Principles for Responsible Investment

CONSULTATION RESPONSE

EXPOSURE DRAFT IFRS S2 CLIMATE-RELATED DISCLOSURES

July 2022

The information contained in this response is provided for informational purposes only and should not be construed as legal advice on any subject matter. Except where expressly stated otherwise, the opinions, recommendations, findings, interpretations and conclusions expressed in this response are those of PRI Association, and do not necessarily represent the views of the contributors to the response or any signatories to the Principles for Responsible Investment (individually or as a whole).

To inform this response, the following investor groups have been consulted: PRI Corporate Reporting Reference Group and PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this response.

INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI's Driving Meaningful Data programme is a key PRI Blueprint target and works on the types of data, sources and reporting frameworks needed to support responsible investors. This work includes ensuring consistent data across all the various units and entities, as well as addressing gaps identified in the Driving Meaningful Data Framework. This requires collaboration with others across the financial and corporate sectors as well as standard setters, policy makers and regulators. The PRI has an important role in working with our signatories to provide a clear signal on their data needs, how they aid decision-making and understanding their contribution towards sustainability objectives.

The PRI develops analysis and recommendations based on signatory views and evidence-based research. The PRI welcomes the opportunity to respond to the International Sustainability Standards Board invitation to comment on Exposure Draft IFRS S2 *Climate-related Disclosures*.

ABOUT THE CONSULTATION

On 3 November 2021, the IFRS Foundation announced the establishment of the International Sustainability Standards Board (ISSB) at COP26.

The ISSB will develop IFRS Sustainability Disclosure Standards, including disclosure requirements that address companies' impacts on sustainability matters relevant to assessing enterprise value and making investment decisions. The IFRS Sustainability Disclosure Standards aim to enable companies to provide comprehensive sustainability information for the global financial markets.

The ISSB is consulting on the Exposure Draft IFRS S2 Climate-related Disclosures. The Exposure Draft (ED) sets out requirements for the disclosure of material information on a company's significant climate-related risks and opportunities that are necessary for investors to assess a company's enterprise value.

The PRI has previously provided views and recommendations on the Technical Readiness Working Group prototypes on climate and general disclosure requirements as well as on international sustainability reporting standard setting through consultation responses and public statements.

SIGNATORY ENGAGEMENT

The analysis and recommendations set out in this response reflect PRI's own analysis and were shared as a draft response with PRI signatories for feedback and discussed with members of the PRI Investor Corporate Reporting Reference Group (CRRG).

In addition, this response incorporates insights from our wider engagement with signatories on their data needs that we have collected through targeted interviews, as part of our wider investor data needs project. More information on this project can be found on our dedicated webpage.

We recognise that our signatories differ in their needs for corporate data (and subsequent use through third-party data providers), given differences in objectives, mandates, resources, jurisdictions and other factors. The recommendations below aim to **reflect a holistic view** from our signatory base, which recognises that a significant step has been made towards realising globally comparable reporting on sustainability-related issues.

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SUMMARY OF THE PRI'S POSITION

Investors regularly report to the PRI that the lack of decision-useful corporate sustainability data is a substantial barrier to their responsible investment practice.

The PRI is working with its global network of signatories to advocate for meaningful and globally comparable company disclosures, including material sustainability-related information alongside other financial data; encourage consolidation and harmonisation of reporting standards and regimes; and cater to the needs of its entire universe of signatories.

As such, we strongly support the ISSB's mission to deliver a high-quality global baseline of sustainability-related financial disclosures. We believe it will provide global financial markets with information on companies' sustainability-related risks and opportunities – in line with the IFRS Foundation's mission to develop standards that bring transparency, accountability and efficiency to financial markets around the world.

We recognise the progress made with the creation of the ISSB and this ED. In our view, there are no proposed aspects of the IFRS Sustainability Disclosure Standards that would limit the ability of the Standards to be used as a global baseline, to be implemented as reporting requirements by jurisdictions. In particular, we recognise that the Climate ED and accompanying Illustrative Guidance build off well-established concepts and standards in its guidance and disclosure requirements.

APPROACH

The insights summarised in the detailed responses to the consultation questions are informed by a desk-based assessment of whether the ED's disclosure requirements are decision-useful for PRI's asset owner and investment manager signatories; and commentary from interviews and accompanying data collection with twenty-four PRI signatories[1], as well as drawing from previous PRI positions and public consultations responses to climate-related disclosure regulations.

We defined data as being decision-useful for the investment process where information is relevant[2], comparable[3] and verifiable[4]. The engagement with signatories provides additional details on what makes data relevant for their investment decision-making process (i.e. investment relevance). The comments below reflect on the views from all of the signatories engaged and insights from interviewees are distinguished, where possible.

Please note that citations in this document refer to paragraph numbers within the Climate ED, unless otherwise indicated.

KEY RECOMMENDATIONS

We recognise the progress made with the creation of the ISSB and this ED. In our view there are no proposed aspects that would limit the ability of the Standards to be used as a global baseline. In particular, we recognise that the Climate ED builds off well-established concepts and standards in specifying guidance and disclosure requirements. We believe this will facilitate a common set of climate-related reporting requirements that are compatible with existing and emerging reporting standards and regulations, improving the likelihood of their adoption across jurisdictions.

The PRI's key recommendations to the ISSB on the Climate ED are:

- Refine the standard's approach to assessing materiality (including identifying risks and opportunities) by: (i) expanding disclosure requirements on the reporting entity's process for this assessment, including disclosure on what has and has not been deemed material; and (ii)

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[1] This includes one asset owner (pension scheme), twenty investment managers of varying sizes, strategies and operating jurisdictions, and two service providers.

[2] Relevant data must both inform the investment decision-making process (i.e. be investment relevant) and (where applicable) provide insights for (or enable) investors' decisions, reporting obligations and/or commitments on specific issues (i.e. be issue relevant).

[3] Comparable data must be consistent across investees, asset classes, sectors, geographies and timeframes to enable investors to identify and understand similarities/differences at the scale that suits their data needs.

[4] For data to be verifiable, investors should be able to corroborate the information/inputs used to derive the data.

providing reporting entities with a clearer process to assess materiality that is linked to other relevant disclosure requirements under governance, strategy and risk management.

- Require additional disclosure requirements on governance on the implementation of the processes and procedures outlined in the standard, including: (i) reporting on controversies or other relevant events related to climate in the last reporting period; and (ii) more detailed disclosure requirements on remuneration.
- Require additional disclosures on risk management to ensure consistent disclosure of both climate-related risks and opportunities. Currently there are more granular disclosure requirements on risk in the ED.
- Incorporate additional disclosure requirements on transition plans such as interim milestones and quantitative KPIs used, key dependencies, agreed near term actions to deliver on the underlying strategy, alignment of engagement activities, information on financing the transition and details on individuals, governance structures responsible for implementation and reporting on plans for net-zero alignment where relevant.
- Require the use of climate scenario analysis in company reporting as per the TCFD recommendations.
- Require entities to report on the inputs, calculation methodologies, assumptions and uncertainties underlying quantitative disclosures, particularly those related to financial effects and cross-industry metrics – this would improve verifiability of reporting and alignment with ongoing regional regulatory and standard-setting initiatives.
- Enhance disclosures on exposure to physical risks at the cross-industry level, to improve the availability of data needed by investors and alignment with ongoing regional regulatory initiatives.
- Require the disclosure of industry metrics and corresponding targets for the 12 most energy-intensive sectors listed in Annex 1. These should include Scope 1, Scope 2 and significant Scope 3 emissions, capturing current data as well as data on a forward-looking basis (at 5-year and 10-year intervals).
- Revise industry-based GHG emissions metrics to include Scope 1 and Scope 2 GHG emissions, and Scope 3 GHG emissions where material, in alignment with cross-sector requirements.
- Revise industry-based requirements on methane, a major greenhouse gas that is significant in a number of key energy industries such as oil and gas and the utility sector, to better indicate exposure to transition risk.
- Include additional examples and further guidance in the Standard (and/or through the illustrative guidance), to improve the consistency of the data disclosed. Furthermore, we encourage the ISSB to facilitate capacity building for relevant stakeholders, particularly with regard to emerging economies.

INTEROPERABILITY

The PRI welcomes the recently announced actions by ISSB to enhance compatibility between the Standard's global baseline and jurisdictional initiatives.

Interoperability is typically understood as information being collected which can support disclosure under one or more reporting regimes – allowing for comparability of data across jurisdictions. Interoperability is a key concern for investors to ensure consistency and comparability of data across their portfolio.

The PRI strongly supports the ISSB's mission to deliver a high-quality global baseline of sustainability-related financial disclosures and:

- Recommends the ISSB to increase capacity building with jurisdictions to aid the adoption and implementation of the standards.
- Encourages the ISSB to continue engaging local regulators and standard setters to ensure interoperability of sustainability-related reporting standards and policies, to enable

comparability and limit of reporting and assessment burden – on both reporting entities operating across multiple jurisdictions and investors processing data on investments in multiple jurisdictions.

- Equally, encourages local regulators and standard setters to engage closely with the ISSB, with the goal to develop a global baseline for corporate sustainability reporting.

These recommendations are in line with our recent statement with other leading financial market participants, which called for stronger alignment of regulatory and standard setting efforts[5].

INVESTOR DATA NEEDS

Investors are not homogenous, and their needs vary depending on their investment objectives, strategy, mandate and other characteristics. All investors need sustainability-related information that informs their assessment of their investments' financial performance. However, investors also increasingly need information to assess and interpret a company's sustainability performance[6] and their alignment to long-term sustainability goals and thresholds (i.e. sustainability outcomes[7]).

The PRI welcomes the standard's recognition that sustainability-related financial information captures all information that can result in changes to the entity's enterprise value in the short, medium and long term; including from the entity's actions that result in impacts and dependencies on people, planet and the economy. With this, the standard will enable disclosure of information that captures elements of an entity's sustainability performance and its positive and negative contributions to sustainability outcomes. However, disclosure focused on enterprise value will not serve the needs of all investors, particularly those that are looking for a broader understanding of an entity's sustainability performance and outcomes, and several signatories stressed the increased need for impact-related information as part of their feedback to our draft response.

Therefore, the PRI supports the 'building blocks' approach to enable companies to report information that goes beyond the ISSB's focus on enterprise value, reporting against relevant jurisdictional initiatives and/or the Global Reporting Initiative (GRI)[8]. However, to implement this approach in practice, we suggest the ISSB works closely with these jurisdictional initiatives and the GRI to:

- Ensure their standards are consistent on: (i) reporting design/structure, such that investors are still able to extract comparable data (whether across issues or on specific issues) on governance, strategy, risk management and metrics/targets, even if not under the same headings; (ii) terminology and definitions, including common taxonomies; and (iii) reporting concepts underpinning the standards, such as the qualitative characteristics (relevance, faithful representation etc.).
- Ensure alignment in disclosures that can serve both reporting of information that is relevant to an entity's enterprise value and its sustainability performance and outcomes. This would include disclosure on relevant aspects of the entity's governance, strategy and risk management processes across issues and common indicators for metrics/targets on specific issues.

In this context, the PRI welcomes the recently announced collaboration agreement between the IFRS Foundation and the GRI. We look forward to hearing more about the collaboration as it develops and how we can best support this initiative.

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[5] IFAC WBCSD PRI Call For Alignment

[6] Sustainability performance refers to: how an investee's operations and products positively/negatively affect people and the environment.

[7] Sustainability outcome refers to: how an investee's sustainability performance contributes to sustainability goals

[8] See slide 6: https://www.ifrs.org/content/dam/ifrs/meetings/2022/june/cmac-gpf/ap6-issb-update-and-issb-exposure-drafts.pdf

DETAILED RESPONSE

1. OBJECTIVE OF THE EXPOSURE DRAFT (PARAGRAPH 1)

a. Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

The PRI supports the objective established for this Exposure Draft (ED) [1], which is: (i) to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value; (ii) 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 significant climate-related risks and opportunities; and (iii) to evaluate the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities.

Investors need to understand the effect of climate-related risks and opportunities on enterprise value to make sound investment decisions. At the same time, these effects can change in light of management's strategy, and other initiatives, to address such risks/opportunities. Therefore, to effectively assess enterprise value investors must also understand an entity's ability to adapt to climate-related risks/opportunities (iii), and how strategies/initiatives for this purpose are (or will be) carried out (ii).

For investors, the lack of high quality, relevant and comparable climate-related data from companies is a substantial barrier to their responsible investment practice. The objective of this ED makes it an important part of the solution. By creating a global baseline for reporting on climate-related risks and opportunities, their various effects on enterprise value and an entity's strategy and ability to manage these, the final IFRS S2 *Climate-related Disclosures* should empower investors to better consider these risks/opportunities in their own decision-making.

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?

Yes. Under its current objective the ED would provide investors with information on an entity's climate-related risks/opportunities, their current/potential effects on the entity, strategic changes, and initiatives in response to these risks/opportunities and how they will be implemented, and progress in meeting existing targets/objectives.

As explained in response to Question 1a, this information is needed in tandem to assess the true implications of climate-related risks/opportunities on an entity's 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?

Yes, the proposed requirements in the ED do meet the proposed objective.

The ED consistently focuses requirements in the core content (i.e. on governance, strategy, risk management and metrics/targets) on significant climate-related risks and opportunities – note the comments in question 3a (point I) regarding the use of 'significant'.

The ED also focuses on climate-related financial information that may directly/indirectly influence investors' assessment of enterprise value with: its focus on information that is material to primary users; its requirements to provide an integrated view on key elements of the business through insights on governance [5], strategy [7-15] and risk management [17]; connectivity with the financial performance through strategy [14-15]; and how the company is performing in managing climate-related risks/opportunities through the disclosure of performance metrics and progress and climate-related targets [21-23, B(17)].

In addition, suggested disclosures would provide investors with information on the entity's strategy and other initiatives to manage climate-related risks and pursue opportunities, including through suggested disclosures on governance underlying this [5], strategy and decision-making [13] and risk and opportunity management [17]. Finally, entities would report on implementation progress through disclosures on climate-related targets [23] and information about the progress of plans to respond to significant climate-related risks/opportunities [13(c)]. In our responses below we have recommended

additional disclosures and/or guidance where this would lead to reporting that better meets investor data needs.

2. GOVERNANCE (PARAGRAPHS 4-5)

a. Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

The PRI supports the proposed disclosures on climate-related governance. This information is decision-useful to investors as it would help them to understand the climate-related internal controls within an entity, and thereby management's ability to monitor, manage and react to climate-related risks and opportunities. Signatories interviewed noted that the proposed disclosures would meet their minimum requirements for this purpose.

However, we have identified points where the disclosures do not currently meet their stated objective. This is captured in our comments below. Note we have not commented on disclosures which we believe are decision-useful to investors as currently proposed.

I. **How the governance body and its committees: (i) consider climate-related risks and opportunities *'when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required'* [5(e)]; and (ii) oversee setting targets and monitor progress towards them [5(f)]**

This information is considered decision-useful for signatories as it is an indicator of the **implementation** of the governance processes. However, for investors to understand the internal controls, we recommend that the ED includes disclosure on **the results of these processes, in particular where it references controversies or other relevant events related to climate the entity was exposed to in the last reporting period**. Several signatories highlighted that information on the entity's track-record is important in their assessment of an entity's governance.

Furthermore, the disclosure requirement allows entities a level of flexibility in terms of what it deems material information to report. Although, signatories involved in interviews did recognise the need for flexibility for management, as these are ultimately the management's decisions, we have concerns about the comparability and verifiability of the data. As a result, we recommend that the ED includes **additional examples and guidance to outline potential information that an entity could use to comply with this disclosure**.

Finally, IFRS S2 should incorporate disclosures on:

- board oversight of political engagement activities, such as lobbying and political contributions;
- the governance processes in place to monitor and identify inconsistencies between companies' policies and practices, and political engagement activity of trade associations the undertaking is a member of;
- whether misalignments were identified and how these are addressed;
- a list of memberships to industry associations and other third-party groups involved in policy-related advocacy, and the methodology for compiling this list;
- leadership positions (e.g. positions on the board or key committees) held by staff members in industry associations and other third-party groups involved in policy-related advocacy.

As highlighted in the PRI report on the investor case for political engagement[9] enhanced corporate disclosure on companies' political engagement activities can enable investors to assess company positions on key sustainability issues, corporate channels used to influence policymaking and raise their collective voice when corporate actions are not in line with their stakeholders' long-term interests and sustainability ambitions. Signatory feedback has indicated a need for increased transparency on

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[9] PRI (2022), The investor case for responsible political engagement available at https://www.unpri.org/download?ac=15716

how entities ensure alignment between these activities and sustainability-related strategic decisions and policies.

II. How the governance body and its committees oversee setting targets and monitor progress towards them [5(f)]

This information on the process is relevant information, but as with the comment above, we recommend that consistency (where it can be achieved) may be improved with additional examples and guidance.

III. Disclosures on whether and how (target)- related performance metrics are included in remuneration policies [5(f)], and on the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations [21(g)]

Disclosure on remuneration policies helps signatories evaluate whether the governance body and management have the right incentives to implement key performance-related targets. Therefore, PRI welcomes the disclosure requirement on whether and how climate-related considerations are included in remuneration policies.

The PRI has long called for better reporting by companies on climate-related targets, performance against those targets and actual impact on pay. Relevant ESG factors should be selected based on a nuanced understanding of what impacts the financial or the operating performance of a company and how an entity's operations and products impact stakeholders and the environment, in the context of broader societal goals and planetary boundaries.[10] When integrating sustainability into executive pay, we recommend that[11]:

- companies should adopt a clear process for identifying appropriate climate-related metrics that relate to sustainable shareholder returns and company strategy;
- companies should disclose how sustainability related targets included in executive remuneration are balanced with other metrics of financial performance that influence executive pay;
- companies should link appropriate climate-related metrics to reward systems in a way that they form a meaningful component of the overall remuneration framework; and
- companies should endeavour to disclose the rationale, method and challenges presented by the incorporation of climate-related metrics into executive pay clearly and concisely.

Boards should have the discretion to select relevant climate-related issues and the appropriate balance of these factors in the remuneration package. It is reasonable to expect that this process would take into account material impacts on business operations, e.g. climate change for fossil fuel intensive industries, and that such factors are incorporated, to some extent, in executive remuneration packages.

Where companies face challenges in identifying the right metrics or targets for certain climate issues, they should endeavour to disclose these issues, in addition to describing the process undertaken, so investors and stakeholders can understand the rationale and meaningfully input into the process. In addition, the remuneration committee should be able to use their discretion and tools such as clawback provisions to adjust remuneration following unusual events.

Comprehensive and detailed disclosures of linkages between executive compensation and climate issues are important for investors to ensure the integrity of compensation and reduce risks of pay padding, backward looking performance targets and other potential unintended consequences.

To prevent the abuse of climate-linked pay, investors also have a role in holding issuers accountable, ensuring that selected climate issues genuinely stimulate systematic progress towards sustainability ambitions, and do not reward executives for business as usual (e.g. maintaining compliance with laws

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[10] PRI (2021), ESG-linked pay: Recommendations for investors available at https://www.unpri.org/executive-pay/esg-linked-pay-recommendations-for-investors/7864.article.

[11] PRI (2012), Integrating ESG issues into executive pay available at https://www.unpri.org/download?ac=1878

and regulations) or for improving perceptions regarding climate-related performance (e.g. by tying pay to inclusion in sustainability indices, which are rarely specific to companies' climate-related performance). Doing so, however, requires comprehensive, reliable, consistent, and comparable disclosure for investors to interpret and utilize in engagement and exercise of ownership rights and investment decision-making.

3. IDENTIFICATION OF CLIMATE-RELATED RISKS AND OPPORTUNITIES (PARAGRAPH 9)

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?

In our view the following adjustments to these disclosures would improve their relevance, comparability and verifiability.

I. Remove the reference to 'significant' and focus on material information only

The ED states that the entity is required to identify and disclose information about significant climate-related risks and opportunities [1]. Note, however, this is not a reference to all climate-related risks and opportunities that an entity is exposed to.

The term 'significant' has not been clearly defined in the standard. It is unclear whether a separate process is required to assess for significance and for materiality and whether significance would look to capture a perspective different to the primary users (which is the scope for materiality). Signatories interviewed were clear that data important for management's decision making must be included in reporting as it would be relevant for their investment process. However, they also recognise that: (i) investors have specific reporting requirements, depending on the jurisdiction(s) they are operating in, which may not be captured if this is not deemed significant by an individual entity's management; and (ii) exposure to a risk or opportunity may not be significant for a specific entity, but could be relevant to an investor when aggregated across their portfolio.

As a result, we recommend that the ISSB **remove the reference to 'significant' and focus on material information only**. This would be consistent with previous IFRS commentary[12] and would enhance alignment with TCFD Guidance on Metrics, Targets and Transition Plans, which refers to 'material' risks and opportunities. Additionally, it would recognise that management will have to work with investors to help identify material issues, which will inherently be mindful of what is significant to management. This is in line with how the materiality assessment should be undertaken in practice, following IG2-IG5 of the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (General Requirements ED) Illustrative Guidance.

II. Set minimum time horizon definitions and provide further guidance on setting time horizons

Under the ED a reporting entity would be required to describe 'significant climate-related risks and opportunities and the time horizon over which each' could affect information reported under strategy [9(a)]. It is also on the entity to define its short, medium and long term, disclose these definitions and explain how they are linked to the entity's strategic planning horizons and capital allocation plans [9(b)].

We believe this level of flexibility is useful to account for differences in the entity's context (business structure, capital investments etc.) and is supported by signatories interviewed[13].

However, as the horizons are a key part of framing the risks and opportunities in disclosure on strategy, governance, risk management and metrics, many signatories interviewed also recognised the risk to consistency (and thereby comparability) of the data across entities if organisations do not apply consistent definitions of these time horizons. Note, we are less concerned whether entities

[12] IFRS (2018) IASB Staff Paper on significance and materiality, available at: https://www.ifrs.org/content/dam/ifrs/meetings/2018/december/iasb/ap11a-di.pdf

[13] Signatories' own definitions of these horizons differ, and they see it as part of their job to normalise and/or adjust values.

would attempt to hide the data in the long term (for example), as the ED clearly requires risk management to cover these risks as well.

To improve consistency of the data we recommend that the ISSB **considers providing a defined range for each horizon that all entities** would apply to define their own horizons. We note that such horizons would need to vary by issues covered within IFRS Sustainability Disclosure Standards.

For example, to allow for better global alignment, the ISSB could consider defining a range for climate reporting in line with the EFRAG Exposure Draft ESRS E1 on Climate change [Exposure Draft ESRS E1, page 23][14], which is applicable to transition risks.

- **Short term:** Up to five years
- **Medium term:** Five to ten years
- **Long term:** More than ten years, but no later than 2050.

Time horizon ranges would leave entities with the necessary flexibility in defining these, while mitigating the above risks. We note that such ranges would need to be extended to the end of the century for physical risks given the effect timeframe of these risks.

Finally, the provision of further guidance on setting time horizon definitions, including a statement that these should be informed by industry expectations and norms, would mitigate the risk that entities set time horizons which do not appropriately reflect their exposure to climate-related risks and opportunities. For instance, in the Climate ED the ISSB could reference guidance from the TCFD Guidance on Metrics, Targets and Transition Plans [cf. page 34].

III. Refine the Exposure Draft's approach to materiality and identification of climate-related risks and opportunities, and expand disclosure on transparency of the process

The definition of materiality is clear and well recognised as this follows the International Accounting Standards Board's (IASB's) Conceptual Framework for Financial Reporting and would allow an entity to focus its disclosure on data that its management considers material to its business. By focusing on primary users, investors' data needs are set at the centre of the intended disclosure on sustainability-related financial information.

However, the application of materiality, as set out by the EDs, is currently not clear and risks comparability and verifiability of all reporting by the entity as the data is the basis of deciding what all data an entity discloses. Our concerns are based on inconsistency in the standard on the process that entities should undertake in identifying and prioritising material sustainability-related risks and opportunities.

For example, we have identified three points in the EDs with different guidance:

- Materiality assessment – an entity is expected to undertake an assessment that considers both relevance and/or magnitude of the risk or opportunity on the entity's general purpose financial reporting [General Requirements ED, 58]. Additional guidance is provided on what types of information the entity should consider when undertaking this assessment [General Requirements Illustrative Guidance, IG1-10].
- Risk management – entities are required to first identify climate-related risks and opportunities [Climate ED, 17(a)] and then disclose process(es) to assess and prioritise these for risk management [17(b)] and opportunities [17(c)]. Although the first step inputs directly into the materiality, the focus shifts to the processes (at the very least for risks – see comments in question 8a).
- Fair presentation – entities are provided with guidance on how to identify material sustainability-related risks and opportunities and the metrics to report alongside this [General Requirements ED, 51-54; General Requirements Illustrative Guidance, IG11-IG24].

[14] Although this is subject to approval by the European Commission, we do not expect these definitions to change and believe this alignment will improve the interoperability of the data with the EU.

To improve the clarity (and thereby consistency) of the process entities should undertake applying materiality, we recommend that the ISSB:

- Remove reference to 'significant' – see our response to question 3a (point I).
- Clarify the steps to apply materiality, which builds on what is already set out in the Climate and General Requirements EDs:

  a. **Undertake a materiality assessment on which risks and opportunities are material for the entity in the short, medium and long term.** We recommend that the ED should require entities to undertake this assessment using the SASB materiality map as a starting point; then consider any further entity level requirements using all available IFRS Sustainability Disclosure Standards and all resources listed in paragraph 51 of the General Requirements ED – even if the SASB materiality assessment have not deemed an issue material for an entity's industry. We believe this will future-proof the standards to integrate additional IFRS standards over time to consider whether an issue is material whilst narrowing the potential scope of all issues that an issuer could consider.

     In response to this process, entities must disclose: (i) which risks and opportunities are consequently considered material; (ii) which are not material; and (iii) why they are not material.

  b. **For each risk and opportunity, identify all relevant disclosure requirements** in the IFRS Sustainability Disclosure Standards and if no disclosure requirement exists, apply other disclosure standards recommended by the ISSB in paragraph 54 of the General Requirements ED. **Entities should need to disclose which standard(s) is(/are) used**, as noted in our response to question 7(b) of the General Requirements ED consultation, **and should need to identify relevant disclosure requirements**.

  c. **For each requirement, the entity should identify which specific disclosure requirements (under governance, strategy, risk management and metrics and targets) are considered material**. This follows on from paragraph 60, where entities are not required to disclose on all requirements in a standard if an entity does not deem it material.

     In response, entities must disclose: (i) which requirements it will disclose; (ii) which it will not disclose; and (iii) why it will not disclose on a specific requirement. The disclosures listed must be based on the standards identified by the entity in previous steps.

  d. **Input the material risks and opportunities into processes and disclosure requirements for risk management and strategy** in compliance with paragraph 17 and 9(a) of the Climate ED.

  e. **Reassess materiality by going through these steps in each reporting period,** in compliance with paragraph 59 of the General Requirements ED.

  The above steps build on the disclosure requirements and procedures already specified in the EDs, with an added level of specificity for the first and second step listed above.

- Provide additional guidance and examples of sustainability-related financial information specified in paragraph 6(c) and 6(d) of the General Requirements ED, as specified in our response to Question 2b on this ED.

b. Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

The PRI supports this proposal as it would (i) improve relevance of reporting by ensuring that the potentially material factors identified under SASB are considered by management, and (where material) reported; and (ii) improve comparability of reporting on material climate-related risks/opportunities across entities by harmonising the factors considered in determining these.

Although disclosure topics within industry-based requirements are based on consultation with users and subject matter experts on what is likely to be material to entities in each sector, they cannot cover all potentially material risks/opportunities across a broad range of reporting entities. The standard recognises that it will be on entities to appropriately consider and assess all risks/opportunities that are reasonably likely to be material to them – including looking beyond the list of disclosure topics in the industry-based requirements. Our recommendations on materiality assessment approach and disclosures, suggested in our response to Question 3a (point III), would improve the relevance, comparability and verifiability of reporting based on this aspect of the assessment.

Furthermore, we recommend that Climate ED section **on identifying risks and opportunities should be included into the General Requirements ED section on materiality** as these concepts and processes are interrelated.

4. CONCENTRATIONS OF CLIMATE-RELATED RISKS AND OPPORTUNITIES IN AN ENTITY'S VALUE CHAIN (PARAGRAPH 12)

a. Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

The PRI supports this proposal as suggested disclosures would provide investors with relevant information about the source of potential effects on the entity and where in the value chain such effects would be likely to materialise. Investors need this information to evaluate: (i) the materiality of these effects; and (ii) the suitability of an entity's climate-related strategic / business model changes and targets.

The PRI welcomes the clarification within the General Requirements ED that entities should disclose material information about all significant sustainability-related risks/opportunities to which they are exposed, including those related to activities, interactions and relationships and use of resources along the value chain [General Requirements ED, 40]. This will prevent gaps in the materiality assessment and reporting by ensuring that all potential sources of material sustainability (including climate) related risks/opportunities are considered.

However, we would recommend two additions to these disclosures to improve their relevance and comparability.

I. Increased specificity in reporting on effects of climate-related risks and opportunities on the business model

Under paragraph 9 of the Climate ED entities would provide 'information that enables users of general purpose financial reporting to understand the significant climate-related risks and opportunities that could reasonably be expected to affect the entity's <u>business model, strategy and cash flows, its access to finance and its cost of capital'.</u>

Disclosures on climate-related effects constitute relevant information for investors. We note that reporting on climate-related strategic and financial effects is clearly specified within the ED.

However, we are concerned that reporting on climate-related effects on the business model will not be applied consistently by entities, since there is no guidance in the ED on what should be disclosed in this area. We are not suggesting that additional disclosures be added to this section, however we recommend the ED is clear on what is expected of entities and/or whether this disclosure will be at the discretion of the management. At the very least, we recommend that the ED includes some examples on what these disclosure should include.

II. Increased transparency on effects of climate-related risks and opportunities on the value chain

Investors generally recognise the value chain as an important source of risk and/or opportunity to the business' operations. Signatories involved in the interviews were supportive of the requirements to report a description of the current and anticipated effects of these risks and opportunities on its value chain and where these are likely to be concentrated (in the value chain) [12(a-b)], as they summarise the key insights expected on the value chain.

However, there is no requirement for the entity to define its value chain, which risks verifiability of this data. Based on the General Requirements ED (Appendix A and paragraph 40), it would be on the entity to determine the exact scope of their value chain for assessment. However, where data on value chains is needed to report on material climate-related risks/opportunities and is therefore relevant for investors, there is a risk that disclosures on these risks/opportunities will lack comparability and verifiability – and that similar issues will face related disclosures, such as those on the amount of an entity's emissions reduction target to be achieved through emissions reductions in the value chain [13(b)].

To mitigate this risk, entities should be required to report on their definition of their value chain, within the General Requirements ED. We recommend that this information should at least include how far along their value chain the reporting entity has assessed, as well as which aspects have not been considered (level 1, 2 etc. for suppliers and/or customers), leaving management the flexibility to disclose other aspects on the value chain as needed for a faithful representation of risks/opportunities.

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?

The PRI supports this proposal to the extent that where undertakings are unable to assign quantitative values, qualitative disclosures can be provided. However, companies should be required to provide quantitative values where possible.

The ED provides several examples of potential parts of the value chain in which such concentrations can occur, such as geographical areas, facilities or types of assets, inputs, outputs or distribution channels [12(b)]. To improve comparability of reporting on concentration of risks/opportunities, the standard should recommend that these are disclosed as lists within these example categories. This would remove the likelihood of free text being provided in this section and facilitate normalisation of this data across entities.

5. TRANSITION PLANS AND CARBON OFFSETS

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

The PRI supports the proposed disclosures on transition plans. A company's climate transition plan is a time-bound action plan that outlines how the organisation will pivot its existing assets, operations and entire business model towards a trajectory that is aligned with a fixed, defined target, such as the Paris Agreement.

A credible transition plan should include disclosures that:

- Describe the strategy of the organisation to pivot towards a net-zero future with near term (every five years) science-based targets consistent with the long-term objective of net zero by 2050.
- Contain verifiable and quantifiable Key Performance Indicators (KPIs) which measure the success of an organisation's climate transition strategy and track progress.
- Provide accountability. The plan has clearly defined roles and responsibilities, including an effective governance mechanism. An organisation's plan should be reviewed and updated regularly through the annual reporting cycle.

b. Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.

Yes, further disclosure to provide details on the organisation's transition plan is recommended. This should include:

- Reporting on net-zero – as 90% of the world's GDP is covered by net-zero pledges, the ISSB should expressly integrate this development into reporting transition plans and target setting, **applicable to entities in countries covered by such pledges**. This should include reporting

on an entity's strategy to pivot its existing assets, operations and entire business model towards a trajectory that is aligned with net-zero by 2050.

- Disclosure of the time bound climate targets the organisation is using to mitigate climate risk, including greenhouse gas emissions reduction targets – we note this is captured within paragraph 13(b) – or an explanation if the entity has not adopted a target.
- Disclosure of interim milestones and quantitative KPIs to measure and track progress – for example:
  - interim targets covering absolute GHG emissions (Scope 1, Scope 2, and where material Scope 3) as well as emission intensities in 5 and 10 years; and
  - capital expenditure plans aligned with these targets – this is currently captured within paragraph 13(a) as an example disclosure but should instead constitute a disclosure requirement.
- Description of the business strategy to achieve these milestones – we note this is captured within paragraph 13a-i – as well as key dependencies.
- Agreed near-term (in the coming 1-3 years) actions to deliver on this strategy, including:
  - alignment of direct and indirect industry and public sector engagement / lobbying activities; and
  - financing of the transition (e.g. R&D capex and new product development) – this is currently captured within paragraph 13(a) as an example disclosure but should instead constitute a disclosure requirement.
- The individuals and governance structures responsible for successfully implementing this plan, including information on:
  - skills and training – how the organisation plans to ensure it has the necessary in-house capacity to deliver on the transition plan; and
  - remuneration – alignment of financial incentives with the successful implementation of the transition plan, or an explanation if there is no link between the transition plan and remuneration.

On the final point, governance disclosures are an important proxy indicating how aligned board and management incentives are to achieving an entity's transition plan. Therefore, the ISSB should suggest that disclosures under paragraphs 5(c) on skills and competencies, 5(f) on climate-related remuneration, and 5(g) on responsibilities for managing climate-related risks and opportunities are linked to specific elements of transition plans where possible. For instance, this could include management-level accountability for related strategic initiatives and how performance against specific targets under the transition plan shape climate-related remuneration.

Further recommendations on target-related disclosures in this section can be found in our response to Question 11a (points I, II and III).

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?

Investors need this information to understand the nature of predicted performance improvements. Since carbon offsets do not reflect or alter the absolute emissions physically associated with or caused by an entity, it is the PRI's view that detailed disclosure of their role in emissions reduction targets is important for accurate carbon accounting, and for assessing the credibility of targets.

The suggested disclosures would achieve this by providing investors with relevant information on the types of offsets used, amount of emissions reduction to be achieved through offsets, information on third-party verification and assumptions.

To further improve transparency, the final IFRS S2 *Climate-related Disclosures* should include reporting on how entities test the reliability, additionality and permanence of offsets used through robust due diligence.

Furthermore, as recommended in our response to Question 11a (point III), the ISSB should require disclosures on the extent to which targets rely on the use of carbon offsets [13(b)] are quantitative where possible. This would improve the comparability of reporting on emissions reduction targets and carbon offsets across entities and time horizons. Finally, while we welcome the provision of increased transparency on the use of offsets, we note that their use should not be encouraged. Where offsets are used, we recommend that the ISSB reference the Oxford Offsetting Principles within IFRS S2 Illustrative Guidance, and encourage reporting of relevant information on performance against these principles.

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?

PRI is not able to comment on this.

6. CURRENT AND ANTICIPATED EFFECTS

a. Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

The PRI supports this proposal. Information on the current and anticipated financial effects of climate-related risks/opportunities is highly relevant to investor decision-making.

Since calculating and predicting such effects remains an emerging practice, the PRI also supports allowing entities to provide qualitative information where quantitative information cannot be provided.

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?

The PRI supports this proposal, although our recommendations in response to Question 6c (points II and III) also apply here.

On reporting on the effects to an entity's financial performance [14(a-c)], the disclosure requirements are not prescriptive in setting out a need to report the effects by line item, but the ED does expect the entity to report both current and expected effects on financial performance, position and cashflow.

In principle, this would link sustainability-related information to the enterprise value of the entity and inform investors' assessment of their expected financial performance. In comparison, current disclosure (where reported) may be in separate reports. These disclosures give management flexibility on which specific elements are relevant to disclose and/or the level of detail. Signatories involved in the interviews were generally supportive of these disclosures.

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?

The PRI supports these proposals. They would provide investors with a holistic picture of current and future effects of climate-related risks/opportunities on an entity, and of the entity's ability to respond to these risks/opportunities.

We recommend the following additional disclosures on both current and future effects to better meet this objective:

I. Link effects on financial position back to direct effects of risks/opportunities and potential changes to asset and liability valuation

Suggested disclosures would prompt entities to link effects on financial position to current and committed capital allocation plans, and planned sources of funding, related to their strategy to

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address climate-related risks/opportunities [14(c)] – improving the comparability and verifiability of these disclosures.

However, effects on financial position can also arise directly from these risks/opportunities. This is captured in suggested disclosures on how significant climate-related risks and opportunities have affected an entity's most recently reported financial position [14(a)], and on which climate-related risks/opportunities could incur a material adjustment to assets and liabilities reported in the financial statements within the next financial year [14(b)]. However, as noted above disclosures on the effect of such risks/opportunities on financial position over time [14(c)] would reflect related investment plans and sources of funding, but not the direct effect of the risks/opportunities themselves.

These effect channels should be covered in the recommended disclosures under paragraph 14c. Effects should also be linked back to actual/potential changes to valuations of assets and liabilities, such as changes to asset impairment assumptions linked to climate-related risks.

This would provide investors with a more faithful representation of future effects on the financial position, and of the factors driving these effects.

II. Suggest that calculation methodologies underlying reported effects are disclosed

Entities should be recommended to specify how current and future effects have been calculated, and any assumptions / limitations underpinning this. This is essential for verifiability, particularly since calculating and reporting on these effects remains an emerging practice for many entities.

III. Provide application guidance on calculating current and future effects on financial position, financial performance and cash flows

As noted above, disclosing the financial effects of climate-related risks / opportunities is an emerging practice in sustainability reporting. As such there is a risk of significant variation in how entities determine and report on these effects.

In our view the final IFRS S2 *Climate-related Disclosures* should contain (or be published alongside) extensive application guidance on how to calculate and disclose such effects, potentially within the Illustrative Guidance document. The ISSB could reference guidance on this within the TCFD Guidance on Metrics, Targets and Transition Plans [cf. page 34].

This would improve the consistency of methodologies across entities and increase comparability of outputs for users.

IV. Clarify the need under existing rules to account for, and provide disclosure on, how material climate-related risks and opportunities have been considered in the financial statements

In our view these disclosures should be complemented by requirements to clearly link financial effects of material climate-related risks/opportunities to what is reported in the financial statements. We note that both the FASB and IASB have already confirmed that their existing standards apply to climate risk, just as they do to other material risks.

Under these existing requirements, where climate risks are material, they should be taken into account in preparing company financial statements--for example in relation to longer-term considerations of cash flows and potential impairment of fixed and intangible assets, estimated lives used to determine depreciation or amortisation of long-lived assets, the amount and timing of asset retirement obligations, and recoverability of deferred tax assets. Financial statement assumptions that are quantitatively and/or qualitatively material should be disclosed, and those assumptions should be consistent with statements made elsewhere in the management report.

However, evidence suggests that for companies, **where climate risk is clearly material, existing financial statement requirements are not being properly followed by companies**, and auditors have not addressed this oversight.

Business and financial risk information, including information on climate-related risks/opportunities, is most useful when it can be seen how, or the extent to which, this is manifested in the financial statements. Annual financial statements that appropriately incorporate consideration of climate and provide corresponding disclosure of material climate-related information, will provide a strong

underpinning for the disclosures under the final IFRS S2 *Climate-related Disclosures* and give these disclosures a logical resonance with information on how climate is considered within the financial statements.

For example, the financial statements would demonstrate how the consequences of meaningful climate risk assessment and company targets disclosed outside of the financial statements, have been considered in determining the financial statement amounts and accompanying footnote disclosures. Additionally, the new quantitative footnote disclosure of climate adjustment information would then provide additional detail in a structured (line-by-line) manner, but this has a necessary dependency on the existing accounting requirements being applied in the first place.

We therefore urge the ISSB to clarify the need under existing rules to account for, and provide disclosure on, how material climate-related risks and opportunities have been considered in the financial statements, clearly referencing financial reporting requirements under the IASB.

7. CLIMATE RESILIENCE (PARAGRAPH 15)

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

The PRI supports this approach. Suggested disclosures on implications and planned response are needed for investors to predict future resilience to climate-related risks.

However, we note that under the ED entities would have the flexibility to issue quantitative or qualitative information [15]. Where quantitative information is disclosed, entities would have the flexibility to report single amounts or a range.

To avoid these disclosures reflecting a false sense of certainty, we suggest that entities are instead required to: (i) disclose a range of quantitative values; and (ii) accompany this with a narrative explanation.

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?

No, PRI does not support the proposal, as it would discourage companies from undertaking climate scenario analysis and could unintentionally support a misleading narrative that climate scenario analysis is an insurmountable task.

In our view, the ISSB should require the use of climate scenario analysis in company reporting as per the TCFD recommendations and as per below clarify what should be minimum for disclosure in this area.

Forward looking as well as static disclosures, such as emissions data, are needed by investors since climate change is a risk that will grow over time. Therefore, sole reliance on historical data provides a partial and misleading view of a company's position in relation to this business issue. Companies and investors naturally have a view of the future with respect to market trends, key risks, and growth opportunities. The function of climate-related scenario analysis is to provide means for incorporating climate change into existing views and assessing the resilience of the business strategy to a range of plausible future scenarios.

Further, disclosure on climate scenarios is important to investment and voting decisions as it demonstrates the degree of attention by companies to the issue and an understanding that the importance of climate change will not be static.

For disclosure on scenario analysis to be useful for investor decision-making, **at a minimum,** companies reporting to be conducting climate scenario analysis should disclose:

- how a company assessed its potential climate-related future(s) and the insights it gleaned from scenario analysis – we note this is currently captured in paragraphs 15(a-b);

- what changes, if any, the company may be considering to its business model in response to its scenario analysis – we note this is currently captured in paragraph 15(a);
- how resilient management believes the company's strategy is to various future climate states; and
- where the uncertainties are regarding the company's strategy and its resilience to climate-related risks and opportunities[15].

Therefore, disclosure from climate scenario analysis is not necessarily a quantitative exercise but could be narrative based and to set in motion a learning process to build understanding of how climate-related risks and opportunities could evolve over time. As issuers gain experience, the use of more quantitative information with greater rigor and sophistication may be warranted.

Finally, what is material for financial markets is not only the temperature outcome of a particular climate scenario, but also whether the path to this outcome is orderly or disorderly. To address this, the PRI recommends the ISSB specifies the following families of climate scenarios, which are relevant to both companies and investors, as scenarios to be reported against where appropriate:

- **a measured, orderly transition**, which takes place with climate policies being introduced early and becoming increasingly more stringent, in line with national and global emissions reduction targets;
- **a sudden, disorderly transition, which** takes place with climate policies and wider action on climate change not happening until late (for example, introduced around 2030) – this scenario gets towards, but does not achieve, the climate goals set out in the Paris Agreement and is characterized by a higher level of transition and physical risk than in an orderly transition; and
- **'no transition'**, which assumes only currently implemented policies are preserved, current commitments are not met, and emissions continue to rise (i.e., a 4°C or higher climate scenario) – this would mean climate goals are missed and physical risks are high, accompanying severe social and economic disruption.

Given the plausibility of the above scenarios, this reporting would provide investors with needed information on enterprise value impactions of various potential futures for a reporting entity.

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?

No, the PRI does not support this proposal. As noted in response to Question 7(a), the ISSB should require the use of climate scenario analysis in company reporting as per the TCFD recommendations.

iii. Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

Yes, as specified above the PRI would support this proposal. This change would not affect our response to Question 14(c), as the same scenario analysis-related disclosures would be beneficial to investors.

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

The PRI broadly supports the proposed disclosures on scenario analysis and welcomes their alignment with equivalent TCFD recommendations.

Suggested disclosures would provide investors with information on scenarios used, scope of risks and operations covered in the analysis, time horizons, assumptions and uncertainties considered (covered in disclosures on results of the resilience assessment). This would allow investors to verify the

[15] TCFD (October 2020), TCFD Guidance on Climate Scenario Analysis for non-Financial Companies, available at: https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf

suitability of scenario analysis undertaken, and to better understand the results of this analysis and any limitations.

We recommend the below additional disclosures on scenario analysis to better meet this objective.

I. More explicit disclosures on how resilient management believes the company's strategy is to various future climate states, and where the uncertainties are regarding the company's strategy and its resilience to climate-related risks and opportunities

Under paragraph 15(a) entities would report on the results of resilience analysis. However, we note that suggested disclosures focus extensively on management's response to findings and less on the findings themselves.

The above points should be explicitly reflected in reporting on findings since (i) they are a necessary input into enterprise value assessments; and (ii) they provide investors with needed contextual information to assess the suitability and adequacy of the planned response to findings.

II. Recommend increased specificity on the temperature outcomes and transition pathways characterising scenarios used

Under the suggested disclosures, entities would specify whether: (i) a diverse range of scenarios were used [15(b)]; and (ii) whether one of these scenarios is aligned with the latest international agreement on climate change [15(b)].

Such reporting could provide investors with an insufficiently detailed characterisation of the scenarios an entity has used. To improve comparability of reporting across entities, and understandability of the specific circumstances under which climate-related risks/opportunities facing an entity would be material, we would recommend that the following additional specifications are suggested:

- the temperature outcome of each scenario; and
- whether the path to this outcome is orderly or disorderly, with the following options as guidance: (i) measured, orderly transition; (ii) sudden, disorderly transition; or (iii) failure to transition.

In addition, we recommend that the ISSB reference the dedicated TCFD Guidance on Scenario Analysis. This would provide entities with needed information in preparing both suggested reporting in the ED and the disclosures we have recommended above, resulting in improved relevance and comparability of this reporting.

III. Recommend that entities specify whether static or dynamic balance sheet assumptions were used for each scenario

Several assumptions underpinning scenario analysis are suggested for disclosure, including assumptions on future policy developments, macroeconomic trends, energy usage mix and technology [15(b)].

To improve the understandability of these disclosures, entities should also be recommended to specify whether a static or dynamic balance sheet is assumed under each scenario[16]. Investors should be aware of the approach used for each scenario since this determines whether predicted effects on the entity constitute residual or inherent effects.

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?

As noted in response to Question 7(a), the ISSB should require the use of climate scenario analysis in company reporting as per the TCFD recommendations.

[16] Under the dynamic balance sheet hypothesis, entities can reflect their management decisions and accordingly adjust their exposures to the climate-related scenarios used, in contrast to the static balance sheet hypothesis.

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?

Yes, the benefits would outweigh the costs. The cost and challenge of undertaking climate scenario analysis has been reduced by the growing number of off-the-shelf and free to use online tools and guides. In particular, the PRI recommends the ISSB highlight the following tools in the final rules and implementation guidance:

- The Climate Scenario Catalogue v1.0: an online and free-to-use tool published by the World Business Council for Sustainable Development (WBCSD) that collates and expands a range of selected scenarios and variables to help companies meet the reporting requirements of the TCFD[17].
- The Transition Pathway Initiative (TPI): sector-level analysis of companies' preparation for the transition to a low-carbon economy by evaluating and tracking the quality of companies' management of GHG emissions and of risks and opportunities related to the low-carbon transition. TPI uses company-disclosed data[18].
- Carbon Tracker Report, 2 Degrees of Separation: in-depth company and sector-level analysis of the oil and gas companies' upstream exposure to climate transition risks, using asset-level data to examine whether supply options of the largest publicly traded oil and gas producers are aligned with demand levels consistent with a 2-degree carbon budget[19].
- The IPCC and national climate impact assessment reports.

8. RISK MANAGEMENT (PARAGRAPHS 16-17)

a. 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?

We believe the disclosure requirements are largely appropriate to the stated disclosure objective and welcome the integration of both risks and opportunities into the wider management processes of the business. However, we have identified specific points where the requirements do not currently meet their stated disclosure objective below:

- Process(s) to identify, assess and prioritise risks for risk management purposes [17(b)]: These disclosures are relevant to signatories as they include methodologies and the reasoning used to identify and prioritise risks. Given the qualitative nature of risk management disclosure, we recognise that consistency of the data may not be feasible, but we have the following recommendations:
  - **Clearer guidance in the ED on how to implement the requirements, including on terminology and data expected in the disclosure,** such as the risk-assessment tools and input parameters that are referenced in paragraph 17 (b-ii and b-iii). This would help to improve the consistency of this information.
  - Where disclosure is required on 'whether [the entity] has changed the processes used compared to prior periods' [17(b-iv)], we recommend an additional requirement on **why this has changed, and the implications of the changes is also disclosed.** This will help improve the verifiability of the data.

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[17] WBSCD, Climate Scenario Catalogue 1.0 powered by WBCSD with analysis from Vivid Economics, available at: https://climate-scenario-catalogue.shinyapps.io/final/

[18] Transition Pathway Initiative, All Sectors, available at: https://www.transitionpathwayinitiative.org/sectors

[19] Carbon Tracker, PRI (2017), 2 Degrees of Separation - Transition Risk for oil and gas in a low carbon world, available at: https://carbontracker.org/reports/2-degrees-of-separation-transition-risk-for-oil-and-gas-in-a-low-carbon-world-2/

- Process(s) to identify, assess and prioritise opportunities [17(c)]: We have identified two key points of divergence in the approach compared to the one on risks [17(b)], which we believe will cause confusion and thereby reduce comparability of the data. Firstly, contrary to equivalent disclosures on risks there is no reference to management processes, so we recommend that **text is added to reference 'management processes'.**

  Secondly, there is a lack of granularity in these requirements relative to equivalent disclosures on risks. We acknowledge that opportunity identification tends to be part of strategy-setting and exhibit more variation across entities, and the point made in the Basis for Conclusions document on the relative maturity of entities' risk management processes [BC102]. However, since all the requirements for risks are also relevant to opportunities, we recommend that **the same requirements are included as those for risks within paragraph 17(b)(i)-(iv) –** these being how the likelihood and effects of climate-related opportunities are assessed, input parameters used for their identification and how climate-related opportunities are prioritised relative to other opportunities.

  This is relevant information, especially for investors that wish to: (i) better understand how climate-related opportunities are identified and managed; and (ii) engage with entities on improving these processes.

- Process(s) to monitor and manage risks and opportunities, and their related policies [17(d)]: this sets high-level requirements that link back to governance disclosure in paragraph 5(e), which risks consistency of the data. We recommend that **additional guidance and examples are included on what data is to be expected from the entity**.

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?

The PRI welcomes the strong alignment between proposed cross-industry metrics and those within the TFCD recommendations. In our view, all proposed cross-industry metrics are linked to enterprise value, and therefore likely to be material, for all industries and business models.

However, the PRI recommends the inclusion of additional reporting recommendations on each cross-industry metric to improve the comparability and verifiability of these disclosures. In particular, the ISSB should also suggest that entities disclose the underlying assumptions and methodologies used in calculating metrics, including metrics used to track progress against climate-related targets, and should reference guidance on implementing these cross industry metrics within the TCFD Guidance on Metrics, Targets and Transition Plans [cf. pages 16-26].

I. Assumptions and methodology for absolute GHG emissions

We welcome the inclusion of Scope 1, Scope 2 and Scope 3 greenhouse gas emissions as cross-industry metrics for disclosure. This will help to address the currently low incidence of such reporting, which has led to an elevated reliance by investors on estimated emissions data.

However, in disclosing Scope 1, 2 and 3 GHG emissions, entities should also be recommended to disclose the significant inputs and assumptions used to calculate these, and a description of the calculation methodology – including organisational scope, emissions factors used and other information on the calculation approach.

This would help investors verify reported GHG emissions, particularly if these have not been subject to third-party verification. Furthermore, it would allow for better global alignment as this approach has also been suggested in both the US Securities and Exchange Commission's Proposed Rule on climate-related disclosures [page 471] and EFRAG Exposure Draft ESRS E1 on Climate change [page 31].

II. Metrics on emissions intensity

Under the Climate ED entities would have the option to disclose emissions intensity expressed as metric tonnes of CO2 equivalent per unit of physical or economic output [21(a)]. This risks comparability of emissions intensity figures reported across entities, increasing the cost and complexity for investors in aggregating this data at portfolio-level.

Therefore, entities should be recommended to disclose emissions intensity in terms of metric tonnes of CO2 equivalent per unit of total revenue and per unit of production.

Again, this would also allow for better global alignment as this approach has also been proposed in the US Securities and Exchange Commission's Proposed Rule on climate-related disclosures [page 471].

Additionally, to improve verifiability and facilitate normalisation of data across entities, reporting on emissions intensity should be grouped with absolute emissions as well as the denominator used.

III. Exposure to physical/transition risks and climate-related opportunities

Beyond reporting exposure figures, entities should be expected to disclose how exposure was defined and assessed across assets and business activities, and the scope of assessment in terms of activities/geographies included. This would allow investors to verify exposure data and normalise/aggregate this data across entities more easily.

IV. Climate-related remuneration

We would suggest incorporating the additional disclosures recommended in response to Question 2a (point IV).

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.

The PRI recommends the introduction of detailed guidance for entities on implementing the cross-industry metrics and additional suggested disclosures on physical risks.

I. Application guidance on implementing cross-industry metrics

Reporting entities operate in industry-specific contexts and are subject to varying standards and jurisdiction-specific disclosure requirements. As a result, some may struggle to implement these metrics in a way that produces comparable and decision-useful information for investors.

Therefore, we recommend that the ISSB considers live illustrative guidance on implementing the cross-industry metrics, including examples for each of the seven categories. For instance, the ISSB could reference and further develop recent guidance published by the TCFD.

To ensure international operability, it will be important that these implementation examples have a clear and direct reference to major international disclosure legislation, such as metrics included within finalised European sustainability reporting standards (ESRS) and the US SEC's Final Rule on climate-related disclosures.

Beyond improving relevance and comparability of reporting, such implementation examples would also help to prevent duplicative disclosures that can both increase reporting burden and decrease the overall understandability of reported information.

II. Physical risks

The Climate ED suggests that entities disclose information that enables an understanding of how each significant climate-related risk is monitored, managed, and mitigated, including relevant policies [17], and the amount and percentage of assets or business activities vulnerable to physical risks [21(c)]. This is aligned with TCFD guidance.

However, investors would benefit from further detail on how entities are exposed to physical risks, and require information on how entities are managing, mitigating and adapting to physical risk exposures

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to effectively consider such exposures in decision-making. The ISSB could help to improve the availability of the data that investors need by enhancing suggested disclosures in this area.

For example, the ISSB could consider recommending the following metrics as part of application guidance on implementing the cross-industry metrics, as recommended in point I above, covering 'the amount and percentage of assets or business activities vulnerable to physical risks' [21(c)]:

- Asset location data of entities' main facilities, operations and leading suppliers located in an area at risk of extreme weather events, such as:
  - percentage located in flood hazard areas and/or regions of high or extremely high water stress – as is proposed in the US Securities and Exchange Commission's Proposed Rule on climate-related disclosures [page 464]; and
  - assets in areas that are subject to wildfire risk, as the intensity and frequency of wildfires continue to increase[20].

This would help to address the lack of readily accessible and comparable location data that has made it difficult for investors to determine the level of physical risks from climate change on entities.

- How physical climate risk is assessed and considered in company's business interruption plans.
- Current and predicted financial losses from extreme weather events.
- Anticipated future financial impacts based on the results of physical risk-focused scenario analyses.

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?

IFRS S2 *Climate-related Disclosures* should require GHG emissions to be calculated in line with the GHG Protocol methodology, the most widely used and recognised international standard for calculating GHG emissions. While we recognise outstanding methodological issues, this would allow for a standardisation of emissions data across jurisdictions, increasing comparability and facilitating aggregation for investors.

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?

The PRI supports this proposal. It would provide investors with information on the share of total GHG emissions reported from 'the consolidated accounting group (the parent and its subsidiaries)' [21(a)], that can therefore be linked back to the financial statements.

In addition, suggested disclosures on the approach used to include emissions falling under category (ii) – e.g. the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard [21(a)] – would improve the verifiability of these disclosures.

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?

The PRI supports the disclosure of Scope 3 emissions where they are a significant portion of an entity's overall emissions profile.

While Scope 3 emissions are often more difficult to report, these are the most impactful kind of emissions for some industries such as oil and gas producers. Leaving them out could mean that a large share of actual emissions, where material, are not reported.

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[20] Metrics for physical climate risk were adapted in accordance with research by IIGCC available at https://www.iigcc.org/resource/understanding-physical-climate-risks-and-opportunities-a-guide-for-investors/ and the UK Climate Financial Risk Forum's report on data and metrics available at https://www.fca.org.uk/transparency/climate-financial-risk-forum.

In our view, disclosures on Scope 3 emissions should be accompanied by an indication of what portion of an entity's total Scope 3 emissions have been captured in the figure provided. Note we are not recommending that entities disclose a precise percentage figure, but rather an approximative range that would provide investors with a better understanding of potential exposure to transition risk.

In addition, as recommended in response to Question 9a (cf. point I), Scope 3 disclosures should be accompanied by robust methodological explanations of the underlying inputs, assumptions and calculation methodologies used.

Finally, we recommend that reporting captures aggregated Scope 3 emissions as well as Scope 3 emissions from relevant categories where these are significant.

10. TARGETS (PARAGRAPH 23)

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

The PRI welcomes the strong alignment between suggested target-related disclosures and those within TFCD recommendations.

However, in our view, several additions and clarifications would improve the verifiability and comparability of reporting on predicted future performance.

I. Harmonisation with the General Requirements ED

Several suggested disclosures within the General Requirements ED have not been included in the Climate ED. To avoid confusion among preparers and ensure these elements are reported on for climate in particular, these disclosures should be clearly cross-referenced within the Climate ED. Doing so would enhance reporting on targets in the following ways:

- Comparability. Under the General Requirements ED alone, where a metric or target is redefined or replaced an entity would need to explain the changes, explain the reasons for those changes and provide restated comparative figures where possible [34]. Such disclosures should also be suggested under the Climate ED to ensure that where metrics or targets change, investors understand the changes and their implications, and are therefore able to compare values across reporting periods.
- Verifiability. The General Requirements ED alone suggests entities disclose:
  - whether the measurement of metrics not included in IFRS Sustainability Disclosure Standards or other referenced standards (e.g. SASB, CDSB) is validated by an external body, and if so which body [31(b)];
  - the methods used to calculate targets and inputs to the calculation, including the significant assumptions made and the limitations of those methods [31(c)][21].

These suggested disclosures should be clearly cross-referenced within the Climate ED since they are necessary for investors to verify reported progress against targets.

II. Further information on scope of targets

The scope of climate-related targets should be disclosed by entities, including any activities, geographies or emissions excluded. Such reporting would improve comparability of disclosures on targets and facilitate their normalisation and input into investors' decision-making.

III. Provide guidance on the use of the carbon offsets in the context of emissions reduction targets

[21] Note that in our consultation response on the General Requirements ED, we have also recommended that the same level of disclosures are applied to metrics that follow IFRS Sustainability Disclosure Standards [General Requirements ED, 30] and metrics that are developed by an entity [General Requirements ED, 31]

This should limit or exclude the use of carbon offsets for the purpose of net-zero target setting to carbon removals to balance residual emissions where there are limited technologically or financially viable alternatives to eliminate emissions – whilst requiring that they are additional and certified.

We note that EFRAG's Exposure Draft ESRS E1 on Climate change [24(c)] excludes GHG removals, carbon credits and avoided emissions for the purposes of GHG emissions reduction targets.

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?

This definition is sufficiently clear and will help to future-proof the final IFRS S2 *Climate-related Disclosures* as new international agreements and corresponding levels of ambition are reached.

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?

Please see our response to Question 11b.

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?

The PRI supports these amendments to the SASB standards, including new references to internationally applicable standards, definitions or calculation methods and the provision of general definitions as this will lead to better comparability for users of such disclosure.

These will ease jurisdiction-level adoption of the final IFRS Sustainability Disclosure Standards by: (i) creating a level playing field for reporting entities regardless of location; and (ii) increasing the global applicability of industry-based disclosures by referencing standards that have been designed for application across all jurisdictions.

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?

PRI is not able to comment on this.

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?

Under suggested disclosures on Scope 3 emissions entities would not need to disclose Scope 3 emissions per category. However, where Scope 3 emissions are to be disclosed, it should be the most relevant categories of Scope 3 emissions that are reported and disaggregated.

Financed and/or facilitated emissions are often the largest source of emissions for financial services firms. Therefore, they are important for assessing these entities' exposure to transition risks and should be reported: (i) within the Scope 3 emissions figure; and (ii) separately.

Investors have informed us of challenges they face in obtaining financed/facilitated emissions data from financial services firms, which constitute a large share of investment portfolios particularly in emerging markets. Including these metrics would give investors the data they need to assess climate-related risk facing these entities, and to meet their own reporting obligations to clients and regulators.

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?

To evaluate this list we compared the proposed 'carbon-related industries' with the sectors of companies being engaged by Climate Action 100+, a PRI-backed investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. As part

of this initiative 166 focus companies have been selected for engagement, accounting for up to 80% of corporate industrial greenhouse gas emissions.

The proposed list contains most of the sectors covered by Climate Action 100+. We would recommend the following industries be added to this list:

a. **all industries under the 'resource transformation' category,** including aerospace & defence, chemicals, containers & packaging, electrical and electronic equipment, and industrial machinery & goods;

b. **outstanding industries under the 'transportation' category,** including cruise lines, car rental & leasing and auto parts; and

c. **carbon-intensive industries under the 'consumer goods' category,** such as apparel, accessories and footwear and appliance manufacturing.

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

The PRI supports this proposal as it would improve comparability of reporting. If entities could disclose either absolute- or intensity-based financed emissions this would increase the cost and complexity associated with data normalisation and considering this information in decision-making. Furthermore, both absolute and intensity-based financed emissions are relevant for assessing a reporting entity's exposure to transition risk.

To improve verifiability and facilitate normalisation across entities, reporting on intensity-based financed emissions should be grouped with absolute emissions as well as the denominator used.

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?

The PRI supports this proposal as it would improve the verifiability of this information.

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?

The PRI supports this approach. To provide more consistent, comparable, and reliable information for investors, the ISSB should encourage entities to coalesce around the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard for calculating and reporting financed emissions.

Furthermore, while the PRI acknowledges that any universal adoption of a single, more specific methodology could present a challenge for some entities, our view is that the ISSB should reference (but not require) PCAF or equivalent methodologies as a way to calculate financed emissions. This would improve the comparability of reporting on financed emissions across entities.

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?

In our view this information is relevant to assessing an entity's indirect transition risk exposure since transition risks can affect enterprise value and by extension returns through adverse effects on expected loss of capital through investments.

Assets under management (AUM) figures can be viewed as a proxy for reliance on returns from high-risk investee companies and therefore are also necessary to assess 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?

The PRI supports the inclusion of industry-based metrics informed by SASB Standards. These are widely used by reporting entities globally and will lead to increased comparability of reporting across entities and time periods.

In addition, the PRI welcomes the guidance included within the ED on how industry-based metrics can be used to supplement or fulfil cross-industry requirements [B15], and within Illustrative Guidance on the ED as to how entities should disclose information relevant to cross-industry metric categories.

This will enhance connectivity of reporting, improve the narrative underpinning relevant disclosures, and facilitate both the preparation of sustainability reports by entities and their analysis by users.

However, we note that while Scope 1, Scope 2, and Scope 3 GHG emissions form part of the cross-industry metrics, sector-specific proposals could suggest that some industries would only need to disclose Scope 1 and Scope 2 GHG emissions – for instance, B11 on oil and gas exploration and production.

To ensure consistency of reporting and adequately reflect exposure to transition risks, industry-based metrics should be aligned with cross-industry proposals and thus include Scope 1 and Scope 2 emissions, and Scope 3 emissions where material[22]. Finally, beyond historical data, industry-based metrics should include requirements on a forward-looking basis, at 5-year and 10-year intervals.

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.

From a climate target-setting perspective, sector targets are the most relevant means for financial institutions of achieving real world emissions reductions, incentivising and providing capital support to companies which are the best carbon performers within their sector, and financing the global economy's transition to net zero. Therefore, the PRI recommends that the ISSB require the disclosure of industry metrics and corresponding targets for the 12 most energy-intensive sectors listed in Annex 1. These should include Scope 1, Scope 2 and significant Scope 3 emissions, capturing current data as well as data on a forward-looking basis (at 5-year and 10-year intervals).

In addition, the ISSB should revise industry-based requirements on methane, a major greenhouse gas that is significant in a number of key energy industries such as oil and gas and the utility sector. The PRI recommends that methane emissions are reported separately and not as aggregated CO2e. Further, there should be a measure of methane volume disclosure per metric ton, and a measure of methane intensity within industry-based requirements for oil and gas and utilities.

Finally, disclosure of industry-based metrics should capture **material** activity-specific emissions (disaggregated by business unit or economic activity) and location-specific emissions (disaggregated by geographic area), applicable to sectors for which this information is likely to be material.

Such disclosures are already captured within the TCFD's Guidance on Metrics, Targets and Transition Plans, which recommends that 'where it aids understanding, organisations should consider disaggregating information by categories such as geographic area, business unit…' [cf. page 13].

Similarly, under the EFRAG Exposure Draft European sustainability reporting standard (ESRS) on climate change, entities would disclose their gross location-based Scope 2 GHG emission and gross market-based Scope 2 GHG emissions [43], along with their total GHG emissions under the location-based and market-based methods for Scope 2 GHG emissions [AG49-b].

Where this information is material, activity-specific emissions would improve comparability between entities performing those activities and make it easier for investors to verify whether the correct financial assumptions (e.g. on asset impairment) have been made in reporting transition risks. The ISSB has the opportunity to push for a global harmonisation of approaches and improve comparability of reporting by introducing a standardised approach to activity-level GHG emissions disclosures.

Material location-specific emissions, in turn, would improve investors' understanding of exposure to transition risks that may vary across geographies, such as risks arising from jurisdiction-specific environmental policy objectives.

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[22] When considering whether to disclose Scope 3 GHG emissions, organizations should consider whether such emissions are a significant portion of their total GHG emissions. For example, see discussion of 40% threshold in the Science Based Targets initiative's (SBTi's) paper SBTi Criteria and Recommendations, Version 4.2, April 2021, Section V, p. 10.

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?

PRI is not able to comment on this.

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?

Delivering a high-quality global baseline of climate-related financial disclosures would provide global financial markets with information on companies' climate-related risks and opportunities. This would improve the transparency, accountability, and efficiency of financial markets around the world, in line with the IFRS Foundation's mission.

High-quality information on companies' exposure to climate-related risks and opportunities is crucial to informed asset pricing and allocation of capital. Investors need to be aware of material climate-related risks and opportunities facing companies, and of their plans to manage these, in order to make sound investment decisions.

In addition, investors need this information from companies to meet increasingly ambitious climate-related reporting expectations of regulators and beneficiaries. For instance, investors currently (or will soon) face climate reporting regulations in jurisdictions including but not limited to the United Kingdom, European Union, United States, Canada, Japan, Switzerland, Hong Kong, Singapore and New Zealand.

However, PRI signatories state that the consistency, comparability, and quality of climate-related reporting is a substantial barrier to their investment practice.

The proposed requirements would help to standardise climate disclosures across companies at the global level. This would increase **transparency** at a global scale. It would also improve **efficiency** by reducing costs for investors, through less time spent gathering, decoding and analysing information so that it can be used in investment decision-making.

Entities that disclose the climate-related information investors need will simply be adapting to current market expectations. They may face a lower risk of reduced market and capital access and may benefit from expansion and other commercial opportunities.

A global baseline of enhanced and standardised climate-related disclosures would also lower costs for entities by helping to standardise climate-related data requests by interested parties at the global level. Furthermore, it would alleviate resource pressures, allowing entities to reallocate resources to building needed infrastructure for enhanced disclosures. Finally, it would improve corporate monitoring of climate-related risks and opportunities from within, leading to better decision-making and enterprise value creation.

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

PRI is not able to comment on this.

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?

PRI is not able to comment on this.

13. VERIFIABILITY AND ENFORCEABILITY

a. 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.

As noted in our approach section, we have considered the verifiability of suggested disclosures in our assessment of whether these disclosures would be decision-useful. For the most part the proposed disclosures would be verifiable, in that investors would be able to corroborate the information/inputs used to derive data. Where we believe this is not the case, we have recommended additional supporting disclosures to address this.

14. EFFECTIVE DATE

a. Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why?

The effective date of the Climate ED should the same as that of the General Requirements ED. Investors need consistent data across all sustainability issues they are considering as soon as possible for informed asset pricing and allocation of capital, and to meet increasingly ambitious sustainability-related reporting expectations of regulators and beneficiaries across multiple jurisdictions.

If the Climate ED were made effective after the General Requirements ED, this could lead to incomplete climate-related disclosures at first. As a result, investors would have to wait even longer to receive needed information on entities' climate-related risks/opportunities and how they are being addressed. The same logic would apply if the Climate ED were made effective after the General Requirements ED, since investors urgently need this data on other sustainability issues. In addition, risks and opportunities associated with a particular sustainability issue do not affect entities in isolation. For example, efforts to address climate-related risks may incur harm to an entity's workforce, and by extension a new set of sustainability-related financial risks for the entity. By making both Standards effective at the same time, entities would have the necessary guidance and incentive to report on all sustainability-related risks/opportunities they face. This is necessary for these risks/opportunities to be aggregated in a way that demonstrates relevant interactions, cumulative effects, trade-offs and how such trade-offs are being addressed.

b. When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft

The effective date should be as soon as possible after the final IFRS S2 *Climate-related Disclosures* is issued.

From the investor perspective, resulting disclosures are urgently needed to make investment decisions. Therefore, it is in their best interest for relevant and comparable climate disclosures to be available as quickly as possible.

The EDs build on existing voluntary reporting standards such as TCFD recommendations and SASB standards. Entities in many jurisdictions are already familiar with these and would therefore be in a strong position to adopt the final IFRS Sustainability Disclosure Standards. TCFD recommendations in particular are being built upon to inform climate reporting regulations in many jurisdictions including but not limited to the United Kingdom, European Union, United States, Canada, Japan, Switzerland, Hong Kong, Singapore and New Zealand. As such, for many reporting entities, preparation to issue such disclosures is already underway.

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?

Groups of disclosures included within the ED are less relevant to investors in isolation – they are needed in tandem to provide a faithful representation of an entity's exposure to climate-related risks/opportunities and how this is being addressed.

For example, an investor would want to understand the resilience of an entity's strategy to climate-related risks to understand, assess and potentially engage on the suitability of its governance structure for managing these. Similarly, investors would need disclosures on resilience analysis conducted to better understand and verify an entity's selection of material climate-related risks/opportunities.

Given the interconnectedness of disclosures within the ED, investors would benefit most from all disclosures being applied at the same time.

15. DIGITAL REPORTING

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

PRI is not able to comment on this.

16. GLOBAL BASELINE

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

In our view there are no proposed aspects that would limit the ability of IFRS Sustainability Disclosure Standards to be used as a global baseline. In particular, the Climate ED and accompanying Illustrative Guidance build off well-established climate reporting concepts, frameworks, and standards in specifying guidance and disclosures.

Overall, we believe this will ensure a common set of climate-related reporting requirements that are compatible with existing and emerging reporting standards and regulations, which will improve the likelihood of their adoption across jurisdictions.

17. OTHER COMMENTS

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

The final Climate Standard should explicitly require that entities must disclose requirements within the General Requirements ED 'General features' section, including requirements relating to:

- reporting entity [37-41];
- connected information [42-44];
- fair presentation [45-55];
- materiality [56-62];
- comparative information [63-65];
- frequency and location of reporting [66-78]; and
- sources of estimation and outcome uncertainty [79-83] and errors [84-90].

To meet fair presentation, disclosure under the final IFRS Sustainability Disclosure Standards must meet the fundamental qualitative characteristics (relevance and faithful representation) and enhancing qualitative characteristics (comparability, verifiability, and understandability) of sustainability-related financial information, as laid out in the General Requirements ED [Appendix C]. These characteristics should also be referenced within the final IFRS S2 *Climate-related Disclosures*.

Addressing investor data needs

Investors are not homogenous, and their needs vary depending on their investment objectives, strategy, mandate and other characteristics. All investors need sustainability-related information that informs their assessment of their investments' financial performance. However, investors also

increasingly need information to assess and interpret a company's sustainability performance[23] and their alignment to long-term sustainability goals and thresholds (i.e. sustainability outcomes[24]).

The PRI welcomes the standard's recognition that sustainability-related financial information captures all information that results in changes to the entity's enterprise value in the short, medium and long term. This includes the direct financial implications of an entity's actions, impacts and dependencies on people, the planet and the environment, but also indirect implications due to effects of systemic risks - such as exceeding planetary boundaries – on the wider economy, market or sector the entity operates in. We also recognise that some of the metrics and targets required by the standard, could play a dual purpose: to inform investors' assessment of enterprise value and as indicators of sustainability performance or positive and negative contributions to sustainability outcomes – for example, the emissions of an entity's factory/plant. With this, the standard will enable disclosure of information that captures elements of an entity's sustainability performance and its positive and negative contributions to sustainability outcomes.

However, disclosure focused on enterprise value will not serve the needs of all investors, particularly those that are looking for a broader understanding of an entity's sustainability performance and outcomes. The standard does not require disclosure: (i) of the entity's contribution towards the sustainability outcomes (which could also contribute to systemic effects); nor does it (ii) require disclosure on indicators of performance that are currently not expected to influence enterprise value, as these impacts and dependencies are only on stakeholders external to the entity.

Therefore, the PRI supports the 'building blocks' approach to enable companies to report information that goes beyond the ISSB's focus on enterprise value, reporting against relevant jurisdictional initiatives and/or the Global Reporting Initiative (GRI)[25]. However, to implement this approach in practice, we believe the standard must also ensure consistency in their conceptual frameworks and alignment in common disclosures.

Firstly, for **consistency in conceptual frameworks**, standard setters should ensure consistency in:

- **Their reporting design/structure**, to ensure common (relevant) data is accessible to investors, which includes reporting on governance, strategy, risk management and metrics/targets, even if this information is not included under the same headings;
- **The terminology and their definitions**, to ensure comparability of the data across the standards, particularly when referring to common disclosures; and
- **Their reporting concepts**, which includes the qualitative characteristics (e.g. relevance) that underpin the standards.

Secondly, for **alignment in common disclosures** that can serve both reporting of information that is relevant to an entity's enterprise value and its sustainability performance and outcomes, standard setters should ensure alignment of disclosure on:

- **Relevant aspects of the entity's governance, strategy, and risk management processes**, which may be reported independent of the specific sustainability-related issue.
- **Common indicators for metrics/targets** for specific issues, which play a dual purpose for investors.

In line with this, the PRI welcomes the recently announced collaboration agreement between the IFRS Foundation and the GRI. We look forward to hearing more about the collaboration as it develops and how we can best support this initiative.

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[23] Sustainability performance refers to how an investee's operations and products positively/negatively affect people and the environment.

[24] Sustainability outcome refers to: how an investee's sustainability performance contributes to sustainability goals.

[25] See slide 6: https://www.ifrs.org/content/dam/ifrs/meetings/2022/june/cmac-gpf/ap6-issb-update-and-issb-exposure-drafts.pdf

ANNEX 1 – SECTOR METRICS AND TARGETS TABLE

The PRI is grateful to the MRV Track of the UN Net-Zero Asset Owner Alliance for providing this table

Sector[26]	Required Data *Reported as of current date, and forward looking at 5 years and 10 years
Oil and Gas	■ gCO2e/ MJ[27] ■ Also reporting on methane separately with; gCH4/MJ
Utilities	■ tCO2e/MWH[28] [29]
Transportation – Aviation	■ gCO2e/RTK
Transportation – Shipping	■ gCO2e/TKM[30]
Transportation – Heavy duty road	■ gCO2e/TKM
Transportation – Light duty road	■ gCO2e/KM (of newly sold fleet of vehicles)
Cement	■ tCO2e/tonne of cementitious produced
Steel	■ tCO2e/tonne of crude steel[31]
Aluminium	■ tCO2e/tonne of aluminium[32]
Agriculture	■ tCO2/tonne of agricultural product ■ CH4/tonne of agricultural product ■ NO2/tonne of agricultural product
Chemicals	■ tCO2e/tonne of chemical product[33]
Construction & Buildings	■ CO2e/m2 annum ■ kWh/m2 annum[34]

[26] Please see Alliance Target Setting Protocol Annex for NACE/GICS/BICS mapping of sector classifications.

[27] Scope 1, 2 and 3 (use of sold product) greenhouse gas emissions from energy products sold externally in units of grams of CO2 equivalent (gCO2e) per mega joule (MJ). “Energy products sold externally” is defined by TPI as the total net calorific energy supply from all fuels including hydrocarbons, biomass and waste, plus energy supplied as electricity generated from fossil fuels, nuclear or renewables. https://www.transitionpathwayinitiative.org/publications/96.pdf?type=Publication

[28] A “t” indicated metric tonne, not US ton. “CO2e” is used here and is requested by some, while TPI requests “Co2”.

[29] Scope 1 of owned gross electricity generation, excluding purchased electricity.

[30] Note, Current TPI methodology considers emissions related to marine shipping in international waters only; we note that it would be useful if companies provide an intensity for all shipping activities and then separate ones for shipping activities in international vs coastal vs inland waters.

[31] Where possible reporting separately for primary and secondary.

[32] This should include emissions from alumina and aluminium production, both normalised to a tonne of aluminium.

[33] We note the heterogeneity in the chemical sector and that this may vary by the type of products produced by the company in the sector. We none the less believe this is the necessary starting place.

[34] This should cover 100% of buildings’ floor area and include additionally embodied emissions for new buildings / refurbishments (CO2/m2).