



RESPONSE TO THE ISSB’S CONSULTATION RE: EXPOSURE DRAFT – CLIMATE-RELATED DISCLOSURES

How to respond

You can access the instructions to submit your response [here](#).

The consultation is opened until July 29th.

You can access and download the related ISSB documents at the following links:

- Basis for conclusions : <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-basis-for-conclusions-climate-related-disclosures.pdf>
- Exposure draft : <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf>

Question 1—Objective of the Exposure Draft

Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity’s general purpose financial reporting:

- *to assess the effects of climate-related risks and opportunities on the entity’s enterprise value;*
- *to understand how the entity’s use of resources, and corresponding inputs, activities, outputs and outcomes support the entity’s response to and strategy for managing its climate-related risks and opportunities; and*
- *to evaluate the entity’s ability to adapt its planning, business model and operations to climate-related risks and opportunities.*

Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

- (a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?
- (b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?
- (c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

a. Reclaim Finance does not agree with the objective as established in the Exposure Draft.

While the three objectives laid out in Paragraph 1 of the Exposure Draft are relevant to better assess the exposure of financial institutions to climate-related risks they are not sufficient to fully account for these risks. Indeed, **the specificities of climate-related risks have been amply discussed by regulators that notably underlined that these risks are characterized by a wide-ranging impact, cumulating effects, and a major uncertainty** (See: Hui-Min Li and al, “Understanding systemic risk induced by climate change”, *Advances in Climate Change Research*, 2021 / FSB, *The implications of climate change for financial stability*, 2020 / BIS, “Basel Committee publishes analytical report on climate-related financial risks”, 2020 / IMF, *Global Financial Stability Report: Markets in the Time of Covid-19*, 2020 / NGFS, *A call to action, climate change as a source of financial risk*, 2019 / ESRB, *Positively green: measuring climate change risks to financial stability*, 2020 / Luis de Guindos, “Shining a light on climate risks”, ECB, 2021 / Lael Brainard, “Financial Stability implications for climate change”, Federal Reserve, 2021 / CFTC, *Managing climate risk in the US financial system*, 2020). **As the landmark “Green Swan” report underlines, merely transposing the approach used for traditional risks to climate-related risks does not ensure the proper measurement, management, or mitigation of these new risks** (See: Patrick Bolton and al, *The Green Swan Central banking and financial stability in the age of climate change*, BIS, 2020). Considering the specificities of climate-related risks requires to look at the impact of companies’ activities on the climate and environment and to mitigate this impact in a “precautionary approach” (See: Hugues Chenet and al, Finance, “Climate-change and radical uncertainty: Towards a precautionary approach to financial policy”, *Ecological Economics*, 2020).

The overall objective defined in Paragraph 1 ignores “double materiality”. **As explained above, failing to consider the impact of companies’ activities on the environment – and thus to help mitigate this impact – could result in an accumulation of climate-related risks. Furthermore, by focusing solely on financial materiality the ISSB’s framework will already be one step behind best practices in the financial market.** It will notably fail to align with the expectations set out by EU regulators and legislators (See: EU Commission, *Strategy for Financing the Transition to a Sustainable Economy*, 2021). As disclosure standard improve, with a growing ESG trend that requires precise data on the climate impact of companies, the ISSB’s standard could fail to provide the information the financial market need and rapidly become outdated.

As the IPCC’s work show, finance must play a key role in the transition. The IPCC underlines that investment are three to six times smaller than what they should be to limit global warming to below 2°C., while new fossil fuel investment should be avoided. **To enable financial institutions to mitigate climate change and consider the IPCC’s conclusions, the ISSB must integrate double materiality.**

b. The objective does not 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.

As explained in our answer to question a, the objective is insufficient to consider the full range and impact of climate-related risks.

Furthermore, two main weaknesses can be identified when it comes to the users of financial reporting:

1. The ISSB wants to provide users of the reporting with more information on how the company integrates climate-related risks and manage them. However, its objective does not provide a clear benchmark for this. Financial institutions need to be able to assess if a company contributes to achieve the goal of the Paris Agreement or not. This need is significantly strengthened by the fact that many financial institutions are adopting their own climate alignment or carbon neutrality pledges (See: Glasgow Financial Alliance for Net Zero). **Any information disclosed must be compared with what is necessary to limit global warming to 1.5°C, if it is not, it will be largely meaningless information for investors.**
2. The ISSB does not require companies which part of their activities and revenues are most exposed to climate-related risks. While largely imperfect, the first stress tests conducted by central banks and regulatory authorities all confirmed that climate risks were highly

concentrated in a few high-emitting sectors (See: ECB, Financial Stability Review, 2021). These sectors regroup most of the assets that are likely to become stranded in the short-middle term and any new investment in these activities can be deemed highly risky. These sectors are also some of the most likely to be excluded by financial institutions looking to improve their ESG practices. **The ISSB should require specific disclosure on these activities, especially for new fossil fuel investment** (See: Paul Schreiber, “WEO 2021: The three principles for financial institutions”, Reclaim Finance, 2022).

It should be noted that alignment with a 1.5°C trajectory can reduce both physical risk – by contributing to mitigating climate change – and transition risk – by anticipating key changes and aligning the business models. It is also key to assess whether a company is taking advantage of the opportunities it identified. It is therefore fully coherent with the logic explained in BC23-27.

c. As explained in our answers to questions a and b, the disclosure requirements set out in the Exposure Draft do not meet the objectives described in paragraph 1.

Providing the above-mentioned elements, we recommend:

- 1) Adopting a comprehensive approach to climate-related risk disclosure:**
 - A. The ISSB adds as general objectives in Paragraph 1: *“to assess the effects of a company’s activity on the environment and climate”* and *“to understand how the entity’s use of resources, and corresponding inputs, activities, outputs and outcomes aligns or do not align with the objective to keep global warming above 1.5°C”*.
 - B. The ISSB modifies the scope of the proposal by adding to Paragraph 3 a (c) after the (b): *“climate-related impacts and effects of the entity’s activity”*.
 - C. The ISSB rephrases (c) in Paragraph 1 as followed: *“to evaluate the entity’s ability to adapt its planning, business model and operations to align with a trajectory that keeps global warming above 1.5°C”*.
- 2) Providing strong indicators to measure and compare climate-related risks and resilience:**
 - A. The ISSB must ensure that the contribution of the companies to limiting global warming to 1.5°C is easy to evaluate. The only way to do this is to require companies to report their alignment with a 1.5°C trajectory and key indicators extracted from such a trajectory. Companies must also disclose what trajectories they are using and what are the underlying hypothesis. To improve comparability – as BC31 aims – and considering the requirements laid out by various “net-zero” alliances, the ISSB should restrict the use of scenarios to so-called 1.5°C scenarios with low/no overshoot and limited volumes of negative emissions.
 - B. The ISSB requires companies to clearly identify the part of their businesses related to highly emitting activities, especially activities linked to fossil fuels, and the planned investments in these activities. This can be translated into a new objective in Paragraph 1: *“to assess the entity’s exposure to highly emitting activities, its planned investment in these activities and any plans to reduce or increase this exposure”*.

Question 2—Governance

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management’s role regarding climate-related risks and opportunities. The Exposure Draft’s proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a

requirement for preparers to disclose how the governance body’s responsibilities for climate-related risks and opportunities are reflected in the entity’s terms of reference, board mandates and other related policies. The related TCFD’s recommendations are to: describe the board’s oversight of climate-related risks and opportunities and management’s role in assessing and managing climate-related risks and opportunities. Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

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?

While we think the proposed disclosure requirements for governance processes, controls and procedures are relevant, they remain insufficient on two dimensions:

- **The requirements lack any reference to international climate objectives, i.e limiting global warming to 1.5°C.** Therefore, the standard does not allow users to understand if/how the persons responsible for overseeing climate-related risks at the company consider the alignment of the company with these objectives.
- **The requirements do not ensure that the person responsible for climate-related risks do not have a conflict of interest that could hamper their ability to manage and mitigate them** (for example, somebody that would also sit in the board of an oil and gas company).

Therefore, we suggest:

1. To rephrase Paragraph 5 (f) as followed: *“how the body and its committees oversee the setting of targets related to significant climate-related risks and opportunities, monitor progress towards them (see paragraphs 23–24), including whether and how related performance metrics are included in remuneration policies (see paragraph 21(g)), and compares them with the steps needed to contribute to limit global warming to 1.5°C; and”*
2. To add a sentence after Paragraph 5 (b): *“how the entity prevents conflict of interest in the body responsible for climate-related risks and opportunities;”*

As underlined in our answer to question 1, the whole framework fails to consider the impact of the entity’s activity on climate and the environment, and this critical flaw is logically repeated in the governance requirements.

Question 5—Transition plans and carbon offsets

Disclosing an entity’s transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity’s current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value. Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity’s transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity’s strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity. An entity’s reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity’s enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity’s emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity’s plan for reducing emissions, the role played by carbon offsets and the quality of those offsets. The Exposure Draft proposes that entities disclose information about the basis of the offsets’ carbon removal (nature- or technology-based) and the

third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity’s climate-related strategy are complementary to, but fundamentally different from, the entity’s emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance. The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

- (a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
- (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.
- (c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity’s approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?
- (d) 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?

a / b. **The proposed requirements for transition plans lack any reference to international climate goals.** Therefore, the information disclosed won’t allow general-purpose users to assess the alignment of companies with these goals, and notably with the goal to limit global warming at 1.5°C. As transition plans imply scaling down – and even phasing out – high-emitting activities and scaling-up low carbon alternative, **the requirements should include specific elements on companies’ plans to replace their high-carbon activities, including a clear timeline.** This should especially be the case for activities responsible for a large share of global emissions, such as fossil fuel production and power generation.

Therefore, several changes should be made:

- The first sentence of Paragraph 13 should be reworded as followed: *“An entity shall disclose information that enables users of general-purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans and how these plans relate to the latest international climate agreements and climate science.”*
- A sentence should be added to Paragraph 13 (b) after (ii): *“how these targets related to international climate agreements and the latest international climate agreements and climate science.”*
- A sentence should be added to Paragraph 13 (a) (i) after (3): *“(4) information on the increase or reduction of the entity exposure to high carbon activities, including the planned capex in infrastructures-related to these activities, a list of new infrastructure projects and related decommissioning plans.”*

c / d. Three main factors significantly impair the ability of general-purpose users of financial reporting to assess the soundness and credibility of offsets:

1. Avoided emissions must be excluded:

First and foremost, avoided emissions must not be considered in carbon offsets. Avoided emissions are not considered in carbon neutrality targets and clearly banned for all the serious target setting initiatives like the SBTi. Avoided emissions is merely the claim that the company did not emit as much emissions as it would have under a “business as usual” scenario. It is difficult – if not impossible – to prove and does not result in emission reductions. For example, an oil and gas company producing new fuel for planes with some carbon captured would count the volume of carbon emission captured as “avoided” while these emissions still end up in the atmosphere once the fuel is burned by planes. A sentence should be added after the first sentence of Paragraph 13 (b) (iii): “*Avoided emissions cannot be considered in emission targets.*”

2. Offsets must not replace emission reductions:

As all net-zero alliances underline, carbon offsets must only be considered once all emission reduction options have been pursued, to compensate for so-called “residual emissions”. However, the proposed offset disclosure does not allow the users of the reporting to identify if this is indeed the case. Additional requirements should be added to ensure companies explain why further emission reduction measures could not be implemented and – if relevant - why the activity could not be substituted by a lower-emitting activity.

Ensuring this requires rephrasing Paragraph 13 (b) (iii) (1) as followed: “*the extent to which the targets rely on the use of carbon offsets and information justifying that all emission reduction options including the substitution by other activities have been pursued,*”.

3. The permanence of offsets should be further justified:

Offsets rely on the stocking carbon emissions for a long period of time. However, ensuring that the carbon remained trap is not easy, and each offsetting method poses different challenges. It is therefore necessary to require specific elements on how companies intend to ensure the permanence of offset and how they plan to prevent and compensate for any carbon leakage.

Ensuring this requires rephrasing Paragraph 13 (b) (iii) (4) as followed: “*any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity, including assumptions regarding the permanence of the carbon offset and plans to prevent or compensate for potential carbon leakage.*”

Question 7—Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity’s strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity’s analysis of the resilience of its strategy to climate-related risks. These requirements focus on: • what the results of the analysis, such as impacts on the entity’s decisions and performance, should enable users to understand; and • whether the analysis has been conducted using: • climate-related scenario analysis; or • an alternative technique. Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity’s findings from the analysis inform its strategy and riskmanagement decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity’s strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting

different climate outcomes and the severity of their effects. Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses. Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing. Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity’s strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity’s strategic decision-making and risk-management processes. Accordingly, information about an entity’s scenario analysis of significant climate-related risks is important for users in assessing enterprise value. The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity’s climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity’s resilience over the short, medium and long term. It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity’s strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

(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?

(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?

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

(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?

(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?

a. **As explained in our answer to question 1, users need information on the climate impact of companies to understand the impact of climate – and here climate resilience – of companies.** The overall standard should be revised to integrate that need.

b. Allowing companies to use alternative methods could reduce comparability between companies and increase the quality gaps between different disclosures.

c. The proposed disclosures provide insufficient elements on the type of scenario used. **To assess climate-related risks, companies need to use at least two types of scenarios:**

1. **A scenario aligned with a 1.5°C trajectory with low/no overshoot and limited CDR**, to measure the risks in a scenario were the transition aligned manner;
2. **A scenario of high global warming**, to measure the risks in a “business as usual” scenario.

The disclosures should explicitly require companies to use such scenarios, with additional scenarios being used on a voluntary basis.

If such a requirement is necessary, the standard should also **require companies to precisely disclose: (i) the warming temperature in the scenarios used (ii) the level of CDR in the scenarios used (iii) any other major characteristic of the scenarios used, notably regarding socio-economic assumptions.**

This requires rephrasing:

- Paragraph 15 (b) (i) (8) as followed: *“the warming temperature of each scenario used and whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change.”*
- Rephrasing Paragraph 15 (b) (i) (8) as followed: *“assumptions about the way the transition to a lower carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; reliance on negative emissions; demand changes; energy usage and mix; and technology.”*

d. To mitigate the potential negative effect of allowing alternative methods mentioned in b, the standard should at the very least **require alternative methods to provide information specifically dealing with the identification of risks: (i) in high-emitting activities; (ii) in activities in areas especially prone to extreme climate weather events and/or climate-related disruptions; (iii) in activities subject to climate-policy changes.**

A sentence should be added after Paragraph 15 (b) (ii) (1): *“an explanation of how the method accurately reflect the potential high risks related to high carbon activities, activities located in areas prone to extreme climate weather events and/or disruptions and, activities concerned by climate-policy changes.”*

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

The Exposure Draft proposes incorporating the TCFD’s concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to

disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD’s criteria were considered. These criteria were designed to identify metrics and metric categories that are: • indicative of basic aspects and drivers of climate-related risks and opportunities; • useful for understanding how an entity is managing its climate-related risks and opportunities; • widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and • important for estimating the financial effects of climate change on entities. The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions. The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity’s investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol. To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose: • separately Scope 1 and Scope 2 emissions, for: • the consolidated accounting group (the parent and its subsidiaries); • the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and • the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity’s carbon footprint. Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energyefficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity’s entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs. For Scope 3 emissions, the Exposure Draft proposes that: • an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions; • an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported; • if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and • if the entity excludes those greenhouse gas

emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure. Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes nonmandatory Illustrative Guidance for each cross-industry metric category to guide entities. Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

(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?

(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.

(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?

(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))?

(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?

(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?

a. We agree with the indicators proposed. We especially underline that relevance of requiring disclosure of GHG emissions on all scopes (1/2/3) and in both absolute emissions and intensity.

c. We agree that companies should use the GHG Protocol. To ensure quality and comparability, no other methodology should be use.

d. We agree with the requirement to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3 but also underline that companies should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by greenhouse gas. While an aggregated measure is needed to compare companies and provide a simple indicator that measures overall climate impact, **several greenhouse gases must be reduced much faster than carbon dioxide.** For example, methane emissions must fall by at least 75% in the energy sector by 2030 according to the IEA (See: IEA, World Energy Outlook 2021, October 2021).

f. Scope 3 emissions make up for a large share of emissions of many companies and the overwhelming majority of these emissions in some sector like finance or fossil fuel production. **It is essential scope 3 emissions are reported. Companies should be required to estimate what share of scope 3 emissions are not considered and explain how they will better report these emissions in the future.**

Paragraph 21 (vi) (4) could be rephrased: *“ if the entity excludes those greenhouse gas emissions in paragraph 21(a)(vi)(3), it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure, provide a general estimate of the volume of emissions excluded and explain how they will work to include these emissions in the future.”*

Question 10—Targets

Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity’s targets compare with those prescribed in the latest international agreement on climate change. The ‘latest international agreement on climate change’ is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement. Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

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

a. The proposed disclosure should be supplemented with a requirement to disclose any steps and procedure the company plans in case it misses its targets and/or milestones.

A (j) could be added to paragraph 23: “(j) any measures or procedures to be implemented if the target or the related milestones are not reached.”

b. The proposed definition for ‘latest international agreement on climate change’ is insufficient. While referring to international agreements is relevant, the agreements themselves do not provide clear targets that can be easily compared to company targets. They set broad general goals, but these goals often need to be translated in concrete milestones.

Therefore, **the standard should require companies to compare targets to the latest scientific evidence on limiting global warming to 1.5°C. This should notably mean using the IPCC AR6 report – and future reports – as key elements. Indeed, the C1 pathways in the IPCC report – so-called 1.5°C no/low overshoot pathways that provide a 50% to limit global warming to 1.5°C and a 90% to limit it to 2°C or below - give various elements that companies can use to assess how their targets compare to international agreements.**

This important change can be implemented by explicitly linking the latest climate agreements to the IPCC’s 1.5°C no/low overshoot scenarios. (e) of Paragraph 23 could also be rephrased as followed: “how the target compares with those created in the latest international agreement on climate change and to the latest scientific elements underpinning these targets, and whether it has been validated by a third party;”.

Question 16—Global baseline IFRS Sustainability

Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

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?

As explained in our answer to question 1, **the exposure draft fails to consider the climate impact of companies, and therefore does not provide a strong basis to assess climate-related risks.** Concretely, this also means that **the standard won’t provide financial institutions with the information they need to build their ESG/green products and to become “carbon neutral”.** The standard will **fall behind best practices in the financial market and ignores the need to swiftly ramp up climate finance, as underlined by the IPCC** (See: IPCC AR6).
To be used as a global baseline, **the standard should be revised to integrate double materiality.**