AASB Exposure Draft

ED 321
April 2022

Request for Comment on ISSB [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures*

Comments to the AASB by 15 July 2022

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the International Sustainability Standards Board (ISSB). The AASB is seeking comment by 15 July 2022. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the ISSB, which are due by 29 July 2022.

Formal Submissions

Submissions should be lodged online via the "Current Projects – Open for Comment" page of the AASB website as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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AASB REQUEST FOR COMMENT

In response to growing global demand for more consistent and comparable reporting of sustainability-related financial information, in November 2021 the International Financial Reporting Standards (IFRS) Foundation established the International Sustainability Standards Board (ISSB). Acknowledged as a matter of urgency, the IFRS Foundation initially tasked the ISSB with developing standards addressing (i) the disclosure of climate-related financial information; and (ii) more generally, the disclosure of sustainability-related financial information.

In November 2021 the Financial Reporting Council, the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) published a Position Statement on *Extended External Reporting and Assurance* which clarified that the AASB intends to develop reporting requirements for sustainability-related information within the current institutional framework in place for financial reporting.

AASB's proposed approach to developing reporting requirements for sustainability-related financial information

From November 2021 to February 2022, the AASB conducted outreach on the potential scope and direction of a project addressing sustainability reporting as part of its Invitation to Comment (ITC) 46 *AASB Agenda Consultation 2022-2026*. Feedback to ITC 46, which was presented to the AASB at its February 2022 meeting, indicated that stakeholders were:

(a) supportive of the AASB expanding its scope of activities to include sustainability reporting;

(b) of the view that such a project should be considered a high priority by the AASB; and

(c) of the view that such a project should prioritise international alignment.

Consequently, in February 2022 the AASB formally added the Sustainability Reporting project to its work plan.

In February and April 2022, the AASB also made the following preliminary decisions to assist in the development of a draft project plan:[1]

A separate suite of sustainability-related reporting standards that would operate alongside existing Australian Accounting Standards

At its February 2022 meeting, the AASB considered two approaches to positioning sustainability-related reporting requirements in Australia:

(a) Approach 1—incorporating sustainability-related reporting requirements into existing Australian Accounting Standards; and

(b) Approach 2—developing a separate suite of standards addressing sustainability-related reporting.

For the purpose of assisting AASB staff to develop a draft Sustainability Reporting project plan, the Board made the preliminary decision to position Australian sustainability-related reporting requirements as a separate suite of standards. Such an approach:

(a) aligns more broadly with the approaches of international sustainability-related reporting standard-setters and framework providers (such as the IFRS

1 For additional details refer to the AASB's February 2022 Action Alert and April 2022 Action Alert.

Foundation) and jurisdictions (such as New Zealand, the United Kingdom, Canada, and the European Union);

(b) allows the AASB more flexibility to develop sustainability-related reporting requirements that can address the reporting of a broad range of sustainability-related information (such as information related to biodiversity and human rights) either as part of general purpose financial reporting or as a separate reporting exercise; and

(c) similar to Australian Accounting Standards, leaves the decision to mandate sustainability-related financial reporting with the relevant Australian legislators.

Referring to the work of the ISSB as a starting point

At its February and April 2022 meetings, the AASB discussed the potential approaches for the development of Australian sustainability-related reporting requirements including consideration of the proposed scope of the project. As part of these discussions, the AASB considered referring to the work of a number of international and jurisdictional approaches as a starting point (such as the Global Reporting Initiative (GRI) and New Zealand) or developing Australian-specific sustainability-related reporting requirements. In making its preliminary decision, the AASB considered feedback to ITC 46 which indicated that:

(a) stakeholders viewed international alignment of sustainability-related reporting as a high priority; and

(b) concerns about sustainability-related reporting predominantly focused on the connectivity between broader sustainability reporting (such as that addressed by the GRI) and an entity's general purpose financial statements[2]—that is, concerns predominantly focused on improving the consistency and comparability of sustainability-related disclosures made as part of an entity's general purpose financial reporting.

At this stage, the AASB considers that while the proposed work of the ISSB is only intended as a minimum set of requirements on which jurisdictions can build upon, the ISSB has the greatest chance of succeeding in developing internationally-aligned sustainability-related reporting requirements. However, the AASB also considers that success will be dependent on the international uptake of the ISSB's initial proposed standards.

Consequently, to assist AASB staff in developing a draft project plan the AASB made the following preliminary decisions:

(a) to use the work of the ISSB as a foundation, with modifications for Australian matters and requirements where necessary to meet the needs of Australian stakeholders; and

(b) to align the proposed scope of the project with the proposed scope of the ISSB's work and focus on developing reporting requirements for sustainability-related financial information.[3]

2 Broader sustainability reporting includes in its scope all sustainability reporting matters that reflect an entity's positive and negative environmental, social and governance (ESG) impacts. Reporting at this level is designed to inform the assessments and decisions by a broad range of users who want to understand an entity's positive and negative ESG impacts and is currently addressed by the Global Reporting Initiative (GRI).

3 It is not the AASB's intention to replace broader sustainability reporting currently addressed by GRI Standards—instead, the AASB has decided that the focus should be on the connectivity between broader sustainability reporting and financial statements through the development of reporting requirements for sustainability-related financial information.

Focusing on for-profit entities (FP entities) before not-for-profit private and public sector entities (NFP entities)

Feedback to ITC 46 indicated that sustainability-related reporting for NFP entities is significantly different to sustainability-related reporting for FP entities and that further outreach and research was needed to determine the relevance of such reporting for NFP entities.

Consequently, to assist AASB staff in developing a draft project plan the AASB made the preliminary decision to focus on the development of sustainability-related financial reporting requirements for FP entities, with NFP entities to be considered at a later stage following additional outreach and research.

Due process considerations

At its February 2022 meeting the AASB considered the preliminary work on the sustainability reporting due process and decided to initially apply its existing Due Process Framework for Setting Standards.

The AASB intends to revisit its preliminary decisions based on the outcomes from this public consultation and international uptake of the ISSB's initial standards.

Why is the AASB publishing the Exposure Draft?

The AASB is consulting on the ISSB's Exposure Drafts on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (Exposure Draft on [Draft] IFRS S1) and [Draft] IFRS S2 *Climate-related Disclosures* (Exposure Draft on [Draft] IFRS S2) to inform any possible future development of a separate suite of Australian sustainability reporting standards by the AASB. Consequently, the purpose of publishing this Exposure Draft in Australia is to:

(a) gather feedback to provide input into the ongoing work of the ISSB; and

(b) inform the AASB as to the appropriateness of and support for its proposed approach to sustainability-related financial reporting in Australia.

The proposals contained in the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 are not intended to have any impact on an entity's compliance with Australian Accounting Standards. Any future sustainability-related reporting requirements that may be developed by the AASB are proposed to be independent from, although aligned with, the existing requirements of Australian Accounting Standards.

Accordingly, the AASB is inviting comments on:

(a) any of the proposals in the attached ISSB Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2, including the specific questions on the proposals as listed in the Invitation to Comment sections of the attached ISSB Exposure Drafts; and

(b) the 'AASB Specific Matters for Comment' listed below.

Relevant Australian Legislation and Guidance

There is currently no national approach to sustainability-related reporting in Australia which has led to:

(a) a diverse range of legislation and guidance being developed by individual Australian government and industry bodies; and

(b) a diverse range of sustainability-related reporting standards and frameworks being applied by Australian entities. Many entities in Australia already provide sustainability-related disclosures, for example by applying the GRI Standards and recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD Recommendations).

Outreach and research performed by AASB staff identified the following key sustainability and climate-related Australian legislation and guidance:[4]

Relevant legislation and guidance	**Reason relevant**
National Greenhouse and Energy Reporting Act 2007	The national framework for measuring, reporting and disseminating company information about greenhouse gas emissions, energy production, energy consumption and other information specific under National Greenhouse and Energy Reporting (NGER) legislation.
National Greenhouse Accounts (NGA) Factors	The NGA Factors, as published by the Department of Industry, Science, Energy and Resources, provides methods that help companies and individuals estimate greenhouse gas emissions.
Australian Securities and Investments Commission (ASIC) Regulatory Guides and Report	Division 1 of Pt 2M.3 of the *Corporations Act 2001* sets out the requirements for annual financial reports and directors' reports. In September 2018, ASIC set out their recommendations relating to the consideration and disclosure of climate risk in Report 593 *Climate risk disclosure by Australia's listed companies* (Report 593). In August 2019, ASIC updated its existing regulatory guidance to address the disclosure of climate-related risks and opportunities. The updates were made to: • Regulatory Guide 228 *Prospectuses: Effective disclosure for retail investors* (RG 228); and • Regulatory Guide 247 *Effective disclosure in an operating and financial review* (RG 247).
Australian Stock Exchange (ASX) *Corporate Governance Principles and Recommendations*	Issued in February 2019 for application for financial years beginning on or after 1 January 2020, the ASX Corporate Governance Council's fourth edition of the ASX *Corporate Governance Principles and Recommendations* (ASX *Principles and Recommendations*) now make reference to climate-related risk and the TCFD Recommendations. The ASX *Principles and Recommendations* also require a company to disclose material exposure to economic, environmental and social sustainability risks and how the entity manages or intends to manage those risks.

4 Note that the list of key sustainability and climate-related Australian legislation and guidance is indicative only and not intended to be a complete list of all sustainability and climate-related legislation, regulations and guidance in Australia.

Relevant legislation and guidance	Reason relevant
Australian Prudential Regulatory Authority (APRA) Prudential Practice Guide CPG 229 *Climate Change Financial Risks*	In November 2021, APRA issued Prudential Practice Guide CPG 229 *Climate Change Financial Risks* (CPG 229). While not mandatory, CPG 229 aims to assist APRA-regulated institutions in complying with Prudential Standards CPS 220 *Risk Management*, SPS 220 *Risk Management*, CPS 510 *Governance*, SPS 510 *Governance* and, more generally, to outline prudent practices in relation to climate change financial risk management.

Refer to Appendix A of this Request for Comment for more detail about the relevant legislation and guidance identified.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

Part A: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S1

A1. Exposure Draft on [Draft] IFRS S1 is proposing that entities be required to disclose information that is material and gives insight into an entity's sustainability-related risks and opportunities that affect enterprise value.[5] Is focusing on an entity's enterprise value the most appropriate approach when considering sustainability-related financial reporting? If not, what approach do you suggest and why?

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions.[6] Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

B2. To comply with the proposals related to GHG emissions disclosures in Exposure Draft on [Draft] IFRS S2 an entity would be required to apply the Greenhouse Gas Corporate (GHGC) Standard. Do you agree that Australian entities should be required to apply the GHGC Standard given existing GHG emissions legislation and guidance in place for Australian entities (for example, the NGER Act, *NGER (Measurement) Determination 2008* and related guidance)?

B3. Are the proposed industry-based disclosure requirements in Appendix B to Exposure Draft on [Draft] IFRS S2 relevant for Australian industries and sectors? If not, what changes do you suggest and why?

5 Appendix A to Exposure Draft on [Draft] IFRS S1 defines **enterprise value** as "the total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt".
6 Note that at the date of this publication the NGER Act and NGER (Measurement) Determination refer only to the disclosure of Scope 1 and 2 greenhouse gas (GHG) emissions.

B4. Are there any Australian-specific climate-related matters that the AASB should consider incorporating into the requirements proposed in Exposure Draft on [Draft] IFRS S2? For example, given the Exposure Draft on [Draft] IFRS S2 is the starting point for the AASB's work on climate-related financial disclosure, should there be additional reporting requirements for Australian entities? If so, what additional reporting requirements should be required and why?

Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2

C1. Which Australian entities should be expected to apply the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and why? Specifically:

   (a) should the proposals be intended for all for-profit entities in Australia or only to a subset of for-profit entities? and

   (b) should relief from specific aspects of the proposals be permitted for some entities for which the proposals are deemed burdensome (for example, Scope 3 GHG emissions and scientific and scenario analyses)? If so, which entities and why?

C2. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

C3. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 align with existing or anticipated requirements, guidance or practice in Australia? If not:

   (a) please explain the key differences that may arise from applying the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and the impact of any such differences; and

   (b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

C4. Would the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 result in useful information for primary users of general purpose financial reports?

C5. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?

C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?

C7. Should the effective date of the proposals in Exposure Draft on [Draft] IFRS S1 be consistent with, or set for a date after, the effective date of the proposals in Exposure Draft on [Draft] IFRS S2? If so, why?

C8. Would any wording or terminology introduced in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be difficult to understand? If yes, what changes do you suggest and why?

C9. Unless already provided in response to specific matters for comment A1 to C8 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

Part D: Matters for comment relating to the AASB's proposed approach

D1. Do you agree with the AASB's proposed approach to developing sustainability-related financial reporting requirements as a separate suite of standards? As an alternative model, the AASB would value comments as to whether sustainability-related financial reporting requirements should be developed as part of existing Australian Accounting Standards. The alternative model would result in sustainability-related financial disclosures forming part of an entity's general purpose financial statements.[7]

D2 Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?

7 Note that should sustainability-related financial reporting requirements be developed as part of existing Australian Accounting Standards, they would form part of the AASB's authoritative guidance and be considered as mandatory requirements.

Appendix A—Relevant Australian Legislation and Guidance

National Greenhouse and Energy Reporting Act 2007

The National Greenhouse and Energy Reporting (NGER) scheme, established by the NGER Act, is a single national framework for reporting and disseminating company information about GHG emissions, energy production, energy consumption and other information specific under NGER legislation.

The objectives of the NGER scheme are to:

(a) inform government policy;

(b) inform the Australian public;

(c) help meet Australia's international reporting obligations;

(d) assist Commonwealth, state and territory government programmes and activities; and

(e) avoid duplication of similar reporting requirements in the states and territories.

The NGER scheme framework consists of six major elements:

(a) registration and deregistration—all controlling corporations that meet a threshold under the NGER scheme, must apply to be registered;

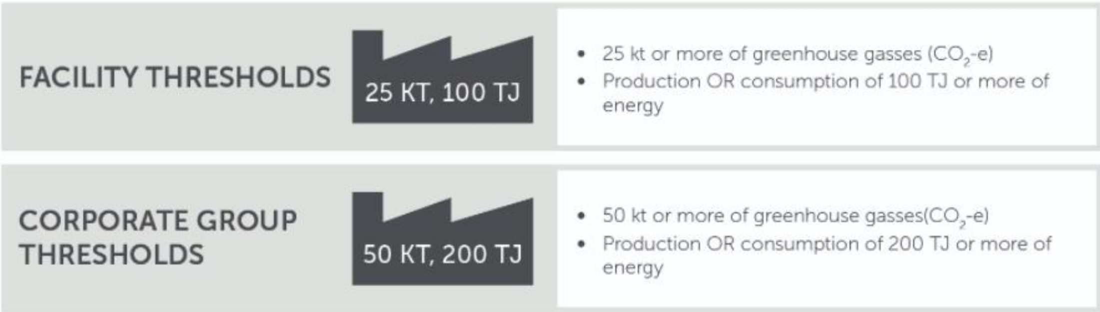
(b) reporter obligations—registered corporations are required to report all GHG emissions, energy production and energy consumption from facilities under the operational control of: (i) the registered controlling corporation; or (ii) members of its group;

(c) reporting, record keeping, monitoring and compliance—all registered controlling corporations are required to submit an NGER report each year until the corporation is deregistered. A registered corporation and any other person required to provide information to the Clean Energy Regulator must keep adequate records of the activities of members of the group (in the case of registered corporations) or the person's activities (in the case of persons required to provide information). The Clean Energy Regulator monitors compliance with the NGER legislation;

(d) data publication—based on the reports of registered corporations, the Clean Energy Regulator is required to publish their own reports and data; and

(e) the audit framework—the reporting audit framework was developed in consultation with industry, the financial and GHG accounting professions, and the environmental audit sector, as well as through analysis of existing international and national standards used for verification and assurance.

Corporations that meet a NGER threshold must register with the Clean Energy Regulator and once registered, report each year. There are two types of thresholds that determine which corporations have an obligation under the NGER Act, being facility and corporate group thresholds:



The *NGER (Measurement) Determination 2008* provides methods, criteria and measurement standards for calculating GHG emissions and energy data under the NGER Act. While it is updated annually to reflect improvements in emission estimation methods, it only considers Scope 1 and Scope 2 GHG emissions and energy production and consumption.

The Clean Energy Regulator has observed that interest in voluntary action to reduce Australia's carbon emissions is growing. In response, the Clean Energy Regulator is in the process of developing a voluntary initiative (the Corporate Emissions Reduction Transparency (CERT) report) to help support NGER participants that meet the publication threshold to publicly report on their GHG emissions reduction commitments and progress towards meeting them.[8]

National Greenhouse Accounts (NGA) Factors

Published by the Department of Industry, Science, Energy and Resources (DISER), the NGA Factors provides methods that help companies and individuals estimate GHG emissions. However, the NGA Factors should not be used to meet the reporting requirements under the NGER Act. While the methods draw on the NGER (Measurement) Determination, companies can apply them to a broader range of GHG emissions estimates. For example, NGA Factors: 2021 includes guidance related to Scope 3 GHG emissions estimates.
DISER estimate default GHG emission factors:

(a) using the Australian Greenhouse Emissions Information System (AGEIS); alongside

(b) Australia's National Greenhouse Accounts.

Such an approach ensures consistency of reporting in Australia and is consistent with international guidelines.

The factors are revised and published on an annual basis. NGA Factors: 2021 includes guidance related to Scope 3 GHG emissions.

Australian Securities and Investments Commission (ASIC) Regulatory Guides and Report

Division 1 of Pt 2M.3 of the Corporations Act sets out the requirements for annual financial reports and directors' reports. Under section 292(1), for example, all companies, registered managed investment schemes and disclosing entities that are listed (listed entities) must prepare an annual financial report and a directors' report.

8 For further details please refer to: http://www.cleanenergyregulator.gov.au/Infohub/consultation-hub/corporate-emissions-reduction-transparency-report

For listed entities, the Corporations Act sets out additional requirements for the contents of a directors' report. Under section 299A(1), a listed entity's directors' report must contain information that shareholders would reasonably require to make an informed assessment of the entity's:

- operations;
- financial position; and
- business strategies and prospects for future financial years.

Furthermore, all entities preparing reports under Chapter 2M of the Corporations Act are required under section 299(1)(f) to disclose, if an entity's operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory, details of the entity's performance in relation to that environmental regulation as part of the directors' report for a financial year.

In September 2018, ASIC set out their recommendations relating to the consideration and disclosure of climate risk in Report 593 *Climate risk disclosure by Australia's listed companies* (Report 593). As part of Report 593, ASIC encourages directors and senior management of listed companies and their advisors to:

(a) consider climate risk—directors and senior management of listed companies should understand and continually reassess existing and emerging risks, including climate risk;

(b) develop and maintain strong and effective corporate governance—strong corporate governance facilitates identifying and managing material risks;

(c) comply with the law—directors should consider disclosure of material business risks affecting future prospects in an operating and financial review (OFR); and

(d) disclose useful information to investors—directors of listed companies with material exposure to climate risk should consider reporting voluntarily under the TCFD Recommendations.

In August 2019 ASIC updated its existing regulatory guidance to address the disclosure of climate-related risks and opportunities. The updates were made to:

(a) Regulatory Guide 228 *Prospectuses: Effective disclosure for retail investors* (RG 228); and

(b) Regulatory Guide 247 *Effective disclosure in an operating and financial review* (RG 247).

The updates clarify that climate-related risks, like other significant risks, should be considered by boards. In particular, the updates:

(a) incorporate types of climate-related risk into the list of examples of common risks that may need to be disclosed in a prospectus—suggested examples provided in RG 228 now include references to both transactional risks associated with the transition to a lower-carbon economy, and physical risks driven by acute or long term shifts in climate patterns;

(b) highlight climate change as a systematic risk that could have a material impact on the future financial position, performance or prospects of entities, and that may therefore need to be disclosed in an OFR. RG 247 also asks directors to consider whether additional information, relevant under integrated reporting, sustainability reporting or the TCFD Recommendations, should be disclosed where that information is not already required for the OFR; and

(c) reinforce that disclosures made outside the OFR (such as disclosures made in line with the TCFD Recommendations) should not be inconsistent with the disclosures made in the OFR (RG 247).

Australian Stock Exchange (ASX) *Corporate Governance Principles and Recommendations*

Issued in February 2019 for application for financial years beginning on or after 1 January 2020, the ASX Corporate Governance Council's fourth edition of the ASX *Corporate Governance Principles and Recommendations* (ASX *Principles and Recommendations*) now make reference to climate-related risk. While the third edition of the ASX Principles and Recommendations required ASX-listed entities to disclose material exposure to economic, environmental and social sustainability risks, the fourth edition explicitly refers to climate-related risks.

In particular, Recommendation 7.4 of the ASX *Principles and Recommendations* encourages entities to both consider whether they have material exposure to climate-related risks by reference to the TCFD Recommendations and, if they do, to make the disclosures recommended by the TCFD.

Australian Prudential Regulatory Authority (APRA) Prudential Practice Guidance

In November 2021, APRA issued Prudential Practice Guide CPG 229 *Climate Change Financial Risks* (CPG 229). While not mandatory, CPG 229 aims to assist APRA-regulated institutions in complying with Prudential Standards CPS 220 *Risk Management*, SPS 220 *Risk Management*, CPS 510 *Governance*, SPS 510 *Governance* and, more generally, to outline prudent practices in relation to climate change financial risk management.

As part of CPG 229, APRA considers it better practice for any disclosures about climate change financial risks to be in line with the TCFD Recommendations.

IFRS Sustainability

March 2022

Exposure Draft

IFRS® Sustainability Disclosure Standard

[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Comments to be received by 29 July 2022

International Sustainability Standards Board

ED/2022/S1

Exposure Draft

General Requirements for Disclosure of Sustainability-related Financial Information

Comments to be received by 29 July 2022

Exposure Draft ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is published by the International Sustainability Standards Board (ISSB) for comment only. Comments need to be received by 29 July 2022 and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

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CONTENTS

[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is set out in paragraphs 1–92 and Appendices A–C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the [draft] Standard. Definitions of other terms are given in other IFRS Sustainability Disclosure Standards. The [draft] Standard should be read in the context of its objective and the Basis for Conclusions.

Introduction

Why is the ISSB publishing the Exposure Draft?

These proposals respond to calls from primary users (investors, lenders and other creditors) of general purpose financial reporting for more consistent, complete, comparable and verifiable sustainability-related financial information to help them assess an entity's enterprise value. An entity's ability to remain resilient will rely on a range of resources and relationships. Such resources and relationships include its workforce, any specialised knowledge it has developed and its relationships with local communities and natural resources. Investors, lenders and other creditors, therefore, seek information about the significant sustainability-related risks and opportunities facing an entity to inform their decisions about providing resources to the entity. Such information supplements and complements the information contained in the entity's financial statements.

Sustainability-related risks and opportunities arise from an entity's dependencies on resources and its impacts on resources, and the relationships the entity maintains that may be positively or negatively affected by those impacts and dependencies. When an entity's business model depends, for example, on a natural resource—like water—it is likely to be affected by changes in the quality, availability and pricing of that resource. When an entity's activities result in adverse, external impacts—on, for example, local communities—it could be subjected to stricter government regulation and consequences of reputational effects—for example, negative effects on the entity's brand and higher recruitment costs. Furthermore, when an entity's business partners face significant sustainability-related risks and opportunities, the entity could be exposed to related consequences of its own. When such impacts, dependencies and relationships create risks or opportunities, they can create or erode the value of the enterprise, the financial returns to providers of financial capital, and the assessment of enterprise value by primary users.

Enterprise value reflects expectations of the amount, timing and certainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. The information contained in its financial statements and the information included in an entity's sustainability-related financial disclosures are essential inputs to a primary user's assessment of an entity's enterprise value. The proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed.

A summary of the proposals in the Exposure Draft

The proposals set out the overall requirements for disclosing sustainability-related financial information in order to provide primary users with a complete set of sustainability-related financial disclosures. The Exposure Draft is based on the general requirements for disclosure of sustainability-related financial information prototype published on the IFRS Foundation website in November 2021, developed by the Technical

Readiness Working Group (TRWG).[1] The prototype and the Exposure Draft include the recommendations by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and components of the frameworks and standards of international sustainability bodies, as published in a prototype of a sustainability-related financial disclosure presentation standard in December 2020.[2]

The Exposure Draft includes proposals for definitions and requirements that are consistent with the IASB's *Conceptual Framework for Financial Reporting*, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The proposals include requirements and guidance to support the disclosure of material information about significant sustainability-related risks and opportunities not specifically addressed by an IFRS Sustainability Disclosure Standard. In such cases, to identify sustainability-related risks and opportunities and to disclose information about them, entities are directed to consider sources that include the disclosure topics in the industry-based Sustainability Accounting Standards Board (SASB) Standards, the International Sustainability Standards Board's (ISSB) non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

The information requirements are designed to enable primary users to assess enterprise value. The information required reflects the way in which an entity operates, covering governance, strategy, risk management and metrics and targets. This approach responds to feedback on key requirements for success in the IFRS Foundation Trustees' (Trustees) 2020 consultation on sustainability reporting by building upon the well-established work of the TCFD.

The proposals would require an entity to explain the connections between different pieces of information, including between various sustainability-related risks and opportunities and information in the entity's financial statements.

The sustainability-related financial information must be for the same reporting entity as the financial statements and published as part of its general purpose financial reporting. This means the information must be disclosed at the same time as the financial statements.

To be able to assert compliance with IFRS Sustainability Disclosure Standards, an entity must meet all of the requirements of these Standards.

1 The TRWG included the International Accounting Standards Board (IASB), the Climate Disclosure Standards Board (CDSB), the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), the Value Reporting Foundation (previously the SASB Foundation and the International Integrated Reporting Council) and the World Economic Forum and its Measuring Stakeholder Capitalism Initiative.

2 https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf

Due process provisions applicable to the Exposure Draft

The urgent need for the ISSB to deliver its initial Standards has been repeatedly highlighted, including in feedback to the September 2020 consultation on sustainability reporting held by the Trustees and to the April 2021 Exposure Draft of proposed amendments to the IFRS Foundation *Constitution*. The International Organization of Securities Commissions has also emphasised the urgent need for disclosure standards on climate change. Such urgency can pose significant challenges to standard-setting, which aims to achieve effective outcomes by balancing timely responsiveness to market needs with the rigour of formal due process.

The Trustees recognised the opportunity to use and build upon existing sustainability standards and frameworks, including those developed in accordance with prior due process by the organisations that developed them and that enjoy broad user and preparer support. The main components of the Exposure Draft are based on work that has been subject to extensive public consultation and redeliberation and have since garnered significant market uptake. The Trustees viewed this as a signal that these foundational standards and frameworks help to address the information needs of investors and other capital market participants.

The Trustees noted the need for prompt action and the background to the content of the Exposure Draft. However, they also noted that this does not negate the need for formal due process and exposure by the ISSB. It is important that the ISSB's stakeholders are given the opportunity to provide feedback on the proposals consistent with the IFRS Foundation's inclusive and thorough due process.

To balance the need to advance the work of the ISSB on a timely basis while obtaining input from interested parties, the Trustees decided to grant special powers to the Chair and Vice-Chair of the ISSB to enable timely publication of initial exposure drafts for stakeholder input. The Trustees agreed it would be appropriate that as the ISSB is being established (that is, as a transitional measure) the ISSB Chair and Vice-Chair be provided with the ability to publish exposure drafts of a climate-related disclosure standard and/or a general requirements disclosure standard. This decision is reflected in paragraph 56 of the IFRS Foundation's *Constitution* published in November 2021.

The effect of this provision in the *Constitution* is only to enable the exposure drafts to be published prior to the ISSB being quorate. The exposure drafts are subject to public consultation and will be redeliberated by a quorate ISSB. The ISSB Chair and Vice-Chair's right was made subject to oversight by the Due Process Oversight Committee of the Trustees who were consulted at a meeting convened on 21 March 2022 during which they confirmed they did not object to the ISSB Chair and Vice-Chair publishing these exposure drafts.

Next steps

The Chair and Vice-Chair anticipate significant interest from stakeholders on the Exposure Draft and on [draft] IFRS S2 *Climate-related Disclosures* which has been published at the same time as the Exposure Draft. The ISSB will analyse and consider the comments and feedback it receives and will decide how to proceed.

The ISSB intends to redeliberate the Exposure Draft in the second half of 2022 based on feedback from stakeholders and seeks to issue the resulting IFRS Sustainability Disclosure Standard based on these proposals expeditiously.

Invitation to comment

The Chair and Vice-Chair invite comments on the proposals in the Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) address the questions as stated;

(b) specify the paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the ISSB should consider, if applicable.

The Chair and Vice-Chair are requesting comments only on matters addressed in the Exposure Draft.

Questions for respondents

Question 1—Overall approach
The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it. Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value. (a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer? (b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not? (c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear? (d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

Question 2—Objective (paragraphs 1–7)
The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value. Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information. Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets. The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value. (a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not? (b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

Question 3—Scope (paragraphs 8–10)
Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures. The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP). Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

Question 4—Core content (paragraphs 11–35)

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well-established work of the TCFD.

Governance

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

> to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

> to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

> to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

Metrics and targets

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

> to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

Question 5—Reporting entity (paragraphs 37–41)

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;
- the assets it controls (such as a production facility that relies on scarce water resources);
- investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and
- sources of finance.

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

Question 6—Connected information (paragraphs 42–44)
The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements. (a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not? (b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

Question 7—Fair presentation (paragraphs 45–55)

The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.

To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

Question 8—Materiality (paragraphs 56–62)

The Exposure Draft defines material information in alignment with the definition in IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'.

However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value.

Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.

The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.

(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

(b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

(c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

Question 9—Frequency of reporting (paragraphs 66–71)
The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements. Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

Question 10—Location of information (paragraphs 72–78)

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?

(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

Question 12—Statement of compliance (paragraphs 91-92)

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

Question 13—Effective date (Appendix B)
The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard. (a) 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, those using the sustainability-related financial disclosures and others. (b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

Question 14—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

Question 15—Digital reporting
The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 *Climate-related Disclosures* Standards are the sources for the Taxonomy. It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation. 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)?

Question 16—Costs, benefits and likely effects
The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits. (a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals? (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

Question 17—Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

How to comment

Please submit your comments electronically:

Survey and comment letter online	https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/
Comment letter by email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your survey response or letter.

Deadline

The ISSB will consider all written comments and responses to the survey received by 29 July 2022.

[Draft] IFRS S1
General Requirements for Disclosure of Sustainability-related Financial Information

Objective

1 **The objective of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is to require an entity to disclose information about its significant sustainability-related risks and opportunities that is useful to the *primary users of general purpose financial reporting* when they assess *enterprise value* and decide whether to provide resources to the entity.**[3]

2 **A *reporting entity* shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for *users* of general purpose financial reporting to assess enterprise value.**

3 **An entity's *general purpose financial reporting* shall include a complete, neutral and accurate depiction of its *sustainability-related financial information*.**

4 This [draft] Standard sets out how an entity is required to disclose sustainability-related financial information in order to provide the users of that information with a sufficient basis to assess the implications of sustainability-related risks and opportunities on the entity's enterprise value.

5 Enterprise value reflects expectations of the amount, timing and certainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information that is provided by the entity in its financial statements and sustainability-related financial information.

6 Sustainability-related financial information is broader than information reported in the financial statements and could include information about:

(a) an entity's governance of sustainability-related risks and opportunities, and its strategy for addressing them;

(b) decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements;

(c) the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them; and

3 Throughout this [draft] Standard, the terms 'primary users' and 'users' are used interchangeably, with the same meaning.

(d) the entity's development of knowledge-based assets.

7 This [draft] Standard also prescribes the basis for disclosing sustainability-related financial information that:

(a) is comparable both with the entity's sustainability-related financial information of previous periods and with the sustainability-related financial information from other entities; and

(b) is connected to the other information in the entity's general purpose financial reporting.

Scope

8 **An entity shall apply this [draft] Standard in preparing and disclosing sustainability-related financial information in accordance with *IFRS Sustainability Disclosure Standards*. An entity may apply IFRS Sustainability Disclosure Standards when the entity's related financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP.**

9 Sustainability-related risks and opportunities that cannot reasonably be expected to affect assessments of an entity's enterprise value by primary users of general purpose financial reporting are outside the scope of this [draft] Standard.

10 This [draft] Standard uses terminology suitable for profit-oriented entities, including public-sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this [draft] Standard, they may need to amend the descriptions used for some disclosure items when applying IFRS Sustainability Disclosure Standards.

Core content

11 **Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity shall provide disclosures about:**

(a) governance—the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities;

(b) strategy—the approach for addressing sustainability-related risks and opportunities that could affect the entity's *business model* and strategy over the short, medium and long term;

(c) risk management—the processes the entity used to identify, assess and manage sustainability-related risks; and

(d) metrics and targets—information used to assess, manage and monitor the entity's performance in relation to sustainability-related risks and opportunities over time.

Governance

12 **The objective of *sustainability-related financial disclosures* on governance is to enable users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage sustainability-related risks and opportunities.**

13 To achieve this objective, an entity shall disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of sustainability-related risks and opportunities, and information about management's role in those processes. Specifically, an entity shall disclose:

(a) the identity of the body or individual within a body responsible for oversight of sustainability-related risks and opportunities;

(b) how the body's responsibilities for sustainability-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies;

(c) how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to sustainability-related risks and opportunities;

(d) how and how often the body and its committees (audit, risk or other committees) are informed about sustainability-related risks and opportunities;

(e) how the body and its committees consider sustainability-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;

(f) how the body and its committees oversee the setting of targets related to significant sustainability-related risks and opportunities, and monitor progress towards them (see paragraphs 27–35), including whether and how related performance metrics are included in remuneration policies; and

(g) a description of management's role in assessing and managing sustainability-related risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee. The description shall include information about whether dedicated controls and procedures are applied to management of sustainability-related risks and opportunities and, if so, how they are integrated with other internal functions.

Strategy

14 **The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.**

15 To achieve this objective, an entity shall disclose information about:

(a) the significant sustainability-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 16–19);

(b) the effects of significant sustainability-related risks and opportunities on its business model and *value chain* (see paragraph 20);

(c) the effects of significant sustainability-related risks and opportunities on its strategy and decision-making (see paragraph 21);

(d) the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how sustainability-related risks and opportunities are included in the entity's financial planning (see paragraph 22); and

(e) the resilience of its strategy (including its business model) to significant sustainability-related risks (see paragraphs 23–24).

Sustainability-related risks and opportunities

16 An entity shall disclose information that enables users of general purpose financial reporting to understand the significant sustainability-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. Specifically, the entity shall disclose:

(a) a description of significant sustainability-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term; and

(b) how it defines short, medium and long term and how these definitions are linked to the entity's strategic planning horizons and capital allocation plans.

17 An entity's sustainability-related risks and opportunities arise from its dependencies on resources and its impacts on resources, and from the relationships it maintains that may be positively or negatively affected by those impacts and dependencies. When an entity's business model depends, for example, on a natural resource—like water—it is likely to be affected by changes in the quality, availability and pricing of that resource. When an

entity's activities result in adverse, external impacts—on, for example, local communities—it could be subjected to stricter government regulation and consequences of reputational effects—for example, negative effects on the entity's brand and higher recruitment costs. Furthermore, when an entity's business partners face significant sustainability-related risks and opportunities, the entity could be exposed to related consequences of its own. When such impacts, dependencies and relationships create risks or opportunities for an entity, they can affect the entity's performance or prospects, create or erode the value of the enterprise and the financial returns to providers of financial capital, and the assessment of enterprise value by the primary user.

18 The short, medium and long term time horizons referred to in paragraph 16(a) can vary and depend on many factors, including industry-specific characteristics, such as cash flow and business cycles, the expected duration of capital investments, the time horizons over which the users of general purpose financial reporting conduct their assessments, and the planning horizons typically used in an entity's industry for strategic decision-making.

19 In identifying the significant sustainability-related risks and opportunities described in paragraph 16, an entity shall apply paragraph 51.

20 An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the current and anticipated effects of significant sustainability-related risks and opportunities on its business model. Specifically, an entity shall disclose:

(a) a description of the current and anticipated effects of significant sustainability-related risks and opportunities on its value chain; and

(b) a description of where in its value chain significant sustainability-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels).

Strategy and decision-making

21 An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant sustainability-related risks and opportunities on its strategy and decision-making. Specifically, an entity shall disclose:

(a) how it is responding to significant sustainability-related risks and opportunities;

(b) quantitative and qualitative information about the progress of plans disclosed in prior reporting periods; and

(c) what trade-offs between sustainability-related risks and opportunities were considered by the entity (for example, in a decision on the location of new operations, a trade-off between the environmental impacts of those operations and the employment opportunities they would create in a community, and the related effects on enterprise value).

Financial position, financial performance and cash flows

22 **An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how sustainability-related risks and opportunities are included in the entity's financial planning. An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, an entity shall disclose:**

(a) how significant sustainability-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows;

(b) information about the sustainability-related risks and opportunities identified in paragraph 22(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year;

(c) how it expects its financial position to change over time, given its strategy to address significant sustainability-related risks and opportunities, reflecting:

  (i) its current and committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements);

  (ii) its planned sources of funding to implement its strategy; and

(d) how it expects its financial performance to change over time, given its strategy to address significant sustainability-related risks and opportunities.

Resilience

23 **An entity shall disclose information that enables users of general purpose financial reporting to understand its capacity to adjust to the uncertainties arising from significant sustainability-related risks. An entity shall disclose a qualitative and, when applicable, a quantitative analysis of the resilience of its strategy and cash flows in relation to its significant sustainability-related risks, including how the analysis was undertaken and its time horizon. When providing quantitative information, an entity can disclose single amounts or a range.**

24 Other IFRS Sustainability Disclosure Standards will specify the type of information an entity is required to disclose about its resilience to specific sustainability-related risks, such as when scenario analysis shall be used.

Risk management

25 **The objective of sustainability-related financial disclosures on risk management is to enable users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.**

26 To achieve this objective, an entity shall disclose:

(a) the process, or processes, it uses to identify sustainability-related:

  (i) risks; and

  (ii) opportunities;

(b) the process, or processes, it uses to identify sustainability-related risks for risk management purposes, including when applicable:

  (i) how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used);

  (ii) how it prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools;

  (iii) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and

  (iv) whether it has changed the processes used compared to the prior reporting period;

(c) the process, or processes, it uses to identify, assess and prioritise sustainability-related opportunities;

(d) the process, or processes, it uses to monitor and manage the sustainability-related:

  (i) risks, including related policies; and

  (ii) opportunities, including related policies;

(e) the extent to which and how the sustainability-related risk identification, assessment and management process, or processes, are integrated into the entity's overall risk management process; and

(f) the extent to which and how the sustainability-related opportunity identification, assessment and management process, or processes, are integrated into the entity's overall management process.

Metrics and targets

27 **The objective of sustainability-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.**

28 **Metrics shall include those defined in any other applicable IFRS Sustainability Disclosure Standard, metrics identified from the other sources identified in paragraph 54 and metrics developed by an entity itself.**

29 **An entity shall identify metrics that apply to its activities in line with its business model and in relation to specific sustainability-related risks or opportunities. Some entities will have a range of activities and, therefore, may need to apply metrics that are applicable to more than one industry.**

30 An entity shall disclose the metrics it uses to manage and monitor sustainability-related risks and opportunities; and the metrics it uses to measure performance, including progress towards the targets it has set.

31 When a metric has been developed by an entity, it shall disclose:

(a) how the metric is defined, including whether it is an absolute measure or expressed in relation to another metric (such as revenue or floor space) and any sources that have been used to construct the metric;

(b) whether measurement of the metric is validated by an external body and, if so, which body; and

(c) explanations of the methods used to calculate the targets and the inputs to the calculation, including the significant assumptions made and the limitations of those methods.

32 An entity shall disclose the targets it has set to assess progress towards achieving its strategic goals, specifying:

(a) the metric used;

(b) the period over which the target applies;

(c) the base period from which progress is measured; and

(d) any milestones or interim targets.

33 An entity shall disclose:

(a) performance against its disclosed targets and an analysis of trends or significant changes in its performance; and

(b) revisions to its targets and the explanation for those revisions.

34 The definition and calculation of metrics, including metrics used to set and monitor targets, shall be consistent over time. If a metric or target is redefined or replaced, an entity shall:

(a) explain the changes;

(b) explain the reasons for those changes, including why any replacement metric provides more useful information; and

(c) provide restated comparative figures, unless it is impracticable to do so.

35 An entity shall label metrics and targets using meaningful, clear and precise names and descriptions.

General features

36 **For sustainability-related financial information to be useful, it shall be relevant and faithfully represent what it purports to represent. These are fundamental qualitative characteristics. Usefulness is enhanced if the information is comparable, verifiable, timely and understandable. Appendix C sets out the characteristics of useful information.**

Reporting entity

37 **An entity's sustainability-related financial disclosures shall be for the same reporting entity as the related general purpose financial statements. For example, if the reporting entity is a group, the consolidated financial statements will be for a parent and its subsidiaries; consequently, that entity's sustainability-related financial disclosures shall enable users of general purpose financial reporting to assess the enterprise value of the parent and its subsidiaries.**

38 **An entity shall disclose the financial statements to which the sustainability-related financial disclosures relate.**

39 **When currency is specified as the unit of measure, the entity shall use the presentation currency of its financial statements.**

40 Paragraph 2 requires an entity to disclose material information about all significant sustainability-related risks and opportunities to which it is exposed. These risks and opportunities relate to activities, interactions and relationships and to the use of resources along its value chain, such as:

(a) its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;

(b) the assets it controls (such as a production facility that relies on scarce water resources);

(c) investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and

(d) sources of finance.

41 Other IFRS Sustainability Disclosure Standards will specify how an entity is required to disclose or measure its significant sustainability-related risks and opportunities, including those related to its associates, joint ventures and other financed investments, and those related to its value chain.

Connected information

42 **An entity shall provide information that enables users of general purpose financial reporting to assess the connections between various sustainability-related risks and opportunities, and to assess how information about these risks and opportunities is linked to information in the general purpose financial statements.**

43 An entity shall describe the relationships between different pieces of information. Doing so could require connecting narrative information on governance, strategy and risk management to related metrics and targets. For example, to allow users of general purpose financial reporting to assess connections in information, an entity might need to explain the effect or likely effect of its strategy on its financial statements or financial plans, or on metrics and targets used to measure progress against performance. Furthermore, the entity might need to explain how its use of natural resources and changes within its supply chain could amplify, change or reduce its significant sustainability-related risks and opportunities. The entity may need to link this information to the potential or actual effect on its production costs, its strategic response to mitigate such risks and its related investment in new assets. This information may also need to be linked to information in the financial statements and to specific metrics and targets. Information that describes connections shall be clear and concise.

44 Examples of connected information include:

(a) an explanation of the combined effects of sustainability-related risks and opportunities and the entity's strategy and related metrics and targets on its financial position, financial performance and cash flows over the short, medium and long term. For example, an entity may face decreasing demand for its products because of consumer preferences for low-carbon alternatives. It may need to explain how its strategic response, such as closing a major factory, affects its workforce and communities, as well as the effect of the closure on the useful lives of assets and impairment assessments.

(b) an explanation of the potential options that were evaluated when an entity assessed its sustainability-related risks and opportunities, and the consequences of its decisions to address those risks and opportunities, including the trade-offs that were considered, as detailed in paragraph 21(c). For example, an entity might need to explain how a decision to restructure its operations in response to a sustainability-related risk could have consequential effects on the future size and composition of the entity's workforce.

Fair presentation

45 **A complete set of sustainability-related financial disclosures shall present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation requires the faithful representation of sustainability-related risks and opportunities in accordance with the principles set out in this [draft] Standard.**

46 **Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.**

47 A fair presentation also requires an entity:

(a) to disclose information that is relevant, representationally faithful, comparable, verifiable, timely and understandable; and

(b) to provide additional disclosures when compliance with the specific requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users of general purpose financial reporting to assess the implications of sustainability-related risks and opportunities on the entity's enterprise value.

48 When applying this [draft] Standard and other IFRS Sustainability Disclosure Standards, an entity, after it has considered all relevant facts and circumstances, shall decide how to aggregate the information in its sustainability-related financial disclosures. An entity shall not reduce the understandability of its sustainability-related financial disclosures by obscuring material information with immaterial information or by aggregating material items that are dissimilar.

49 Information shall not be aggregated if doing so would obscure information that is material. Rather, aggregation and disaggregation shall be based on the characteristics of the sustainability-related risks and opportunities. Information shall be aggregated when it shares those characteristics and disaggregated when it does not share them. Information about sustainability-related risks and opportunities might need to be disaggregated, such as by geographical location or in consideration of the geopolitical environment. For example, to ensure that material information is not obscured, an entity might need to disaggregate disclosures about its use of water to distinguish between water drawn from abundant sources and water drawn from high-stress sources.

Identifying sustainability-related risks and opportunities and disclosures

50 This [draft] Standard requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed (see paragraph 2).

51 To identify sustainability-related risks and opportunities about which information could reasonably be expected to influence decisions that the users of general purpose financial reporting make on the basis of that information, an entity shall refer to IFRS Sustainability Disclosure Standards, including

identified *disclosure topics*. In addition to IFRS Sustainability Disclosure Standards, an entity shall consider:

(a) the disclosure topics in the industry-based SASB Standards;

(b) the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures);

(c) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting; and

(d) the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

52 To identify disclosures, including metrics, about a significant sustainability-related risk or opportunity, an entity shall refer to the relevant IFRS Sustainability Disclosure Standards.

53 In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity, management shall use its judgement in identifying disclosures that:

(a) are relevant to the decision-making needs of users of general purpose financial reporting;

(b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and

(c) are neutral.

54 In making the judgement described in paragraph 53, management shall consider, to the extent that these do not conflict with an IFRS Sustainability Disclosure Standard, the metrics associated with the disclosure topics included in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and the metrics used by entities in the same industries or geographies.

55 An entity shall disclose the industry or industries specified in the relevant IFRS Sustainability Disclosure Standard or industry-based SASB Standards that it has used when identifying disclosures about a significant sustainability-related risk or opportunity.

Materiality

56 **Sustainability-related financial information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity.**

57 Material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users' assessments of an entity's enterprise value. The information relates to activities, interactions and relationships and to the use of resources along the entity's value chain if it could influence the assessment primary users make of its enterprise value. It can include information about sustainability-related risks and opportunities with low-probability and high-impact outcomes.

58 Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, in the context of the entity's general purpose financial reporting. This [draft] Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation.

59 An entity shall apply judgement to identify material sustainability-related financial information. Materiality judgements shall be reassessed at each reporting date to take account of changed circumstances and assumptions.

60 An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements.

61 An entity shall also consider whether to disclose additional information when compliance with the specific requirements in an IFRS Sustainability Disclosure Standard is insufficient to enable users of general purpose financial reporting to assess the effect on enterprise value of the sustainability-related risks and opportunities to which the entity is exposed.

62 An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction.

Comparative information

63 **An entity shall disclose comparative information in respect of the previous period for all metrics disclosed in the current period. When such information would be relevant to an understanding of the current period's sustainability-related financial disclosures, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial disclosures.**

64 When providing sustainability-related financial disclosures an entity shall disclose comparative information that reflects updated estimates. When the entity reports comparative information that differs from the information reported in the previous period it shall disclose:

(a) the difference between the amount reported in the previous period and the revised comparative amount; and

(b) the reasons the amounts have been revised.

65 Sometimes, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data might not have been collected in the prior period(s) in a way that allows either retrospective application of a new definition of a metric or target or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information. When it is impracticable to adjust comparative information for one or more prior periods, an entity shall disclose that fact.

Frequency of reporting

66 **An entity shall report its sustainability-related financial disclosures at the same time as its related financial statements and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.**

67 When an entity changes the end of its reporting period and discloses sustainability-related financial disclosures for a period longer or shorter than 12 months, it shall disclose:

(a) the period covered by the sustainability-related financial disclosures;

(b) the reason for using a longer or shorter period; and

(c) the fact that the amounts disclosed in the sustainability-related financial disclosures are not entirely comparable.

68 Normally, an entity prepares sustainability-related financial disclosures for a 12-month period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This [draft] Standard does not preclude this practice.

69 This [draft] Standard does not mandate which entities would be required to disclose interim sustainability-related financial information, how frequently it shall be disclosed, or how soon after the end of an interim period it shall be disclosed. However, governments, securities regulators, stock exchanges and accountancy bodies may require entities whose debt or equity securities are publicly traded to publish interim reports. Paragraph 70 applies if an entity is required or elects to publish interim sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards.

70 In the interest of timeliness and cost considerations, and to avoid repetition of information previously reported, an entity may be required or choose to provide less information at interim dates than it provides in its annual disclosures. The interim disclosures are intended to provide an update on the latest complete set of annual disclosures of sustainability-related financial information. These disclosures focus on new information, events and circumstances and do not duplicate information previously reported. Although the information provided in interim sustainability-related financial disclosures may be more condensed than in annual disclosures, an entity is not prohibited or discouraged from publishing a complete set of

sustainability-related financial disclosures as described in this [draft] Standard in its interim reporting.

71 Information about transactions, other events and conditions that occur after the end of the reporting period, and before the date on which the sustainability-related financial disclosures are authorised for issue, shall be disclosed if non-disclosure could reasonably be expected to influence decisions that the users of general purpose financial reporting make on the basis of that reporting.

Location of information

72 **An entity is required to disclose information required by IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting.**

73 Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reporting in which to disclose sustainability-related financial information. Sustainability-related financial disclosures could be included in an entity's management commentary when management commentary forms part of an entity's general purpose financial reporting. Management commentary complements an entity's financial statements. It provides insights into the factors that have affected the entity's financial performance and financial position and the factors that could affect the entity's ability to create value and generate cash flows. Management commentary can be known by or incorporated in reports with various names, including management's discussion and analysis, operating and financial review, integrated report and strategic report.

74 An entity might disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. The entity shall ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

75 Information required by an IFRS Sustainability Disclosure Standard can be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements. Including information by cross-referencing rather than providing information directly shall not make the complete set of sustainability-related financial disclosures less understandable.

76 Material information included by cross-reference becomes part of the complete set of sustainability-related financial disclosures. Information included by cross-reference shall comply with the requirements of IFRS Sustainability Disclosure Standards. For example, it needs to be relevant, representationally faithful, comparable, verifiable, timely and understandable. The bodies or individuals that authorise the general purpose financial

reporting take the same responsibility for the information included by cross-reference as they do for the information included directly.

77 If information required by an IFRS Sustainability Disclosure Standard is included by reference to information in another location:

(a) the general purpose financial reporting shall identify the location of that information and explain how to access it; and

(b) the cross-reference shall be to a precisely specified part of that location.

78 When IFRS Sustainability Disclosure Standards require the disclosure of common items of information, an entity shall avoid unnecessary duplication. For example, when an entity integrates its oversight of sustainability-related risks and opportunities, the disclosures on governance shall also be integrated rather than provided in the form of separate governance disclosures for each significant sustainability-related risk and opportunity.

Sources of estimation and outcome uncertainty

79 **When metrics cannot be measured directly and can only be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of preparing sustainability-related metrics and does not undermine the usefulness of the information if the estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information. An entity shall identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties.**

80 **When sustainability-related financial disclosures include financial data and assumptions, such financial data and assumptions shall be consistent with the corresponding financial data and assumptions in the entity's financial statements, to the extent possible.**

81 Some IFRS Sustainability Disclosure Standards require the disclosure of information such as explanations about possible future events that have uncertain outcomes. In judging whether information about such possible future events is material, an entity shall consider:

(a) the potential effects of the events on the value, timing and certainty of the entity's future cash flows, including in the long term (the possible outcome); and

(b) the full range of possible outcomes and the likelihood of the possible outcomes within that range.

82 When considering possible outcomes, an entity shall consider all relevant facts and circumstances, and consider including information about low-probability and high-impact outcomes, which, when aggregated, could become material. For example, an entity might be exposed to several sustainability-related risks, each of which could cause the same type of disruption—such as disruptions to the entity's supply chain. Information

about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.

83 **An entity shall disclose information about the assumptions it makes about the future, and other sources of significant uncertainty, related to the information it discloses about the possible effects of sustainability-related risks or opportunities, when there is significant outcome uncertainty.**

Errors

84 **An entity shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is impracticable to do so.**

85 Prior period errors are omissions from and misstatements in the entity's sustainability-related financial disclosures for one or more prior periods. Such errors arise from a failure to use, or the misuse of, reliable information that:

(a) was available when the general purpose financial reporting for those periods was authorised for issue; and

(b) could reasonably be expected to have been obtained and considered in the preparation of those sustainability-related financial disclosures.

86 Such errors include: the effects of mathematical mistakes, mistakes in applying the definitions for metrics and targets, oversights or misinterpretations of facts, and fraud.

87 Potential current period errors discovered in that period are corrected before the general purpose financial reporting is authorised for issue. However, material errors are sometimes not discovered until a subsequent period.

88 When it is impracticable to determine the effect of an error on all prior periods presented, the entity shall restate the comparative information to correct the error from the earliest date practicable.

89 Corrections of errors are distinguished from changes in estimates. Estimates are approximations that an entity may need to revise as additional information becomes known.

90 If an entity identifies a material error in its prior period sustainability-related financial disclosures, it shall disclose:

(a) the nature of the prior period error;

(b) the correction, to the extent practicable, for each prior period disclosed; and

(c) if correction of the error is not practicable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Statement of compliance

91 **An entity whose sustainability-related financial disclosures comply with all of the relevant requirements of IFRS Sustainability Disclosure Standards shall include an explicit and unqualified statement of compliance.**

92 Paragraph 62 relieves an entity from disclosing information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Appendix A
Defined terms

This appendix is an integral part of [draft] IFRS S1 and has the same authority as the other parts of the [draft] Standard.

Business model	An entity's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value over the short, medium and long term.
Disclosure topic	A specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry as set out in an **IFRS Sustainability Disclosure Standard** or an industry-based SASB Standard.
Enterprise value	The total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt.
General purpose financial reporting	The provision of financial information about a **reporting entity** that is useful to **primary users** in making decisions relating to providing resources to the entity. Those decisions involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources. General purpose financial reporting encompasses—but is not restricted to—an entity's general purpose financial statements and **sustainability-related financial disclosures**.
IFRS Sustainability Disclosure Standards	Standards issued by the International Sustainability Standards Board.
Primary users of general purpose financial reporting (primary users)	Existing and potential investors, lenders and other creditors.
Reporting entity	An entity that is required, or chooses, to prepare general purpose financial statements.
Sustainability-related financial disclosures	Disclosures about sustainability-related risks and opportunities that are useful to **users of general purpose financial reporting** when they assess an entity's **enterprise value**, including information about its governance, strategy and risk management, and related metrics and targets.

Sustainability-related financial information	Information that gives insight into sustainability-related risks and opportunities that affect **enterprise value**, providing a sufficient basis for **users of general purpose financial reporting** to assess the resources and relationships on which an entity's **business model** and strategy for sustaining and developing that model depend.
Users	See **primary users of general purpose financial reporting** (primary users).
Value chain	The full range of activities, resources and relationships related to a **reporting entity's business model** and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include those in the entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

Appendix B
Effective date

This appendix is an integral part of [draft] IFRS S1 and has the same authority as the other parts of the [draft] Standard.

B1 An entity shall apply this [draft] Standard for annual reporting periods beginning on or after 1 January 20XX. Earlier application is permitted. If an entity applies this [draft] Standard earlier, it shall disclose that fact.

B2 An entity is not required to provide the disclosures specified in this [draft] Standard for any period before the date of initial application. Accordingly, comparative information is not required to be disclosed in the first period in which an entity applies this [draft] Standard.

Appendix C
Qualitative characteristics of useful sustainability-related financial information

This appendix is an integral part of [draft] IFRS S1 and has the same authority as the other parts of the [draft] Standard.

Introduction

C1 The *Conceptual Framework for Financial Reporting (Conceptual Framework)* was issued by the International Accounting Standards Board (IASB). It describes the objective of, and the concepts for, general purpose financial reporting. One of the purposes of the *Conceptual Framework* is to assist the IASB to develop Standards for the preparation of general purpose financial statements that are based on consistent concepts.

C2 Sustainability-related financial information is part of general purpose financial reporting. The qualitative characteristics in the *Conceptual Framework* therefore apply to sustainability-related financial information. However, the nature of some of the information required to meet the objectives of this Standard differs from the information provided in general purpose financial statements.

C3 Sustainability-related financial information is useful if it is relevant and faithfully represents what it purports to represent. These are fundamental qualitative characteristics. Usefulness is enhanced if the information is comparable, verifiable, timely and understandable.

Fundamental qualitative characteristics

Relevance

C4 Relevant sustainability-related financial information is capable of making a difference in the decisions made by the primary users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Sustainability-related financial information is capable of making a difference in decisions made by users if it has predictive value, confirmatory value or both.

C5 Sustainability-related financial information has predictive value if it can be used as an input to processes employed by primary users to predict future outcomes. Sustainability-related financial information need not be a prediction or forecast to have predictive value. Sustainability-related financial information with predictive value is employed by primary users in making their own predictions. For example, information about water quality, which can include information about its pollution, could inform the expectations of investors, lenders and other creditors about the ability of an entity to meet local water-quality requirements.

C6 Sustainability-related financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

C7 The predictive value and confirmatory value of sustainability-related financial information are interrelated. Information that has predictive value often also has confirmatory value. For example, information for the current year about carbon emissions, which can be used as the basis for predicting such emissions in future years, can also be compared with predictions about carbon emissions for the current year that were made in past years. The results of those comparisons can help a user to correct and improve the processes that were used to make those previous predictions.

Materiality

C8 Sustainability-related financial information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance. The materiality of a specific sustainability-related financial disclosure is assessed in the context of an entity's general purpose financial reporting and is based on the nature or magnitude of the item to which the information relates, or both.

Faithful representation

C9 Sustainability-related financial information represents phenomena in words and numbers. To be useful, the information must not only represent relevant phenomena, it must also faithfully represent the substance of the phenomena that it purports to represent.

C10 To be a faithful representation, a depiction would be complete, neutral and free from error. The objective of general purpose financial reporting is to maximise those qualities to the maximum extent.

C11 A complete depiction of a sustainability-related risk or opportunity includes all material information necessary for the primary users to understand that risk or opportunity, including how the entity has adapted its strategy, risk management and governance in response to that sustainability-related risk or opportunity, as well as the metrics identified to set targets and measure performance.

C12 Sustainability-related financial disclosure shall be neutral. A neutral depiction is one without bias in the selection or disclosure of information. Information is neutral if it is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that the primary users will receive that information favourably or unfavourably. Neutral information is not information without purpose or without influence on behaviour. On the contrary, relevant information is, by definition, capable of making a difference in users' decisions.

C13 Some sustainability-related financial information—for example, targets or plans—is aspirational. A neutral discussion of such matters covers both aspirations and the factors that could prevent an entity from achieving these aspirations.

C14 Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that opportunities are not overstated and risks are not understated. Equally, the exercise of prudence does not allow for the understatement of opportunities or the overstatement of risks.

C15 Sustainability-related financial disclosures shall be accurate. Information can be accurate without being perfectly precise in all respects. The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, accuracy requires that:

(a) factual information is free from material error;

(b) descriptions are precise;

(c) estimates, approximations and forecasts are clearly identified as such;

(d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;

(e) assertions are reasonable and based on information of sufficient quality and quantity; and

(f) information about judgements about the future faithfully reflects both those judgements and the information on which they are based.

Enhancing qualitative characteristics

C16 The usefulness of sustainability-related financial information is enhanced if it is comparable, verifiable, timely and understandable.

Comparability

C17 The decisions made by the primary users of general purpose financial reporting involve choosing between alternatives; for example, selling or holding an investment, or investing in one reporting entity or another. Comparability is the characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items. Information is more useful to investors and creditors if it is also comparable, that is, if it can be compared with:

(a) information provided by the entity in previous periods; and

(b) information provided by other entities, in particular those with similar activities or operating within the same industry.

C18 Sustainability-related financial disclosures shall be provided in a way that enhances comparability without omitting material information.

C19 Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for disclosures about the same sustainability-related risks and opportunities, from period to period, both by a reporting entity and other entities. Comparability is the goal; consistency helps to achieve that goal.

C20 Comparability is not uniformity. For information to be comparable, like components shall look alike and different components shall look different. Comparability of sustainability-related financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

Verifiability

C21 Verifiability helps to give investors and creditors confidence that information is complete, neutral and accurate. Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiable information is more useful to primary users than information that is not verifiable.

C22 Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

C23 Sustainability-related financial disclosures shall be provided in a way that enhances their verifiability. Verifiability can be enhanced by, for example:

(a) including information that can be corroborated by comparing it with other information available to primary users about the entity's business, about other businesses or about the external environment;

(b) providing information about inputs and methods of calculation used to produce estimates or approximations; and

(c) providing information reviewed and agreed by the entity's board, board committees or equivalent bodies.

C24 Some sustainability-related financial disclosures will be in the form of explanations or forward-looking information. Those disclosures can be supportable by faithfully representing fact-based strategies, plans and risk analyses, for example. To help investors and creditors decide whether to use such information, an entity shall describe the underlying assumptions and methods of producing the information, as well as other factors that provide evidence that verify that it reflects the actual plans or decisions made by the entity.

Timeliness

C25 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

C26 Sustainability-related financial disclosures shall be clear and concise. For sustainability-related financial disclosures to be concise, they need to:

(a) avoid generic information, sometimes called 'boilerplate', that is not specific to the entity;

(b) avoid duplication of information in the general purpose financial reporting, including unnecessary duplication of information also provided in the related financial statements; and

(c) use clear language and clearly structured sentences and paragraphs.

C27 The clearest form of disclosure depends on the nature of the information and might sometimes include tables, graphs or diagrams in addition to narrative text. If graphs or diagrams are used, additional text or tables may be necessary to avoid obscuring material detail.

C28 Clarity might be enhanced by distinguishing information about developments in the reporting period from 'standing' information that remains unchanged, or changes little, from one period to the next—for example, by separately describing features of an entity's sustainability-related governance and risk management processes that have changed since the previous reporting period.

C29 Disclosures are concise if they include only material information. Any immaterial information included shall be provided in a way that avoids obscuring material information.

C30 Some sustainability-related risks and opportunities are inherently complex and may be challenging to present in a manner that is easy to understand. An entity shall present such information as clearly as possible. However, complex information about these risks and opportunities shall not be excluded from general purpose financial reporting to make those reports easier to understand. The exclusion of such information would render those reports incomplete and, therefore, possibly misleading.

C31 The completeness, clarity and comparability of sustainability-related financial disclosures all rely on information being presented as a coherent whole. For sustainability-related financial disclosures to be coherent, they shall be presented in a way that explains the context and the relationships between the related information.

C32 If sustainability-related risks and opportunities located in one part of an entity's general purpose financial reporting have implications for information disclosed in other parts, the entity shall include the information necessary for users to assess those implications.

C33 Coherence also requires an entity to provide information in a way that allows users to relate information about its sustainability-related risks and opportunities to information in the entity's financial statements.

Approval by the ISSB Chair and Vice-Chair of Exposure Draft IFRS S1 *General Requirements for the Disclosure of Sustainability-related Financial Information* published in March 2022

The Exposure Draft IFRS S1 *General Requirements for the Disclosure of Sustainability-related Financial Information* was approved for publication by the Chair and Vice-Chair of the International Sustainability Standards Board.

Emmanuel Faber	Chair
Suzanne Lloyd	Vice-Chair

IFRS® Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**
Email **customerservices@ifrs.org**

ifrs.org

IFRS Sustainability

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Exposure Draft

IFRS® Sustainability Disclosure Standard

[Draft] IFRS S2 Climate-related Disclosures

Comments to be received by 29 July 2022

International Sustainability Standards Board

ED/2022/S2

Exposure Draft

Climate-related Disclosures

Comments to be received by 29 July 2022

Exposure Draft ED/2022/S2 *Climate-related Disclosures* is published by the International Sustainability Standards Board (ISSB) for comment only. Comments need to be received by 29 July 2022 and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

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CONTENTS

[Draft] IFRS S2 *Climate-related Disclosures* is set out in paragraphs 1—24 and Appendices A—C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the [draft] Standard. Definitions of other terms are given in other IFRS Sustainability Disclosure Standards. The [draft] Standard should be read in the context of its objective, the Basis for Conclusions and [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

Introduction

Why is the ISSB publishing the Exposure Draft?

An entity's relationship with the environment has become increasingly important. Climate change presents significant risks for all entities, their activities and their economic sectors. It also creates opportunities for entities focused on climate-change mitigation and adaptation. Entities may be exposed to these risks and opportunities directly, or through third parties such as suppliers and customers beyond their direct operations because of interconnected global value chains.

The Exposure Draft was developed in response to calls from users of general purpose financial reporting for more consistent, complete, comparable and verifiable information, including consistent metrics and standardised qualitative disclosures, to help them assess how climate-related matters and the associated risks and opportunities affect:

- an entity's financial position and financial performance;
- an amount, timing and certainty of the entity's future cash flows over the short, medium and long term and, therefore, the assessment of enterprise value by users of general purpose financial reporting; and
- an entity's strategy and business model.

Climate change affects all economic sectors. However, the degree and type of exposure and the current and anticipated effects of climate-related risks and opportunities on the assessment of enterprise value are likely to vary by sector, industry, geography and entity. In assessing an entity's financial and operating results and future cash flows, users of general purpose financial reporting want insight into the governance, risk management and strategic context in which such results are derived. Users also want to understand an entity's targets for managing climate-related risks and opportunities and the metrics the entity uses to measure progress towards meeting the targets.

The proposals in the Exposure Draft are intended to facilitate the provision of comparable information for global markets. These requirements are designed to enable users of general purpose financial reporting to assess entities' exposure to and management of climate-related risks and opportunities, across markets, to facilitate capital allocation and stewardship decisions.

A summary of the proposals in the Exposure Draft

The proposals in the Exposure Draft set out the requirements for identifying, measuring and disclosing climate-related risks and opportunities.

The objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities. This information, along with other information provided as part of an entity's general purpose financial reporting, will assist users of the information in assessing the entity's future cash flows, including their amounts, timing and certainty, over the short, medium and long term. This information, together with the value attributed by users to those cash flows, enables their assessment of the entity's enterprise value.

The Exposure Draft is based on the climate-related disclosure prototype published on the IFRS Foundation website in November 2021, developed by the Technical Readiness Working Group (TRWG).[1] The prototype and the Exposure Draft include the recommendations by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and components of the frameworks and standards of international sustainability bodies, as published in a prototype of a climate-related financial disclosure standard in December 2020.[2] Although presented separately, the industry disclosure requirements (Appendix B) are an integral part of the Exposure Draft, forming part of its requirements. The Appendix B disclosure requirements have been derived from SASB Standards.[3]

The Exposure Draft would require an entity to provide information that enables users of general purpose financial reporting to understand:

- governance—the governance processes, controls and procedures an entity uses to monitor and manage climate-related risks and opportunities;
- strategy—the climate-related risks and opportunities that could enhance, threaten or change an entity's business model and strategy over the short, medium and long term, including:
  - whether and how information about climate-related risks and opportunities inform management's strategy and decision-making;
  - the current and the anticipated effects of climate-related risks and opportunities on its business model;
  - the effects of climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term;
  - the resilience of its strategy (including its business model) to climate-related risks;
- risk management—how climate-related risks and opportunities are identified, assessed, managed and mitigated by an entity;
- metrics and targets—the metrics and targets used to manage and monitor an entity's performance in relation to climate-related risks and opportunities, including:
  - performance and outcome measures that support the qualitative disclosures across governance, risk management and strategy disclosure requirements; and
  - targets that an entity uses to measure its performance goals related to significant climate-related risks and opportunities.

1 The Technical Readiness Working Group included the International Accounting Standards Board, the Climate Disclosure Standards Board, the Financial Stability Board's Task Force on Climate-related Financial Disclosures, the Value Reporting Foundation (previously the SASB Foundation and the International Integrated Reporting Council) and the World Economic Forum and its Measuring Stakeholder Capitalism Initiative.

2 https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf

3 SASB Standards, a set of 77 industry-specific sustainability accounting standards designed to help entities disclose material, decision-useful information to investors, are a key resource of the Value Reporting Foundation, which is expected to consolidate into the IFRS Foundation by June 2022.

In highlighting the connections between its disclosures in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, an entity shall refer to and consider the applicability of the interrelationships among each of these four core elements, including between IFRS Sustainability Disclosure Standards. Disclosures shall be presented in a way that enables users of general purpose financial reporting to understand the interrelationships between those disclosures.

Due process provisions applicable to the Exposure Draft

The urgent need for the International Sustainability Standards Board (ISSB) to deliver its initial Standards has been repeatedly highlighted, including in feedback to the September 2020 consultation on sustainability reporting held by the Trustees of the IFRS Foundation (Trustees) and to the April 2021 Exposure Draft of proposed amendments to the IFRS Foundation *Constitution*. The International Organization of Securities Commissions has also emphasised the urgent need for disclosure standards on climate change. Such urgency can pose significant challenges to standard-setting, which aims to achieve effective outcomes by balancing timely responsiveness to market needs with the rigour of formal due process.

The Trustees recognised the opportunity to use and build upon existing sustainability standards and frameworks, including those developed in accordance with prior due process by the organisations that developed them and that enjoy broad user and preparer support. The main components of the Exposure Draft are based on work that has been subject to extensive public consultation and redeliberation and have since garnered significant market uptake. The Trustees viewed this as a signal that these foundational standards and frameworks help to address the information needs of investors and other capital market participants.

The Trustees noted the need for prompt action and the background to the content of the Exposure Draft. However, they also noted that this does not negate the need for formal due process and exposure by the ISSB. It is important that the ISSB's stakeholders are given the opportunity to provide feedback on the proposals consistent with the IFRS Foundation's inclusive and thorough due process.

To balance the need to advance the work of the ISSB on a timely basis while obtaining input from interested parties, the Trustees decided to grant special powers to the Chair and Vice-Chair of the ISSB to enable timely publication of initial exposure drafts for stakeholder input. The Trustees agreed it would be appropriate that as the ISSB is being established (that is, as a transitional measure) the ISSB Chair and Vice-Chair be provided with the ability to publish exposure drafts of a climate-related disclosure standard and/or a general requirements disclosure standard. This decision is reflected in paragraph 56 of the IFRS Foundation's *Constitution* published in November 2021.

The effect of this provision in the *Constitution* is only to enable the exposure drafts to be published prior to the ISSB being quorate. The exposure drafts are subject to public consultation and will be redeliberated by a quorate ISSB. The ISSB Chair and Vice-Chair's right was made subject to oversight by the Due Process Oversight Committee of the Trustees who were consulted at a meeting convened on 21 March 2022 during which they confirmed that they did not object to the ISSB Chair and Vice-Chair publishing these exposure drafts.

Next steps

The Chair and Vice-Chair anticipate significant interest from stakeholders on the Exposure Draft and on [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* which has been published at the same time as the Exposure Draft. The ISSB will analyse and consider the comments and feedback it receives and will decide how to proceed.

The ISSB intends to redeliberate the Exposure Draft in the second half of 2022 based on feedback from stakeholders and seeks to issue the resulting IFRS Sustainability Disclosure Standard based on these proposals expeditiously.

Invitation to comment

The Chair and Vice-Chair invite comments on the proposals in the Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) address the questions as stated;

(b) specify the paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the ISSB should consider, if applicable.

The Chair and Vice-Chair are requesting comments only on matters addressed in the Exposure Draft.

Questions for respondents

Question 1—Objective of the Exposure Draft
Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting: • to assess the effects of climate-related risks and opportunities on the entity's enterprise value; • to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and • to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities. Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not? (b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value? (c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

Question 2—Governance
Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities. The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities. Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

Question 3—Identification of climate-related risks and opportunities
Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B). Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (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? (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?

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

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

(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?

Question 5—Transition plans and carbon offsets

Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.

The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.

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Question 5—Transition plans and carbon offsets
Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not? (b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary. (c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why? (d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

Question 6—Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

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Question 6—Current and anticipated effects
Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (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? (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? (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?

Question 7—Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:
• what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and
• whether the analysis has been conducted using:
    • climate-related scenario analysis; or
    • an alternative technique.
 	
Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk-management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.
 	
Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.
 	
Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

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Question 7—Climate resilience
Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value. The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term. It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

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Question 7—Climate resilience
Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why? (b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy. (i) Do you agree with this proposal? Why or why not? (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not? (iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why? (c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not? (d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not? (e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

Question 8—Risk management
An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities. Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response. Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. 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?

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

The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- indicative of basic aspects and drivers of climate-related risks and opportunities;
- useful for understanding how an entity is managing its climate-related risks and opportunities;
- widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and
- important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- separately Scope 1 and Scope 2 emissions, for:
  - the consolidated accounting group (the parent and its subsidiaries);
  - the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
- the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

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

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes non-mandatory Illustrative Guidance for each cross-industry metric category to guide entities.

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Question 9—Cross-industry metric categories and greenhouse gas emissions
Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why? (b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting. (c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not? (d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2))? (e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not? (f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

Question 10—Targets
Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change. The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement. Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (a) Do you agree with the proposed disclosure about climate-related targets? Why or why not? (b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

Question 11—Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the 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?

(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?

(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?

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

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Question 11—Industry-based requirements
Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions. (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? (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? (f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not? (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? (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? (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?

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Question 11—Industry-based requirements
Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity's business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards. The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity's performance on the topic. Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements. While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52). (j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why? (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. (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?

Question 12—Costs, benefits and likely effects
Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits. (a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals? (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider? (c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

Question 13—Verifiability and enforceability
Paragraphs C21–24 of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* describes verifiability as one of the enhancing qualitative characteristics of sustainability-related financial information. Verifiability helps give investors and creditors confidence that information is complete, neutral and accurate. Verifiable information is more useful to investors and creditors than information that is not verifiable. Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. 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.

Question 14—Effective date
Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach. Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application. [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires entities to disclose all material information about sustainability-related risks and opportunities. It is intended that [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* could take longer to implement. Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals. (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? (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. (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?

Question 15—Digital reporting
The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption of sustainability-related financial information, as compared to paper-based consumption, is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* Standards are the sources for the Taxonomy. It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation. 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)?

Question 16—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

Question 17—Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

How to comment

Please submit your comments electronically:

Survey and comment letter online	https://www.ifrs.org/projects/work-plan/climate-related-disclosures/exposure-draft-and-comment-letters/
Comment letter by email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your survey response or letter.

Deadline

The ISSB will consider all written comments and responses to the survey received by 29 July 2022.

[Draft] IFRS S2 *Climate-related Disclosures*

Objective

1 **The objective of [draft] IFRS S2 *Climate-related Disclosures* is to require an entity to disclose information about its exposure to significant *climate-related risks and opportunities*, enabling *users* of an entity's *general purpose financial reporting*:**

(a) **to assess the effects of significant climate-related risks and opportunities on the entity's *enterprise value*;**

(b) **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**

(c) **to evaluate the entity's ability to adapt its planning, *business model* and operations to significant climate-related risks and opportunities.**

2 An entity shall apply this [draft] Standard in preparing and disclosing climate-related disclosures in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

Scope

3 **This [draft] Standard applies to:**

(a) **climate-related risks the entity is exposed to, including but not restricted to:**

(i) ***physical risks* from climate change (physical risks); and**

(ii) **risks associated with the transition to a lower-carbon economy (*transition risks*); and**

(b) **climate-related opportunities available to the entity.**

Governance

4 **The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities.**

5 To achieve this objective, an entity shall disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and information about management's role in those processes. Specifically, an entity shall disclose:

(a) the identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities;

(b) how the body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies;

(c) how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities;

(d) how and how often the body and its committees (audit, risk or other committees) are informed about climate-related risks and opportunities;

(e) how the body and its committees 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;

(f) how the body and its committees oversee the setting of targets related to significant climate-related risks and opportunities, and monitor progress towards them (see paragraphs 23–24), including whether and how related performance metrics are included in remuneration policies (see paragraph 21(g)); and

(g) a description of management's role in assessing and managing climate-related risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee. The description shall include information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions.

6 In preparing disclosures to fulfil the requirements in paragraph 5, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (see paragraph 78). For example, although an entity shall provide the information required by paragraph 5, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated governance disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication.

Strategy

7 The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant climate-related risks and opportunities.

8 To achieve this objective, an entity shall disclose information about:

(a) the significant climate-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 9–11);

(b) the effects of significant climate-related risks and opportunities on its business model and *value chain* (see paragraph 12);

(c) the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its *transition plans* (see paragraph 13);

(d) the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (see paragraph 14); and

(e) the *climate resilience* of its strategy (including its business model) to significant physical risks and significant transition risks (see paragraph 15).

Climate-related risks and opportunities

9 An entity shall disclose 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 business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. Specifically, the entity shall disclose:

(a) a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term.

(b) how it defines short, medium and long term and how these definitions are linked to the entity's strategic planning horizons and capital allocation plans.

(c) whether the risks identified are physical risks or transition risks. For example, acute physical risks could include the increased severity of extreme weather events such as cyclones and floods, and examples of chronic physical risks include rising sea levels or rising mean temperatures. Transition risks could include regulatory, technological, market, legal or reputational risks.

10 In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity shall refer to the *disclosure topics* defined in the industry disclosure requirements (Appendix B).

11 In preparing disclosures to fulfil the requirements in paragraphs 12–15, an entity shall refer to and consider the applicability of cross-industry metric categories and the industry-based metrics associated with disclosure topics, as described in paragraph 20.

12 An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the current and anticipated effects of significant climate-related risks and opportunities on its business model. Specifically, an entity shall disclose:

(a) a description of the current and anticipated effects of significant climate-related risks and opportunities on its value chain; and

(b) a description of where in its value chain significant climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels).

Strategy and decision-making

13 An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans. Specifically, an entity shall disclose:

(a) how it is responding to significant climate-related risks and opportunities including how it plans to achieve any climate-related targets it has set. This shall include:

(i) information about current and anticipated changes to its business model, including:

(1) about changes the entity is making in strategy and resource allocation to address the risks and opportunities identified in paragraph 12. Examples of these changes include resource allocations resulting from demand or supply changes, or from new business lines; resource allocations arising from business development through capital expenditures or additional expenditure on operations or research and development; and acquisitions and divestments. This information includes plans and critical assumptions for *legacy assets*, including strategies to manage carbon-energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets.

(2) information about direct adaptation and mitigation efforts it is undertaking (for example, through changes in production processes, workforce adjustments, changes in materials used, product specifications or through introduction of efficiency measures).

(3) information about indirect adaptation and mitigation efforts it is undertaking (for example, by working with customers and supply chains or use of procurement).

(ii) how these plans will be resourced.

(b) information regarding climate-related targets for these plans including:

(i) the processes in place for review of the targets;

(ii) the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain;

(iii) the intended use of *carbon offsets* in achieving emissions targets. In explaining the intended use of carbon offsets the entity shall disclose information including:

(1) the extent to which the targets rely on the use of carbon offsets;

(2) whether the offsets will be subject to a third-party offset verification or certification scheme (*certified carbon offset*), and if so, which scheme, or schemes;

(3) the type of carbon offset, including whether the offset will be nature-based or based on technological carbon removals and whether the amount intended to be achieved is through carbon removal or emission avoidance; and

(4) any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset).

(c) quantitative and qualitative information about the progress of plans disclosed in prior reporting periods in accordance with paragraph 13(a)–(b). Related requirements are provided in paragraph 20.

Financial position, financial performance and cash flows

14 An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning. An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, an entity shall disclose:

(a) how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows;

(b) information about the climate-related risks and opportunities identified in paragraph 14(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year;

(c) how it expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities, reflecting:

  (i) its current and committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements);

  (ii) its planned sources of funding to implement its strategy;

(d) how it expects its financial performance to change over time, given its strategy to address significant climate-related risks and opportunities (for example, increased revenue from or costs of products and services aligned with a lower-carbon economy, consistent with the *latest international agreement on climate change*; physical damage to assets from climate events; and the costs of climate adaptation or mitigation); and

(e) if the entity is unable to disclose quantitative information for paragraph 14(a)–(d), an explanation of why that is the case.

Climate resilience

15 An entity shall disclose information that enables users of general purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties—taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The entity shall use *climate-related scenario analysis* to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, the entity shall disclose:

(a) the results of the analysis of climate resilience, which shall enable users to understand:

  (i) the implications, if any, of the entity's findings for its strategy, including how it would need to respond to the effects identified in paragraph 15(b)(i)(8) or 15(b)(ii)(6);

  (ii) the significant areas of uncertainty considered in the analysis of climate resilience;

(iii) the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments in terms of:

(1) the availability of, and flexibility in, existing financial resources, including capital, to address climate-related risks, and/or to be redirected to take advantage of climate-related opportunities;

(2) the ability to redeploy, repurpose, upgrade or decommission existing assets; and

(3) the effect of current or planned investments in climate-related mitigation, adaptation or opportunities for climate resilience.

(b) how the analysis has been conducted, including:

(i) when climate-related scenario analysis is used:

(1) which scenarios were used for the assessment and the sources of the scenarios used;

(2) whether the analysis has been conducted by comparing a diverse range of climate-related scenarios;

(3) whether the scenarios used are associated with transition risks or increased physical risks;

(4) whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change;

(5) an explanation of why the entity has decided that its chosen scenarios are relevant to assessing its resilience to climate-related risks and opportunities;

(6) the time horizons used in the analysis;

(7) the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the scenario analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions); and

(8) assumptions about the way the transition to a lower-carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology.

(ii) when climate-related scenario analysis is not used:

(1) an explanation of the methods or techniques used to assess the entity's climate resilience (for example, single-point forecasts, sensitivity analysis or qualitative analysis);

(2) the climate-related assumptions used in the analysis including whether it includes a range of hypothetical outcomes;

(3) an explanation of why the entity has decided that the chosen climate-related assumptions are relevant to assessing its resilience to climate-related risks and opportunities;

(4) the time horizons used in the analysis;

(5) the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions);

(6) assumptions about the way the transition to a lower-carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology; and

(7) an explanation of why the entity was unable to use climate-related scenario analysis to assess the climate resilience of its strategy.

Risk management

16 **The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reporting to understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.**

17 To achieve this objective, an entity shall disclose:

(a) the process, or processes, it uses to identify climate-related:

(i) risks; and

(ii) opportunities;

(b) the process, or processes, it uses to identify climate-related risks for risk management purposes, including when applicable:

(i) how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used);

(ii) how it prioritises climate-related risks relative to other types of risks, including its use of risk-assessment tools (for example, science-based risk-assessment tools);

(iii) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and

(iv) whether it has changed the processes used compared to the prior reporting period;

(c) the process, or processes, it uses to identify, assess and prioritise climate-related opportunities;

(d) the process, or processes, it uses to monitor and manage the climate-related:

(i) risks, including related policies; and

(ii) opportunities, including related policies;

(e) the extent to which and how the climate-related risk identification, assessment and management process, or processes, are integrated into the entity's overall risk management process; and

(f) the extent to which and how the climate-related opportunity identification, assessment and management process, or processes, are integrated into the entity's overall management process.

18 In preparing disclosures to fulfil the requirements in paragraph 17, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (see paragraph 78). For example, although an entity shall provide the information required by paragraph 17, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated risk management disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication.

Metrics and targets

19 The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

20 To achieve this objective, an entity shall disclose:

(a) information relevant to the cross-industry metric categories (see paragraph 21), which are relevant to entities regardless of industry and business model;

(b) industry-based metrics (as set out in Appendix B) which are associated with disclosure topics and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry;

(c) other metrics used by the board or management to measure progress towards the targets identified in paragraph 20(d); and

(d) targets set by the entity to mitigate or adapt to climate-related risks or maximise climate-related opportunities.

21 An entity shall disclose information relevant to the cross-industry metric categories of:

(a) *greenhouse gas* emissions—the entity shall disclose:

(i) its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the *Greenhouse Gas Protocol Corporate Standard*, expressed as metric tonnes of *CO_2 equivalent*, classified as:

(1) *Scope 1 emissions*;

(2) *Scope 2 emissions*;

(3) *Scope 3 emissions*;

(ii) its greenhouse gas emissions intensity for each scope in paragraph 21(a)(i)(1)–(3), expressed as metric tonnes of CO_2 equivalent per unit of physical or economic output;

(iii) for Scope 1 and Scope 2 emissions disclosed in accordance with paragraph 21(a)(i)(1)–(2), the entity shall disclose emissions separately for:

(1) the consolidated accounting group (the parent and its subsidiaries);

(2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(iii)(1);

(iv) the approach it used to include emissions for the entities included in paragraph 21(a)(iii)(2) (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard);

(v) the reason, or reasons, for the entity's choice of approach in paragraph 21(a)(iv) and how that relates to the disclosure objective in paragraph 19;

(vi) for Scope 3 emissions disclosed in accordance with paragraph 21(a)(i)(3):

(1) an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;

(2) an entity shall disclose the categories included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;

(3) when the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement;

(4) if the entity excludes those greenhouse gas emissions in paragraph 21(a)(vi)(3), it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure;

(b) transition risks—the amount and percentage of assets or business activities vulnerable to transition risks;

(c) physical risks—the amount and percentage of assets or business activities vulnerable to physical risks;

(d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities;

(e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;

(f) *internal carbon prices*:

(i) the price for each metric tonne of greenhouse gas emissions that the entity uses to assess the costs of its emissions;

(ii) an explanation of how the entity is applying the carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis);

(g) remuneration:

(i) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations; and

(ii) a description of how climate-related considerations are factored into executive remuneration (also see paragraph 5(f)).

22 In preparing disclosures to fulfil the requirements in paragraph 21(b)–(g), an entity shall

(a) consider whether industry-based metrics associated with disclosure topics, as described in paragraph 20(b), including those defined in an applicable IFRS Sustainability Disclosure Standard or those that otherwise satisfy [draft] IFRS S1 *General Requirements for Disclosure of*

Sustainability-related Financial Information could be used in whole or part to meet the requirements; and

(b) in accordance with paragraphs 37–38 of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, consider the relationship of these amounts with the amounts recognised and disclosed in the accompanying financial statements (for example, the carrying amount of assets used should be consistent with amounts included in the financial statements and when possible the connections between information in these disclosures and amounts in the financial statements should be explained).

23 An entity shall disclose its climate-related targets. For each climate-related target, an entity shall disclose:

(a) metrics used to assess progress towards reaching the target and achieving its strategic goals;

(b) the specific target the entity has set for addressing climate-related risks and opportunities;

(c) whether this target is an *absolute target* or an *intensity target*;

(d) the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives);

(e) how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party;

(f) whether the target was derived using a sectoral decarbonisation approach;

(g) the period over which the target applies;

(h) the base period from which progress is measured; and

(i) any milestones or interim targets.

24 In identifying, selecting and disclosing the metrics described in paragraph 23(a), an entity shall refer to and consider the applicability of industry-based metrics, as described in paragraph 20(b), including those defined in Appendix B, those included in an applicable IFRS Sustainability Disclosure Standard, or those that otherwise satisfy [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

Appendix A
Defined terms

This appendix is an integral part of [draft] IFRS S2 and has the same authority as the other parts of the [draft] Standard.

Absolute target	A target defined by a change in absolute emissions over time, for example, reducing CO_2 emissions by 25% below 1994 levels by 2010.
Carbon offset	An emissions unit issued by a carbon crediting programme that represents an emission reduction or removal of a greenhouse gas emission. Carbon offsets are uniquely serialised, issued, tracked and cancelled by means of an electronic registry.
Certified carbon offset	Certified carbon offset credits are **carbon offsets** that take the form of transferable or tradable instruments, certified by governments or independent certification bodies, representing a removal of emissions of one metric tonne of CO_2, or an equivalent amount of other **greenhouse gases**. This links to the Kyoto Protocol, which included three market-based mechanisms (Article 6, 12, 17)—emissions trading, the clean development mechanism and joint implementation giving the parties a degree of flexibility in meeting their emission-reduction targets.
Climate resilience	The capacity of an entity to adjust to uncertainty related to climate change. This involves the capacity to manage **climate-related risks** and benefits from **climate-related opportunities**, including the ability to respond and adapt to **transition risks** and **physical risks**.
Climate-related scenario analysis	Scenario analysis is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, climate-related scenario analysis allows an entity to explore and develop an understanding of how the **physical risks** and **transition risks** of climate change may affect its businesses, strategies and financial performance over time.
Climate-related risks and opportunities	Climate-related risks refer to the potential negative effects of climate change on an entity. **Physical risks** emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (for example, cyclones, droughts, floods and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (which could result in, for example, sea-level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal

actions, changes in technology, market responses and reputational considerations.

Climate-related opportunities refer to the potentially positive climate-change generated outcomes for an entity. Global efforts to mitigate and adapt to climate change can produce climate-related opportunities for entities. For example, a power generating company could increase its revenue due to a growing demand for cooling (achieved by using electricity) in regions that experience more heatwaves. Climate-related opportunities will vary depending on the region, market and industry in which an entity operates.

Climate-related risks and opportunities include climate-related risks and climate-related opportunities as previously described.

CO_2 equivalent	The universal unit of measurement to show the global warming potential of each of the seven **greenhouse gases**, expressed in terms of the global warming potential of one unit of carbon dioxide for 100 years. This unit is used to evaluate releasing (or avoiding releasing) any **greenhouse gas** against a common basis.
Greenhouse gases	The seven greenhouse gases listed in the Kyoto Protocol–carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF_3); perfluorocarbons (PFCs); and sulphur hexafluoride (SF_6).
Greenhouse Gas Protocol Corporate Standard	The Greenhouse Gas Protocol Initiative is a multi-stakeholder partnership of businesses, non-governmental organisations (NGOs), governments, and others convened by the World Resources Institute, a US-based environmental NGO, and the World Business Council for Sustainable Development, a Geneva-based coalition of 170 international companies. Launched in 1998, the initiative's mission is to develop internationally accepted **greenhouse gas** accounting and reporting standards for business and to promote their broad adoption. The Greenhouse Gas Protocol Corporate Standard provides standards and guidance for companies and other types of organisations preparing a **greenhouse gas** emissions inventory. It covers the accounting and reporting of the seven **greenhouse gases** covered by the Kyoto Protocol.
Intensity target	A target defined by a change in the ratio of emissions to a business metric over time, for example, reduce CO_2 per tonne of cement by 12% by 2008.
Internal carbon price	Price used by entities to assess the financial implications of changes to investment, production and consumption patterns, as well as potential technological progress and future emissions-abatement costs. Entities' internal carbon prices can

	be used for a range of business applications. There are two types of internal carbon prices commonly used by entities.
	The first type is a shadow price, which is a theoretical cost or notional amount that the entity does not charge but that can be used in assessing the economic implications or trade-offs for such things as risk impacts, new investments, net present value of projects, and the cost—benefit of various initiatives.
	The second type is an internal tax or fee, which is a carbon price charged to a business activity, product line, or other business unit based on its **greenhouse gas** emissions (these internal taxes or fees are similar to intracompany transfer pricing).
Latest international agreement on climate change	The latest international agreement on climate change is an agreement by states, as members of the United Nations Framework Convention on Climate Change to combat climate change. The agreements set norms and targets for a reduction in **greenhouse gases**.
Legacy asset	An asset that has remained on an entity's statement of financial position for a long period of time and has since become obsolete or has lost nearly all of its initial value.
Physical risks	Risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. These risks may carry financial implications for entities, such as direct damage to assets, and indirect effects of supply-chain disruption. Entities' financial performance may also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting entities' premises, operations, supply chain, transportation needs and employee safety.
Scope 1 emissions	Direct **greenhouse gas** emissions that occur from sources that are owned or controlled by an entity, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles or emissions from chemical production in owned or controlled process equipment.
Scope 2 emissions	Indirect **greenhouse gas** emissions that occur from the generation of purchased electricity, heat or steam consumed by an entity. Purchased electricity is defined as electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 emissions physically occur at the facility where electricity is generated.
Scope 3 emissions	Indirect emissions outside of **Scope 2 emissions** that occur in the **value chain** of the reporting entity, including both upstream and downstream emissions. For the purposes of this standard, Scope 3 emissions include these categories (consistent with the GHG Protocol):

(1) purchased goods and services;

(2) capital goods;

(3) fuel- and energy-related activities not included in **Scope 1 emissions** or **Scope 2 emissions**;

(4) upstream transportation and distribution;

(5) waste generated in operations;

(6) business travel;

(7) employee commuting;

(8) upstream leased assets;

(9) downstream transportation and distribution;

(10) processing of sold products;

(11) use of sold products;

(12) end-of-life treatment of sold products;

(13) downstream leased assets;

(14) franchises; and

(15) investments.

Scope 3 emissions could include—the extraction and production of purchased materials and fuels; transport-related activities in vehicles not owned or controlled by the reporting entity; electricity-related activity (for example, transmission and distribution losses), outsourced activities, and waste disposal.

Transition plan	An aspect of an entity's overall strategy that lays out the entity's targets and actions for its transition towards a lower-carbon economy, including actions such as reducing its **greenhouse gas** emissions.
Transition risks	Moving to a lower-carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements relating to climate change. Depending on the nature, speed and focus of these changes, transition risks may pose varying levels of financial and reputational risk to entities.

Terms defined in other [draft] Standards and used in this [draft] Standard with the same meaning

Business model	An entity's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value over the short, medium and long term.
Disclosure topic	A specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry as set out in an IFRS Sustainability Disclosure Standard or an industry-based SASB Standard.
Enterprise value	The total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt.
General purpose financial reporting	The provision of financial information about a reporting entity that is useful to primary **users** in making decisions relating to providing resources to the entity. Those decisions involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources. General purpose financial reporting encompasses—but is not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures.
Users	Existing and potential investors, lenders and other creditors.
Value chain	The full range of activities, resources and relationships related to a reporting entity's **business model** and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include those in the entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

Appendix B
Industry-based disclosure requirements

This appendix is an integral part of [draft] IFRS S2 and has the same authority as the other parts of the [draft] Standard.

Introduction

B1 This [draft] Standard sets out the requirements for identifying, measuring and disclosing information related to an entity's significant climate-related risks and opportunities that are associated with specific business models, economic activities and other common features characterised by participation in an industry. In applying this [draft] Standard, an entity that participates in a particular industry would be required to provide the information set out in these requirements.

B2 The industry-based disclosure requirements have been derived from SASB Standards (see paragraphs B10–B12). They are largely unchanged from the equivalent requirements in the SASB Standards. Where changes are proposed, these have been marked up for ease of reference. Because the requirements are industry-based, only a subset is likely to apply to a particular entity (see paragraphs B13–B15).

Structure and terminology

B3 The industry-based disclosure requirements are organised by industry, enabling an entity to identify the requirements that are applicable to its business model and associated activities. For each industry, disclosure topic(s) related to climate-related risks or opportunities are identified. A set of metrics is associated with each disclosure topic. The disclosure topics represent those climate-related risks and opportunities that have been identified as those that are most likely to be significant to entities in that industry, and the associated metrics are those that have been identified as being most likely to result in the disclosure of information that is relevant to an assessment of enterprise value.

B4 The industry-based disclosure requirements in this Appendix contain:

(a) **Industry descriptions**, which are intended to clarify the scope of application by defining the relevant business models, underlying economic activities, common sustainability-related impacts and dependencies and other shared features that are characteristic of participation in the industry;

(b) **Disclosure topics**, which define a specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry, including a brief description of how management or mismanagement may affect an entity's enterprise value;

(c) **Metrics**, which accompany disclosure topics and are designed to, either individually or as part of a set, present useful information regarding performance on a specific disclosure topic;

(d) **Technical protocols**, which provide guidance on definitions, scope, implementation and compilation; and

(e) **Activity metrics**, which quantify the scale of specific activities or operations by an entity and are intended for use in conjunction with metrics to normalise data and facilitate comparison.

Application

Materiality

B5 The objective of this Standard is to require entities to provide material information about their exposure to climate-related risks and opportunities that is useful to users of general-purpose financial reporting in assessing the entity's enterprise value and making decisions about whether to provide economic resources to the entity.

B6 As described in paragraph B3, the disclosures set out in Appendix B and its related volumes have been identified as those that are likely to be useful to users of general purpose financial reporting in making assessments of an entity's enterprise value. However, the responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements in IFRS Sustainability Disclosure Standards, including this Standard. Therefore, an entity shall disclose information related to a specific requirement when it concludes that the information is material to the users of the information in assessing the enterprise value of the entity.

B7 The disclosure topics and associated metrics in this Standard are not exhaustive. An entity shall consider the full range of climate-related risks and opportunities it faces, including those not identified in this Standard, and shall describe those it has concluded are significant in accordance with paragraph 9(a). Accordingly, an entity may need to provide information related to additional topics not included in these industry-based requirements —as well as associated metrics used by the entity—to meet the requirements of this Standard, particularly when an entity faces climate-related risks or opportunities that are emerging rapidly or associated with unique aspects of its business model or circumstances.

Selecting the appropriate industry (or industries)

B8 The industry-based requirements are organised according to the Sustainable Industry Classification System® (SICS®). In preparing disclosures in accordance with the industry-based requirements, an entity shall identify the industry or industries it has selected. As a starting point, an entity can identify its primary industry classification on the SASB Standards website.[4]

4 The IFRS Foundation expects to incorporate the body of work developed by the Value Reporting Foundation, including SASB Standards, into its materials before publication of any standard arising from the Exposure Draft.

B9 Some entities participate in a broad range of activities that are likely to span more than one industry. For entities whose operations are integrated horizontally across industries (such as conglomerates) or vertically through the value chain, more than one set of industry-based requirements may be required to be applied to meet the objective of completeness and address the full range of climate-related disclosure topics reasonably likely to make an impact on an entity's ability to create enterprise value.

Compatibility with SASB Standards

B10 The industry-based requirements have been derived from SASB Standards. An entity that has, in a prior reporting period, used SASB Standards as a basis for preparing sustainability-related financial disclosures will find that—except for the items identified in paragraph B11—the requirements are consistent with SASB Standards. Such consistency includes the:

(a) industry classifications;

(b) disclosure topics;

(c) metrics and technical protocols; and

(d) activity metrics.

B11 There are two proposed differences between SASB Standards and the industry-based requirements in this Standard, which are indicated in the appropriate volumes (see paragraph B16). These differences are marked up for ease of reference, with additions underscored and deletions struck through. These differences include:

(a) a subset of industry-based requirements that include proposed modifications to make them more applicable globally; and

(b) disclosure topics that have been proposed to be added to four industries in the financial sector, along with associated metrics, to address risks from financed and facilitated emissions.

B12 Where applicable, the industry-based requirements are accompanied by the relevant SASB metric code from which they were derived to assist preparers who have used SASB Standards in their transition to IFRS Sustainability Disclosure Standards.

Identifying significant risks and opportunities and preparing disclosures

B13 Paragraph 9(a) requires an entity to identify and describe the significant climate-related risks and opportunities to which it is exposed. In fulfilling this requirement, preparers are likely to find the industry-based requirements to be a useful starting point to identify risks and opportunities. In particular, the disclosure topics define climate-related risks or opportunities that have been identified as being likely to result in the disclosure of useful information based on the activities conducted by entities within a particular industry.

Example
An entity in the automobiles industry might review the requirements and determine that the disclosure topic on 'Fuel Economy and Use-phase Emissions' is relevant to its circumstances. The disclosure topic notes that 'the combustion of petroleum-based fuels by motor vehicles accounts for a significant share of greenhouse gas emissions that contribute to global climate change' and that 'more stringent emissions standards and changing consumer demands are driving the expansion of markets for electric vehicles and hybrids, as well as for conventional vehicles with high fuel efficiency.' Accordingly, the disclosure topic can be either a transition risk—if the entity is challenged to mitigate the risk of changing buyer preferences and adapt its business model—or a climate-related opportunity—if the entity innovates to meet or exceed regulatory standards and capture an increasing share of an evolving market.

B14 In paragraphs 12–15, the Standard requires an entity to provide additional disclosure on the significant climate-related risks identified and described in paragraph 9(a). In preparing such disclosure, entities shall refer to the metrics associated with the industry-based requirements, in accordance with paragraph 11.

Example
The automaker (see previous example) would disclose information about the 'Fuel Economy and Use-phase Emissions' disclosure topic in accordance with the industry-based requirements in this Standard. For example, the entity would use the associated metrics—including the fuel economy of the entity's fleet (metric TR-AU-410a.1) and its sales of zero-emission vehicles (metric TR-AU-410a.2). These disclosures would help fulfil the industry-based requirements and those related to metrics and targets. However, the entity might also use them to fulfil the requirement in paragraph 13(c) to disclose quantitative information about the progress of plans disclosed in accordance with paragraph 13(a), helping users understand how the entity plans to achieve the climate-related targets it has set. Investors have emphasised that disclosures related to an entity's climate-related transition plan should detail specific actions and activities the entity is undertaking—or plans to undertake—to support the transition.

Preparing information to fulfil cross-industry metric categories

B15 Similarly, an entity shall review and consider whether the industry-based requirements for disclosing quantitative information would meet the requirements for disclosures related to cross-industry metric categories in paragraph 21(a)–(e). For example:

(a) paragraph 21(a) requires the disclosure of the entity's gross Scope 1 greenhouse gas emissions, which an entity in the semiconductors industry might enhance by disclosing the percentage of Scope 1 emissions associated with perfluorinated compounds (see metric TC-SC-110a.1);

(b) paragraph 21(c) requires the disclosure of quantitative information related to an entity's physical climate risk exposure, which an entity in the agricultural products industry might fulfil by disclosing the percentage of key crops sourced from water-stressed regions (see metric FB-AG-440a.2);

(c) paragraph 21(d) requires the disclosure of quantitative information related to an entity's climate-related opportunities, which an entity in the chemicals industry might fulfil by disclosing its revenue from products designed for use-phase resource efficiency (see metric RT-CH-410a.1); and

(d) paragraph 21(e) requires the disclosure of quantitative information about an entity's climate-related capital deployment, which an oil and gas entity might fulfil by disclosing the amount it has invested in renewable energy (see metric EM-EP-420a.3).

B16 Regardless of whether a preparer identifies a direct or explicit connection between a specific cross-industry metric category and a given industry-based disclosure topic or its corresponding metric(s), the entity shall refer to its full set(s) of relevant industry-based requirements with a view to presenting fairly the climate-related risks and opportunities to which it is exposed.

B17 The industry-based disclosure requirements associated with this Standard are published in separate, industry-based volumes, labelled as Volumes B1–B68 of this Standard, as outlined in Table 1.

Table 1–Volumes B1–B68: Industry-based requirements

SICS® sector and industry	Volume
Consumer Goods	
Apparel, Accessories & Footwear	B1 (CG-AA)
Appliance Manufacturing	B2 (CG-AM)
Building Products & Furnishings	B3 (CG-BF)
E-Commerce	B4 (CG-EC)
Household & Personal Products	B5 (CG-HP)
Multiline and Specialty Retailers & Distributors	B6 (CG-MR)
Toys & Sporting Goods	

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SICS® sector and industry	Volume
Extractives & Minerals Processing	
Coal Operations	B7 (EM-CO)
Construction Materials	B8 (EM-CM)
Iron & Steel Producers	B9 (EM-IS)
Metals & Mining	B10 (EM-MM)
Oil & Gas–Exploration & Production	B11 (EM-EP)
Oil & Gas–Midstream	B12 (EM-MD)
Oil & Gas–Refining & Marketing	B13 (EM-RM)
Oil & Gas–Services	B14 (EM-SV)
Financials	
Asset Management & Custody Activities	B15 (FN-AC)
Commercial Banks	B16 (FN-CB)
Consumer Finance	
Insurance	B17 (FN-IN)
Investment Banking & Brokerage	B18 (FN-IB)
Mortgage Finance	B19 (FN-MF)
Security & Commodity Exchanges	
Food & Beverage	
Agricultural Products	B20 (FB-AG)
Alcoholic Beverages	B21 (FB-AB)
Food Retailers & Distributors	B22 (FB-FR)
Meat, Poultry & Dairy	B23 (FB-MP)
Non-Alcoholic Beverages	B24 (FB-NB)
Processed Foods	B25 (FB-PF)
Restaurants	B26 (FB-RN)
Tobacco	
Health Care	
Biotechnology & Pharmaceuticals	
Drug Retailers	B27 (HC-DR)
Health Care Delivery	B28 (HC-DY)
Health Care Distributors	B29 (HC-DI)
Managed Care	B30 (HC-MC)
Medical Equipment & Supplies	B31 (HC-MS)

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SICS® sector and industry	Volume
Infrastructure	
Electric Utilities & Power Generators	B32 (IF-EU)
Engineering & Construction Services	B33 (IF-EN)
Gas Utilities & Distributors	B34 (IF-GU)
Home Builders	B35 (IF-HB)
Real Estate	B36 (IF-RE)
Real Estate Services	B37 (IF-RS)
Waste Management	B38 (IF-WM)
Water Utilities & Services	B39 (IF-WU)
Renewable Resources & Alternative Energy	
Biofuels	B40 (RR-BI)
Forestry Management	B41 (RR-FM)
Fuel Cells & Industrial Batteries	B42 (RR-FC)
Pulp & Paper Products	B43 (RR-PP)
Solar Technology & Project Developers	B44 (RR-ST)
Wind Technology & Project Developers	B45 (RR-WT)
Resource Transformation	
Aerospace & Defense	B46 (RT-AE)
Chemicals	B47 (RT-CH)
Containers & Packaging	B48 (RT-CP)
Electrical & Electronic Equipment	B49 (RT-EE)
Industrial Machinery & Goods	B50 (RT-IG)
Services	
Advertising & Marketing	
Casinos & Gaming	B51 (SV-CA)
Education	
Hotels & Lodging	B52 (SV-HL)
Leisure Facilities	B53 (SV-LF)
Media & Entertainment	
Professional & Commercial Services	

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SICS® sector and industry	Volume
Technology & Communications	
Electronic Manufacturing Services & Original Design Manufacturing	B54 (TC-ES)
Hardware	B55 (TC-HW)
Internet Media & Services	B56 (TC-IM)
Semiconductors	B57 (TC-SC)
Software & IT Services	B58 (TC-SI)
Telecommunication Services	B59 (TC-TL)
Transportation	
Air Freight & Logistics	B60 (TR-AF)
Airlines	B61 (TR-AL)
Auto Parts	B62 (TR-AP)
Automobiles	B63 (TR-AU)
Car Rental & Leasing	B64 (TR-CR)
Cruise Lines	B65 (TR-CL)
Marine Transportation	B66 (TR-MT)
Rail Transportation	B67 (TR-RA)
Road Transportation	B68 (TR-RO)

Appendix C
Effective date

This appendix is an integral part of [draft] IFRS S2 and has the same authority as the other parts of the [draft] Standard.

C1 An entity shall apply this [draft] Standard for annual reporting periods beginning on or after 1 January 20XX. Earlier application is permitted. If an entity applies this [draft] Standard earlier, it shall disclose that fact.

C2 An entity is not required to provide the disclosures specified in this [draft] Standard for any period before the date of initial application. Accordingly, comparative information is not required to be disclosed in the first period in which an entity applies this [draft] Standard.

Approval by the ISSB Chair and Vice-Chair of Exposure Draft IFRS S2 *Climate-related Disclosures* published in March 2022

The Exposure Draft IFRS S2 *Climate-related Disclosures* was approved for publication by the Chair and Vice-Chair of the International Sustainability Standards Board.

Emmanuel Faber	Chair
Suzanne Lloyd	Vice-Chair

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel +44 (0) 20 7246 6410
Email customerservices@ifrs.org

ifrs.org