities are already required to apply materiality to the application of the standard as a whole, as outlined in IFRS S1, which would include Scope 3 emissions. Therefore, we do not see the benefit of emphasising "subject to materiality" for this disclosure requirement.

9.9 Given the complexities associated with Scope 3 emissions disclosure, particularly in relation to data availability and quality, we also recommend additional requirements for entities to explain the completeness of their data and justify where there may be gaps. Entities should be encouraged to describe and justify their approach to calculating Scope 3 emissions, in addition to providing insight into the quality of the data, and where and why their data may be incomplete.

Question 10—Targets

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

10.1 Requirements for disclosing climate-related targets are included in both paragraph 23 as well as paragraph 13(b) under the "Strategy and decision-making" section which is confusing. It is assumed that paragraph 13(b) specifically relates to the targets associated with the entity's transition plans and GHG emissions, whereas paragraph 23 is more broadly in relation to the targets associated with the cross-sector metrics (not just GHG emissions data). However, the requirements included in both paragraphs are highly interrelated and, in some cases, overlap. The Basis for Conclusion (paragraph BC74) acknowledges the overlap between the transition plan requirements and the requirements in the metrics and targets section and expects entities to make these connections. However, the two sections have slightly different sets of requirements which would be better explained together. For example, it is unclear why entities would be expected to address the processes in place for review of the targets for transition plans (paragraph 13(b)(i)), but not for overall climate-related targets. Additionally, some of the requirements in paragraph 23 only relate to emissions reduction targets (paragraph 23 (e) and (f)).

10.2 To reduce confusion, we recommend three possible approaches that the ISSB could take:

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.
Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

- **Option 1**: Separating GHG emissions reduction targets from broader climate-related targets which would require moving paragraphs 23(e) and (f) to paragraph 13(b). Paragraph 13(b)(i) relating to the process for reviewing the targets should also be moved to paragraph 23. The requirement for broader climate-related targets would only include overarching requirements on the quality of the targets, the period over which the target applies, the base period, interim targets and the process for reviewing targets.
- **Option 2**: Move the requirements for targets in paragraph 13(b) to paragraph 23 to keep all requirements about targets together. This could include a requirement to require entities to demonstrate the connection between strategy and targets, similar to the requirement in paragraph 13(c).
- **Option 3**: Retain all specific climate-related requirements only in paragraph 23 and remove the overarching requirements which are mostly duplicative of the requirements in IFRS S1. Requirements relating to the quality of targets should cross-refer to IFRS S1.

10.3 For clarity, we recommend an additional requirement for entities to provide details of whether the target applies to the consolidated group, a single entity, its upstream or downstream value chain, or specific geographic regions. The entity to which the target applies should align with the entity boundary used to calculate the metrics.

10.4 In the FRC's 2020 Climate Thematic Review[10], we found "…*significant variation in the way in which emissions are reflected in targets. The most significant difference is whether they include scope 3 emissions, or only a minor category of scope 3 emissions, such as business travel*." Therefore, there may also be benefit in requiring entities to explain whether their emissions reduction targets relate to Scope 1, 2 or 3 emissions. Not only will this provide more granular detail for users to be able to access the quality of the targets, but it will also help connect the targets to the metrics in paragraph 21.

(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?

10.5 As international agreements on climate change will evolve over time, this wording within the proposed standard is appropriate and clear, and helps the standard be future-proof.

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?

11.1 By removing references to U.S. specific regulations, programs and initiatives, the requirements are more applicable regardless of jurisdiction. However, the research conducted by SASB to determine the disclosure topics and metrics relevant for each industry was focused on the U.S. market and therefore did not take into consideration jurisdictional context. We note the ongoing research by SASB is designed to understand the scope of changes needed to better reflect jurisdictional context. As noted on the SASB project website, an initial review of the standards suggests that approximately one-quarter of the existing industry-based requirements may be challenging to implement

[10] https://www.frc.org.uk/getattachment/6d8c6574-e07f-41a9-b5bb-d3fea57a3ab9/Reporting-FINAL.pdf

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

globally[11]. Whilst this project is in progress, we recommend the SASB standards are removed as a required component of the IFRS S2 Standard and referred to as guidance only.

(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?

11.2 As noted in our response to Question 11(a), we agree with the proposed amendments, but recommend further research into the global applicability of the standards, including suitability of disclosure topics and metrics taking into account jurisdictional context.

(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?

11.3 We agree that the current proposed amendments will enable entities that have previously used the SASB Standards to continue to provide information consistent and comparable to disclosures in previous reporting periods. However, we do not believe that existing use of the SASB Standards should affect the standard setting process.

(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?

11.4 We welcome the introduction of requirements on financed and facilitated emissions for the select industry groups. These additional requirements directly link to the climate-related risks and opportunities associated with transition risks and are therefore likely to be helpful in understanding the entity's exposure and response to these risks. We strongly recommend all industry-based requirements are structured in the same way to enable connectivity with the proposed requirements in the main body of the Exposure Draft.

(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?

11.5 We agree with the industries classified as 'carbon-related'.

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

11.6 We agree with the proposed requirement to disclose both absolute- and intensity-based financed 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?

[11] https://www.sasb.org/standards/process/active-projects/standards-internationalization-advancement/

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

11.7 We agree with the proposals to require disclosure of the methodology used to calculate financed emissions. This will provide further transparency and support better comparability, especially when methodological approaches differ between reporting entities.

(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?

11.8 Given that the GHG Protocol Corporate Value Chain (Scope 3) Standard is globally accepted, we agree that it is appropriate that the Exposure Draft refers to its use for financed emissions. However, as outlined in our response to Question 9 (paragraph 9.4 and 9.5), it should not be a prescribed requirement of this proposed standard especially as it is not maintained by the ISSB and has not been through the same due process.

11.9 As methodologies on Scope 3 and financed emissions are evolving, entities should be able to use a different approach if they so wish, with the expectation that they will justify their decision. Therefore, we recommend an additional requirement for entities to disclose a description of the methodology used, including an explanation for when it deviates from the GHG Protocol Standard.

(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?

11.10 We agree that the proposed requirements for the asset management and custody activities industry will likely provide useful information on indirect transition risk exposure.

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

11.11 We understand the benefit of industry-specific requirements to enable primary users to understand specific industry matters and be able to compare entities with similar characteristics. However, we do not believe that the current industry-based requirements fully meet this purpose, whilst they provide helpful sector-specific application material they need to be adequately reconciled with the requirements in the main content of the Exposure Draft.

<u>Connection to climate change</u>

11.12 Some industry-based requirements in Appendix B have only a tenuous link to climate change. In some cases, whilst some disclosure topics and metrics could be helpful in identifying significant climate-related risks and opportunities, it is not always clear how they are directly or indirectly connected to climate change. For example, requirement EM-CO-140a.2. *Number of incidents of non-compliance associated with water quality permits, standards, and regulations* and FB-RN-430a.2 *Percentage of (1) eggs that originated from a cage-free environment and (2) pork that was produced without the use of gestation crates* do not immediately provide indicative information about the

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

entity’s exposure to climate-related risks or opportunities without additional contextual information and may need to be removed.

Duplication of disclosure requirements

11.13 There remains duplication between the main content of the Exposure Draft and the industry-based requirements. For example, where GHG emissions data is proposed as a cross-sector metric in paragraph 21, there is no need for additional requirements on Scope 1 within the industry-based requirements. Some allowances may occur, for example financed GHG emissions data for financial industries, but these should be limited to exceptional cases where the GHG emissions requirement in paragraph 21 is not sufficient. Duplication also exists in some of the narrative requirements. For example, where entities are required to provide discussion of long-term and short-term strategy to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets (i.e. FB-AG-110a.2), this is already addressed within paragraph 13 of the Exposure Draft. Whilst some of the details in Appendix B provide helpful guidance for the application of the proposed requirements in the Exposure Draft, we strongly believe these would be better suited as industry-based application guidance rather than as disclosure requirements.

Cross-industry requirements

11.14 Some requirements would be better placed within the cross-industry metrics. For example, we recognise the importance of energy use data, especially in connection to energy efficiency and GHG emissions. We therefore recommend that any requirement for information on energy use should be transferred to the cross-industry requirements in paragraph 21.

Excluded disclosure topics

11.15 Whilst SASB has undertaken extensive research to determine the material disclosure topics for each industry, there is an inconsistent approach to disclosure topics across industries, which will undermine the ability to produce comparable reporting. For example, in the Apparel, Accessories & Footwear industry requirements, entities are expected to provide a description of environmental and social risks associated with sourcing priority raw materials under the disclosure topic “Raw Materials Sourcing”. This is the only industry to include raw material sourcing as a disclosure topic. This topic may be significant for other industries. Furthermore, by requiring entities to select from a pre-selected list of topics that might be material for an industry, the Exposure Draft may restrict entities from identifying and assessing their own significant climate-related matters. Therefore, we strongly believe it would be more appropriate for Appendix B to be used as reference or application guidance, rather than a core part of the Exposure Draft.

Mapping analysis

11.16 It would be helpful for the ISSB to share its analysis supporting the allocation of SASB’s industry-based disclosure topics and metrics, and activity metrics based upon SASB’s 26 General Issue Categories, to the ISSB’s disclosure topic of climate. This would provide reporting entities and primary users a better understanding of the relationship and linkage of the proposed industry-based requirements to climate change, and any additional contextual information they may need for the disclosures to be decision-useful.

(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.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

11.17 As noted in paragraph B7, the industry-based requirements do not represent an exhaustive list of the full range of climate-related risks and opportunities an entity may be exposed to. Entities should be encouraged to conduct their own assessment to identify the significant climate-related risks and opportunities they are exposed to. Some industries have determined specific metrics based on collaboration through industry bodies and may wish to use these metrics alongside, or in place of, the metrics outlined in Appendix B. Entities should be given the flexibility to identify what is material and to use existing guidance where relevant. In these cases, entities should be required to justify the approach they have taken and the guidance they have used to determine which metrics to use.

(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?

11.18 The industry classifications are based on U.S. market research conducted by SASB, and therefore may not be appropriate for international application. There are already a number of industry classification systems that might be more appropriate, and we encourage the ISSB to consider how they envisage the classification system will work in practice and whether it needs to be amended to reflect international markets.

11.24 A snapshot assessment applying the industry classification to UK-listed entities suggests that some industry categories may only be relevant for a small number of entities, in some cases only 1 entity. Where some of the industry classifications are extremely granular and only relevant for a small number of entities, we question the benefit of defining metrics at such a level of granularity. The ISSB should consider whether to group industry-specific requirements at the sub-sector level and therefore remove the industry categories. For example, in the transportation thematic sector (as illustrated in the table below), the ISSB should consider combining the industries requirements in the automobile, auto parts and car rental industries into one overall set of relevant requirements for the car/automobile sub-sector, which would reduce unnecessary complexity and increase comparability.

Thematic sector	Sub-sectors	Industries
Transportation	Air transportation	Airlines
		Air Freight
	Automobiles	Automobiles
		Auto Parts
		Car Rental
	Marine Transportation	Cruise lines
		Marine Transportation
	Land Transportation	Rail Transportation
		Road Transportation

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

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?

12.1 Our comments on the costs and benefits of IFRS S2 reflect our comments on the equivalent requirements in IFRS S1. The UK has already implemented mandatory TCFD-aligned reporting, and therefore the costs associated with applying the TCFD-aligned requirements in the proposed standard are likely to be lower than for reporters in jurisdictions that have not adopted the TCFD framework. However, the implementation of this proposed standard as a whole, including Appendix B, will likely incur very significant costs, which would be difficult to justify to UK stakeholders.

12.2 However, through our stakeholder engagement we are able to highlight some areas where costs are anticipated. In particular, stakeholders have noted there will be a need to implement or strengthen reporting systems and internal controls for the collection and production of relevant data. This might include the consolidation of information at group level, which would require the implementation of new reporting structures that are consistent across an entity, and the added expense associated with the verification and assurance of data.

12.3 When conducting a cost-benefit analysis, there is also a need to understand whether the cost is proportional to the size of the reporting entity. The proposed disclosure requirements are extensive and represent a step-change, especially for smaller entities who have not prepared similar disclosures in the past and therefore will need to implement new systems. Conversely, the cost for larger entities is likely to be higher given their complex value and supply chains and the need to collect data from third-party sources. When completing a cost-benefit analysis, it is essential to assess the proportionality of anticipated costs.

12.4 To alleviate some of the costs we recommend the ISSB explores a phased approach to the implementation of the proposed requirements. A phased approach will allow preparers time to establish new systems and internal controls that are essential to ensuring the resulting disclosure is of high-quality and will allow the cost to be spread out over a longer time period. As noted earlier in this letter, Appendix B should be redesignated as guidance and not form part of the standard.

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

12.5 Our comments on the costs and benefits of IFRS S2 mirror our comments on the equivalent requirements in IFRS S1. Ongoing costs may be incurred if jurisdictions apply a different approach to the implementation of climate-related disclosure requirements or may choose to 'top up' the IFRS Sustainability Disclosure Requirements with jurisdiction-specific requirements. Entities who may be obliged to disclose across multiple jurisdictions are likely to incur ongoing costs to ensure their disclosure is compliant with all disclosure requirements, especially when they differ. Whilst this is beyond the control of the ISSB, we encourage the ISSB to work closely with national standard setters to minimise divergence between jurisdictions.

(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?

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.
Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

12.6 We believe that the costs associated with requiring disclosure of Appendix B would outweigh the benefit. In our response to Question 11 (paragraph 11.24), we identified that some industry categories may only be relevant for a small number of entities in the UK, with some industries only being relevant to a single entity.

Question 13—Verifiability and enforceability

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

13.1 We welcome the attempts to make this proposed standard assurable and enforceable from the beginning. The challenges for assuring and enforcing the requirements in the Exposure Draft are similar to the existing challenges associated with narrative reporting more broadly. Whilst these challenges are unlikely to be resolved through this Exposure Draft, there are some amendments that could be made that may aid assurance providers and regulators when assessing whether the reporting entity has complied with the proposed requirements.

13.2 Assurance providers and regulators will require sufficient information to reach a *reasonable assurance* opinion as to whether there have been any material omissions or misstatements of facts, misrepresentation of trends, unsubstantiated claims, or significant bias in the presentation of information. A challenge for assurance providers and regulators will likely be the application of materiality, especially as reporting entities may decide that some disclosure requirements are not material and therefore may choose to omit them from their disclosure. As stated in our response to the IFRS S1 Exposure Draft, we recommend an additional requirement for entities to provide information about the judgements and assumptions used when assessing materiality. Such information should provide assurance providers and regulators with supporting information to determine whether the entity has provided all material information to form a complete and accurate depiction of the financial effects.

13.3 We also note that the use of the term 'verified' rather than assured implies a degree of correctness that may not be possible. Any reference to verifying information in relation to the role of assurance providers should be replaced with 'assurance'. The two terms should not be used interchangeably as they will require different processes and will result in different outputs.

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?

14.1 We recognise the benefit and challenges associated with implementing an effective date that is the same for IFRS S1 and IFRS S2. As noted in the Basis for Conclusions, the disclosure requirements in IFRS S2 are a subset of the broader disclosure requirements proposed in IFRS S1 which is likely to take longer to implement and will require further resourcing. Additionally, as IFRS S2 is built upon the TCFD recommendations, which have been available in the market as a voluntary framework since 2017, there has already been sufficient uptake and experience within the market to justify a rapid effective date for IFRS S2. However, we do not believe that there is justification for different

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

effective dates for the two standards, we believe it is important that they are effective at the same time. In our response to IFRS S1, we recommend a phased effective date which may resolve the challenges associated with making the standard available at the same time.

(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.

14.2 We do not have an opinion on when the effective date should be. However, the effective date should be at least one year after the final standard is issued to provide reporting entities with time to prepare. Presently, there are only a few jurisdictions that require mandatory TCFD disclosure, which means some entities will already be prepared to disclose against the proposed standard. To support entities who have not yet started to consider their climate-related risks and opportunities, we recommend an effective date that is both soon enough to address the urgent need for standardisation, but also sufficiently long to allow entities to appropriately prepare for disclosure.

(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?

14.3 According to the TCFD Status Reports, entities are encouraged to apply some of the disclosure requirements earlier than others in a phased approach. In the 2021 Status Report[12], the annual review of corporate reports found that entities are more likely to disclose information about the climate-related risks and opportunities that they have identified, with fewer entities providing disclosures on the processes used for identifying, assessing and managing these risks. Even fewer entities provided information in relation to resilience, which is often referred to as the most challenging aspect of the TCFD recommendations.

14.4 On page 33 of the 2020 Status Report[13], the TCFD highlights an illustrative implementation plan based on feedback from report users. This implementation plan consists of three phases in which the reporting entity might address the different elements of the recommendations. Although this implementation plan was illustrative only, there may be benefit in allowing a phased approach to applying the requirements of the Exposure Draft.

14.5 For example, entities may be permitted to provide information on governance and risk management earlier than other requirements, as these two requirements provide essential context for the strategy, metrics and targets requirements. This approach should encourage entities to set up robust internal processes for governance and risks management, but also prepare the systems and internal controls needed to collect the relevant information for complete disclosure. However, we recommend that the ISSB considers whether it is appropriate to disclose all elements of governance and risk management first, or whether a selection of requirements from different sections are appropriate. We recommend the ISSB reviews the illustrative implementation plan in the TCFD Status Report and considers its application as a phased approach to the implementation of this proposed standard. This will enable jurisdictions to decide whether to implement the standard in a phased approach or whether they adopt the standard in its entirety.

[12] https://assets.bbhub.io/company/sites/60/2022/03/GPP_TCFD_Status_Report_2021_Book_v17.pdf
[13] https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.

Question 15—Digital reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

15.1 As the standard setter for digital taxonomies in the UK, the FRC welcomes the digitisation of reporting by the ISSB. The UK has already established digital taxonomies for TCFD and carbon and energy reporting (SECR). Digital reporting delivers significant benefits to business and the consumers of information they report, and we believe company experience and experimentation with these voluntary digital standards might provide useful insight into the broader questions posed by digitisation of the ISSB requirements.

15.2 We welcome the opportunity to respond to the request for feedback on the staff draft of the IFRS Sustainability Disclosure Taxonomy and would be happy to provide input into the development of the digital taxonomy.

Question 16—Global baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

16.1 The use of the TCFD recommendations as the foundation for the Exposure Draft will support the use of this proposed standard as a global baseline.

16.2 However, as a global baseline this proposed standard should present the minimum viable product which can be scalable to address different sized entities and different jurisdictional context. To support a proportionate and scalable approach, the ISSB should consider additional language to precede certain requirements. For example, some of the proposed disclosure requirements could be preceded with phrases like "where relevant in the circumstances of the entity" to demonstrate where requirements are scalable. This would also help reporting entities assess which requirements are material and therefore require disclosure. We also recommend the ISSB engages with emerging and developing markets to ascertain whether the proposed requirements are proportional and appropriate.

Question 17—Other comments

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

17.1 We have no additional comments.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered office: as above.

Please see our privacy page at https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc if you would like to know more about how the FRC processes personal data or if you would like to stop receiving FRC news, events, outreach or research related communications.