Think Ahead ACCA

ED IFRS S2 *Climate-related Disclosures*

Exposure draft issued by ISSB in March 2022

Comments from ACCA
July 2022

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the ISSB's exposure draft IFRS S2, *Climate-related Disclosures*. This was done with the assistance of ACCA's Global Forum for Corporate Reporting and Global Forum for Sustainability. It has also been informed by global member outreach events and roundtables that ACCA organised in the ASEAN region between May and July 2022. It is also informed by discussions at the Chatham House roundtable that we held with preparers, regulators and ISSB staff to discuss preliminary findings from our ongoing research on climate-related disclosures in the Chemicals and Constructions Materials industries on 14 July 2022.

This ED provides a strong basis for globally-consistent climate-related disclosures. ACCA considers that there is an urgent need for a consistent global baseline for reporting in this important area.

Authority of SASB Standards

We note that there appears to be some inconsistent messaging as to the status of the industry-specific metrics (and by extension, the suite of SASB Standards).

Paragraph B6 states: '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.'

However, external presentations by ISSB staff sometimes suggest a different message, indicating that the SASB-based disclosures in Appendix B may be presumed to be material for all entities in a given sector: preparers would be expected to comply with all disclosures relating to their sector(s), regardless of materiality judgement.

Our concerns about the international applicability of SASB metrics extend beyond the bases of the metrics, to the relevance of the disclosure topics more generally. Developed as the SASB standards have been in the US, the potentially material disclosure topics for each given industry have also been identified in relation to US-based companies. Further research is needed to assess whether the same disclosure topics are material for companies in other jurisdictions, especially those in emerging markets for whom key impacts and dependencies may well be very different. Until this can be assessed, we would recommend that the SASB Standards remain non-authoritative application guidance. ACCA's stakeholder outreach and our soon-to-be-published research on climate-related disclosures in the Chemicals and Construction

Materials industries suggest that the adoption of SASB Standards, while widespread in the US and in Europe, remains low in other regions including Asia.

Linkage between impacts and risks and opportunities

Understanding the linkage between impacts and dependencies is key if the reporting in line with the ISSB standards is to lead to meaningful strategic and operational change in entities. It is also a core aspect of integrated thinking, which as we highlighted in our response to ED IFRS S1, is necessary for the effective management of sustainability-related risks and opportunities. This area is currently under-emphasised in the ED.

ACCA would recommend that ISSB provides more clarity in the standard, as well as further application guidance, to illustrate the loop back between external impacts and dependencies.

Scenario analysis

The current wording of paragraph 15 risks pushing entities to undertake poor-quality scenario analysis before they are ready to do so. The benefits of the resulting information will be limited if it is produced without robust data and processes and based on inappropriate assumptions. We would encourage the ISSB to revise the standard to focus more on setting out a credible pathway to robust scenario analysis, while allowing entities to rely on alternative approaches in the meanwhile.

It is uncertain at this stage whether the ongoing costs of conducting reliable scenario analysis will reduce over time, or whether complexities associated with scenario analysis will continue to grow given the world's volatile environmental, political and commercial outlook. The ISSB may wish to conduct field-testing to further assess the ongoing costs and benefits of scenario analysis, especially where they apply to entities in developing economies or smaller entities.

Scope 3 emissions

We agree that Scope 3 disclosures are important, as Scope 3 emissions represent the large majority of greenhouse gas emissions for most companies.

However, as noted in BC117, this is likely to be an extremely challenging aspect of reporting for entities. We would recommend that the ISSB undertakes further field-testing to assess the impact of the requirements, and provide further application guidance to assist preparers in this area.

While we understand that some double-counting of emissions between entities up and down the value chain is inevitable, more clarity is needed over the boundaries for Scope 3 emission disclosures. We would recommend that entities should only be required to report emissions over which they are able to exercise a degree of influence. Such disclosures would be more useful to users in understanding how entities assess performance in this area, and in assessing risks arising from entities' emissions.

Materiality

More guidance is needed on the application of materiality, especially in relation to identifying material disclosure topics with reference to industry-specific SASB standards. The statement in para B6, 'the responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements in IFRS Sustainability Disclosure Standards, including this Standard' requires a great deal of judgement, especially when the boundaries between 'climate-related' topics and other topics (ie water, biodiversity, social matters) can be blurred.

Our detailed responses to the specific questions asked are set out below.

RESPONSES TO SPECIFIC QUESTIONS RAISED

Question 1 – Objective of the Exposure Draft

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

Yes. However, as noted in our response to IFRS S1, the definition of 'enterprise value' would require a significant level of complex judgement from preparers, to determine the factors and information that can affect enterprise value. We would recommend that this definition is modified to relate more explicitly to the organisation rather than external parties' assessment of the organisation, and that extensive illustrative examples are provided to guide preparers in this crucial area.

b) *Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?*

Yes.

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

Yes – please see our detailed responses below.

Question 2 - Governance

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

We agree with the proposed disclosure requirements. Specifically, we welcome the requirement to disclose related performance metrics in remuneration policies in para 5(f).

Ensuring that boards and senior management teams have the appropriate skills and competencies in relation to climate and broader sustainability-related risks and opportunities will be a key challenge. We agree with the disclosure requirement in para 5(c), but we would question the assertion, in BC61, that the relevant skills and competencies may come primarily from industry experience.

Further, we believe that steps should be taken to introduce relevant skills and competencies to the board (or body charged with governance of the entity as a whole), not just the body directly responsible for with oversight of climate-related risks and opportunities as described in para 4. Para 5(c) may be repositioned as a paragraph in its own right to emphasise this. Further education guidance can highlight the importance of upskilling the board, and the relevance of continuous learning for existing board members.

Question 3 - Identification of climate-related risks and opportunities

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

In our view, the references in 9(a) and 9(b) to 'short, medium and long term' are not sufficiently clear. While we understand and agree with the reasoning set out in BC69, in practice entities' existing strategic planning horizons and capital allocation cycles are likely to be too short to allow for meaningful consideration of climate risks and opportunities. It is common for preparers to adopt a reporting horizon of less than three years, which may not be appropriate for climate-related risks. The inclusion of a reference to asset useful lives (currently included in BC69 but not in the ED) in paragraph 9(b) would, in some industries, help point to the necessity of longer planning horizons.

ACCA's series of research in integrated reporting practice[1] has repeatedly found that whilst most entities provide disclosures of a general nature about operating environments in the long-term future, specific discussions about strategy, risks and opportunities tend to be focused on the short term. This is to some extent due to

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[1] ACCA (2019) *Insights into Integrated Thinking: The Story So Far*, <https://www.accaglobal.com/uk/en/professional-insights/global-profession/Integrated-reporting-4.html>

concerns around commercial sensitivity and potential liability around forward-looking statements. However, this also often reflects the relatively short strategic planning horizons that are currently in place. The need for entities to consider extending their strategic planning horizons further into the future should also be emphasised in ISSB application guidance and education material.

Further, while we recognise that it is not possible to specifically define short-, medium- and long-term time horizons in a way that works for every entity, some consistency in approach is needed to ensure comparability. In this, illustrative examples setting out the factors that entities should consider in defining these time horizons would be helpful.

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?

No. While industry-specific disclosure topics and metrics will help to improve the relevance and comparability of disclosures in most cases, in our view SASB-based disclosure topics should feature as application guidance, rather than as a requirement in the standard. Clear, comprehensive guidance on the materiality process that entities should apply to identify, evaluate and prioritise climate-related (and broader sustainability-related) risks and opportunities for disclosure is needed.

We have noted some apparently inconsistent messaging about the status of the SASB standards in relation to the disclosure of cross-industry climate-related risks and opportunities. In presentations by ISSB staff, the SASB standards have been described as guidance in this context. However, the wording in paragraph 10 (‘the entity ***shall*** refer to the disclosure topics […]’ and this question itself position SASB disclosure topics as part of the requirements. Further, while the disclosure topics appear to be presented as requirements, the wording of the standard leaves it unclear whether other aspects of the SASB standards in Appendix B – industry descriptions, metrics, technical protocols, and activities – are requirements or merely guidance in this cross-industry context. This lack of clarity will make it particularly difficult for regulators in adopting the standards, for preparers in complying with the standards, and for auditors and assurance practitioners in providing external assurance on the resulting report(s).

By presenting a prescriptive and apparently mandatory list of disclosure topics, there is a risk that entities may be discouraged from applying their own processes to identify and assess risks and opportunities, adopting instead a checklist approach.

BC126 recognises that the international applicability of SASB metrics needs improvement. However, the issues around international applicability extend beyond the bases of the metrics, to the relevance of the topics more generally. Developed as the SASB standards have been in the US, the potentially material disclosure topics for each given industry have also been identified in relation to US-based companies.

ACCA's stakeholder outreach in the ASEAN region, conducted through roundtables in June and July 2022, heard feedback from preparers that the SASB Standards did not fully reflect regional sectoral initiatives, and did not cover a complete range of topics considered material in the region (GRI, on the other hand, was felt to provide more complete coverage of material topics). Further research is needed to assess whether the same disclosure topics are material for companies in other jurisdictions, especially those in emerging markets for whom key impacts and dependencies may well be very different. Until this can be assessed, we would recommend that the SASB Standards remain non-authoritative application guidance.

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

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

Yes, we agree with the disclosure requirements. However, we note that the consideration of climate-related risks and opportunities through the value chain is likely to be new to many preparers, auditors and assurance providers, and regulators in some jurisdictions. As noted in our response to IFRS S1, value chain disclosures are likely to be one of the most challenging aspects of the proposals. The application of the requirements, even in a qualitative sense, will also require a significant degree of judgement on the part of the preparer. This is especially the case when determining what information is necessary for users to assess an entity's enterprise value. Extensive educational materials, examples and application guidance are likely to be needed in this area. We note that entities will be required to consider wider sustainability-related value chain risks and opportunities under ED IFRS S1. The associated materials, examples and guidance should therefore illustrate other sustainability-related risks and opportunities besides climate-related ones.

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?*

Yes, we agree that climate-related risks and opportunities, beyond Scope 3 emissions as covered under paragraph 21(a), should be disclosed qualitatively.

Question 5 – Transition plans and carbon offsets

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

Yes. Paragraph 13 is quite dense, however, its multiple levels of sub-paragraphs making the requirements difficult to navigate. The ISSB may consider separating out carbon offset disclosures into a separate paragraph.

A number of key terms are used in paragraph 13: ‘strategy’, ‘business model’, ‘adaptation’ and ‘mitigation’. These should be specifically defined. We note that changes to an entity’s strategy do not necessarily entail changes to its business model. With regards to ‘adaption’ and ‘mitigation’, we note that the exposure draft of the equivalent European Sustainability Reporting Standard (ESRS E1) draws a distinction between these two terms. We would encourage the ISSB to separately define the two terms, and to work with EFRAG and other jurisdictional regulators to ensure alignment in terms of language.

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.*

We believe that the disclosure requirements proposed are appropriate. However, the Basis for Conclusion contains relevant examples and guidance which may benefit from either being incorporated into the standard or being further elaborated upon in accompanying application guidance accessible to all. This includes BC74 on relating disclosures to metrics and targets; and BC82 on considerations relating to the quality of carbon offsets. The latter especially are likely to be unfamiliar concepts to professional accountants working in finance functions, so further guidance and examples, using more layman language than employed in the Basis for Conclusions, will 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?*

Yes, the proposed carbon offset disclosures should help to achieve the aim stated.

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?*

Yes. Although the disclosure requirements are detailed and prescriptive, we believe that the additional detail will help users to assess the credibility of entities' plans, especially when targets are claimed to be net zero.

Question 6 – Current and anticipated effects

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

We agree with the proposal set out in BC65 to 'include requirements […] that allow various analyses to form the basis for the disclosures provided, thus accommodating a range of current practices as well as evolving practices.' However, the wording of paragraph 14 implies a stricter 'comply or explain' approach than BC65 indicates. Further, the structure of paragraph 14 could be improved for clarity. For example, the sentence 'If an entity is unable to provide quantitative information, it shall provide qualitative information' could be grouped with paragraph 14(e), so as to present in one place the disclosure requirements applying to entities unable to provide quantitative information.

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?*

We agree. However, arguably some aspects of disclosures required under paragraphs 14(a)-(d) should be presented in the notes to the financial statements. It is currently unclear whether the location of disclosures in accordance with the ISSB standards include the financial statements. The ISSB may wish to consider whether these requirements may be more appropriately adopted by the IASB in any project on climate disclosures. If the disclosures are made in the financial statements, we note that there could be implications for auditors providing reasonable assurance on the financial statements which will need to be considered.

ACCA research into the climate-related disclosures currently made by companies in the Chemicals and Constructions Materials industries suggest that this is an area of very low to non-existent disclosure. It will therefore be a particularly challenging aspect of reporting for entities. Where the methods for the quantification of financial effects are still new, there is likely to be a significant amount of evolution during the first few years of adoption, which errors and changes in estimates arising frequently. The implications for the restatement of comparatives will need to be carefully considered (see our response to IFRS S1, Q11 for further discussions on restatement).

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?*

We agree, but note our reservations set out in (b) above.

Question 7 – Climate resilience

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

Yes. While we have not conducted investor outreach to support our response to this question, it would seem that paragraph 15(a) adequately reflects the information that they need in this.

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?*

We agree with the approach set out. However, given the preparer concerns noted in BC91, and the ISSB Chair and Vice Chair's decision to limit scenario analysis to those entities 'able to do it' (BC95), the disclosure about ***why*** an entity is unable to use climate-related scenario analysis is unlikely to provide much informational value. It may be more beneficial to require entities to disclose by ***when***, and ***how***, an entity intends to be ready to use scenario analysis in future years. Given the importance of ensuring that consistent, reliable methodologies are used, the ISSB may wish to emphasise in the standard that in the absence of robust data, alternative techniques may provide more decision-useful information than poor-quality scenario analysis.

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

Yes. We note that decisions around the time horizons used in the analysis (paragraph 15(b)(6) is very judgemental, and likely to vary significantly from one entity to another. Disclosing the time horizons used is certainly beneficial. To ensure that disclosures about scenario analysis are connected to other disclosures about climate-related risks and opportunities, wider sustainability-related risks and opportunities and disclosures in the financial statements, further guidance about how the scenario analysis time horizons should relate to time horizons used for risk reporting, viability reporting and financial reporting would be beneficial.

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?

Yes. As noted in our response to (b) above, the standard may clarify that such alternative techniques could be preferable to scenario analysis in the absence of robust data.

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?

We believe that the Chair and Vice Chair's conclusion, as set out in BC95, reflects an appropriate balance. The current language in paragraph 15 ('*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*') risks pushing entities to undertake poor-quality scenario analysis before they are ready to do so. The benefits of the resulting information will be limited if it is produced without robust data and processes and based on inappropriate assumptions. We would encourage the ISSB to revise the standard to focus more on setting out a credible pathway to robust scenario analysis, while allowing entities to rely on alternative approaches in the meanwhile.

We note further that it is uncertain at this stage whether the ongoing costs of conducting reliable scenario analysis will reduce over time, or whether complexities associated with scenario analysis will continue to grow given the world's volatile environmental, political and commercial outlook. The ISSB may wish to conduct field-testing to further assess the ongoing costs and benefits of scenario analysis, especially where they apply to entities in developing economies or smaller entities.

Question 8 – Risk management

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

Yes, we agree with the proposed disclosure requirements.

We also agree with the requirement in para 18 to avoid unnecessary duplication. However, duplication can arise in relation to other non-sustainability-related disclosures. We would recommend that the reference to 'when its oversight of sustainability-related risks and opportunities is managed on an integrated basis' be replaced with 'when its oversight of risks and opportunities is managed on an integrated basis.' In general, we believe that entities should be encouraged to manage sustainability-related risks and opportunities in a way that is integrated and consistent with the management of other risks and opportunities.

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

a) *The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?*

Yes. We agree with the proposed metrics and believe that they will be useful for users' assessment of enterprise value.

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.*

We have no additional metric categories to propose.

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?*

Yes, we agree that entities should be required to use the GHG Protocol. However, we note there are differences between S2 and the GHG Protocol that need to be resolved to minimise the risk of confusion for preparers: in particular, arising from scope options in the GHG Protocol.

d) *Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?*

Yes, we agree with the aggregation of all seven greenhouse gases as this should provide appropriate balance between cost to preparers and usefulness of the information to users at the present time. However, we note that the industry-specific requirements in Appendix B sometimes require disaggregation of different greenhouse gases. As noted above, we do not support giving Appendix B authoritative status, but should the ISSB make industry-specific metrics mandatory, clear further guidance is needed to highlight this difference between cross-industry emissions disclosures and industry-specific emissions disclosures. Such differences can give rise to unclear or inconsistent disclosure. Illustrative examples will be helpful to address this.

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?*

Yes, we agree that Scopes 1 and 2 emissions should be separately disclosed. This is because the extent to which an entity is able to influence the actions of subsidiaries within its consolidated group and those of associates and joint ventures will differ.

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?*

We agree that Scope 3 disclosures are important, as Scope 3 emissions represent the large majority of greenhouse gas emissions for most companies.

However, as noted in BC117, this is likely to be an extremely challenging aspect of reporting for entities. We would recommend that the ISSB undertakes further field-testing to assess the impact of the requirements, and provide further application guidance to assist preparers in this area.

While we understand that some double-counting of emissions between entities up and down the value chain is inevitable, more clarity is needed over the boundaries for Scope 3 emission disclosures. We would recommend that entities should only be required to report emissions over which they are able to exercise a degree of influence. Such disclosures would be more useful to users in understanding how entities assess performance in this area, and in assessing risks arising from entities' emissions.

The challenges around the availability of data cannot be overstated. A McKinsey survey in the second quarter of 2021 suggested that only 2% of those surveyed had visibility of their supply chain beyond the second tier, and only 21% had visibility of their second tier[2].

As our report, *Supply Chains: A Finance Professional's Perspective*[3] points out, in every supply chain there is a constituency of smaller entities. Care will need to be exercised to ensure that any trickle-down impacts on smaller businesses within the supply chain is managed. SMEs, especially those in emerging markets, are likely to require significant support, including financial support, to meet the data requirements of consistent Scope 3 reporting.

Where alternative sources of emissions data are publicly available, entities should be permitted to draw on these instead of relying on direct information requests to suppliers and customers. We note that ED ESRS E1[4] states (Appendix A, Defined Terms) that '*Scope 3 GHG emissions are considered as estimated emissions in comparison with Scope 1 and 2 as their calculation is based on a combination of methods and primary and secondary data ranging from precise figures (supplier-specific or sites-specific methods) to extrapolated figures (average-data or spend-based methods).*' The ISSB should consider explicitly permitting the use of estimates where it is impracticable to obtain data directly from supplies and customers.

Question 10 – Targets

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

Yes. We agree with the reasoning set out in BC119 about not making specific reference to science-based targets. However, there is a need to align definitions with the SBTi where possible, to ensure consistent application by entities who do apply SBTi targets, aid comparability by users and reduce the risk of double counting. Further, we find the

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[2] Alicke, K., Barriball, E. and Trautwein, V. (2021), 'How COVID-19 is Reshaping Supply Chains' [website article], 23 November <https://www.mckinsey.com/business-functions/operations/ourinsights/how-covid-19-is-reshaping-supply-chains>

[3] ACCA, IMA, CIPS (2022) *Supply Chains: A Finance Profesional's Perspective*, <https://www.accaglobal.com/gb/en/professional-insights/global-profession/supply-chains-post-pandemic-world.html>

[4] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FED_ESRS_E1.pdf

specific disclosure required by paragraph 23(b) is unclear: ‘For each climate-related target, an entity shall disclose the specific target the entity has set […].’ We would encourage the ISSB to clarify what is meant by this.

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?

While we agree with the decision to refer to the ‘latest international agreement on climate change’ rather than the Paris Agreement, the intentions of the Chair and Vice Chair are not expressed clearly enough in para 23 and the definition in the Glossary. The explanation provided in BC121 and BC112 (that this currently means well below 2 degrees Celsius, and pursuing efforts to 1.5 degrees above industrial levels) should be made explicit, if not in the text of the standard then at least in application guidance that is accessible to all. References to ‘latest international agreement on climate change’ in paragraphs 15 and 23 should be italicised and explicitly cross-referenced both to the Glossary and to any accompanying application guidance.

Question 11 – Industry-based requirements

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

No, we do not agree. We are concerned about the way in which the standards, and Basis for Conclusions, are positioning the SASB Standards as requirements rather than application guidance. While we broadly agree with the approach taken to updating the specific definitions of the metrics, a crucial question that remains to be assessed is whether the metrics and even the disclosure topics themselves are material for entities operating in jurisdictions with contexts that are very different from the US, including emerging markets. (Please refer to our response to Q3 above.)

Further, we note that there appears to be inconsistent messaging about how materiality assessments should apply to the disclosures in Appendix B.

Paragraph B6 states: ‘*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*.’

However, external presentations by ISSB staff sometimes suggest a different message, indicating that the SASB-based disclosures in Appendix B may be presumed to be material for all entities in a given sector: preparers would therefore be expected to comply with all disclosures relating to their sector(s), regardless of materiality judgement. These conflicting messages risks giving rise to issues in implementation, assurance and enforcement.

ACCA believes that the SASB-based disclosures in Appendix B should be positioned as non-authoritative application guidance, with entities encouraged to adopt the metrics and disclosures subject to their own materiality judgement.

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?*

Although we broadly agree with the amendments, as noted above we are uncertain about whether the SASB metrics truly represent material information for entities in emerging markets. As such, we question whether it would be desirable to require disclosures of metrics that lack international comparisons, such as energy efficient products and renewable fuel. As we have emphasised, in our view the SASB Standards should be maintained as application guidance at this stage, enabling international comparisons to be updated when the market becomes more mature and comparisons become available.

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?*

Yes, the amendments should achieve that purpose.

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?

We have no comments on questions (d) to (i).

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

No. As explained in our responses to questions 3 and in parts (a) and (b) to this question, we do not believe that the SASB Standards should, at this stage, form part of the requirements of this standard.

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.

We are not aware of any additional requirements that should be added at this stage.

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?

We have no specific comments in this regard.

Question 12— Costs, benefits and likely effects

a) Do you have any comments on the likely benefits of implementing the proposals *and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?*

The implementation of the proposals, in particular those requirements which extend beyond sound common practice today (including value chain impacts, scenario analysis, Scope 3 emissions, and the industry-specific requirements) are likely to prove particularly challenging to preparers in the first few years of adoption. ACCA's research on climate-related disclosures currently made by companies in the Chemicals and Construction Materials industries suggest that those new disclosure requirements introduced by the ED, which do not currently feature explicitly in the TCFD Recommendations, are met by very few companies today.

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

Although the costs of ongoing application are likely to stabilise for large listed entities, the ongoing costs on those entities not directly within the scope of the mandatory reporting requirements (including SMEs and entities in developing economies) must be carefully monitored. For the standards to successfully bring about more efficient and sustainable allocation of capital, consideration needs to be given as to how such trickle-down costs should be funded. SMEs in particular will likely require additional funding, as most will not have the resources available within the business to deal with the information requests and assurance processes that these will require.

ACCA understands that ISSB standards are also likely to apply to smaller unlisted entities in several jurisdictions. The extensive disclosure requirements in this ED will represent a sea change for smaller entities who have not been required to make similar disclosures in the past and for whom new systems and processes will be required. We would recommend that the ISSB field tests the proposals to better understand and quantify the costs and benefits on entities of different sizes, and work with jurisdictional regulators to explore a phased approach to the implementation of the proposed requirements.

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?*

Please refer to our response in (a) above. For these requirements, the benefits are unlikely to outweigh the costs in the short term. For industry-specific requirements, as we have emphasised, we do not believe that these should form an integral part of the standard.

Question 13— Verifiability and enforceability

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

Verifiability is essential if the sustainability-related financial information reported is to be trusted by users. We note that the following aspects of the Exposure Draft would present significant challenges both for auditors and assurance providers, and for regulators:

- The uncertain status of the SASB Standards (see our response to IFRS S1 and Q3 above);

- Requirements which are relatively new in practice, and with which preparers may not be able to comply in the short term: including value chain impacts, scenario analysis and Scope 3 emissions;

- The location of sustainability-related financial information (see our response to IFRS S1, Q10).

Especially given the significant level of judgement that the Exposure Draft will require of preparers, consistent education and guidance for auditors and regulators will be paramount to ensure that the resulting disclosures are evaluated consistently, with the awareness that different opinions in the application of materiality or the interpretation of the standards do not necessarily constitute material misstatements.

Whether or not the sustainability-related financial information is subject to limited or reasonable external assurance, the preconditions of audit, as set out in ISA 210, must be met. In the short term, it may be challenging for entities to demonstrate that adequate internal controls are in place to ensure that the resulting report is free from material misstatement.

We welcome the ISSB's intention to work closely with the IAASB to address the above challenges around sustainability assurance. This collaboration will be key as the IAASB undertakes its project on assurance for sustainability/ ESG reporting[5].

Question 14—Effective date

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

[5] https://www.iaasb.org/consultations-projects/assurance-sustainability/environmental-social-and-governance-esg-reporting

We believe that IFRS S2 should be effective at the same time as IFRS S1.

However, there may be merit in allowing entities to voluntarily adopt S2 without adopting S1 at the same time, given the urgency for effective climate action and the mandatory adoption of TCFD Recommendations which has already started in many jurisdictions. We note that it may be much more challenging for entities to comply with IFRS S1 as currently drafted, because of the extremely broad scope of sustainability-related risks and opportunities that the standard covers, the very dynamic and unpredictable nature of these risks and opportunities, and the lack of commonly-agreed measurement approaches for social and governance matters in particular. Please refer to our response to IFRS S1.

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.*

We consider that two years may be an appropriate time to allow for implementation after the final Standard is issued. Given the challenge that newer requirements, which go beyond the TCFD Recommendations, will pose for implementation, it may be appropriate for both S2 and S1 to allow for a period of voluntary adoption before the Standards become mandatory in jurisdictions. Entities which have not so far applied the TCFD Recommendations – including those in jurisdictions which have not mandated its application, and smaller unlisted entities, will require the longest lead time before the requirements become mandatory for them.

While the adoption of the standards will be a matter for national jurisdictions, a roadmap for implementation from the ISSB, developed with its jurisdictional working group, would help to guide national regulators in this process and to ensure consistent implementation.

A research project conducted jointly by ACCA and the University of Glasgow on climate-related disclosures in the Chemicals and Construction Materials industry showed that companies in Asia, in particular, will need a lot more support in complying with S2 requirements relative to companies in Europe and North America. Besides providing sufficient lead time to mandatory implementation, extensive non-authoritative application guidance and education material will be essential in supporting implementation. The ISSB will also need to work with national regulators and standard setters in the Asian region on building capacity for sustainability and sustainability-related financial disclosures for a 'just transition'.

To enable entities around the world to sufficiently prepare for implementation, and for those entities who are able to early adopt to do so, the ISSB should ensure that both S1 and S2 are finalised as soon as possible.

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?*

We do not believe that it would be desirable for the ISSB to make certain requirements of the standard applicable before others.

However, we recognise that regulators in some jurisdictions may consider it necessary to phase in certain requirements. The requirements in paragraphs 13-15, and paragraph 21 are most likely to pose significant challenges in initial application, in particular for developing economies. The implications that this can have on the statement of compliance (see our comments to IFRS S1 Q12) need to be considered.

Question 15—Digital reporting

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

We do not have specific suggestions in this regard. However, we would encourage that work on the IFRS Sustainability Disclosures Taxonomy progresses in parallel with the ISSB standards, to ensure that the resulting disclosures are suitable for digital reporting from day 1.

The ISSB would benefit from seeking early input from organisations including Accountancy Europe[6] and the UK Financial Reporting Council[7], both of whom have done extensive work on ESEF.

Question 16—Costs, benefits and likely effects

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?

ACCA strongly believes that the ISSB standards should provide a comprehensive global baseline for the reporting of sustainability-related information. To be effective, the

[6] https://www.accountancyeurope.eu/publications/esef-guidance/
[7] https://www.frc.org.uk/investors/financial-reporting-lab/publications

reporting requirements should be sufficiently complete, to minimise wherever possible divergent national reporting requirements.

As emphasised above, we believe there needs to be a wider assessment about whether the SASB metrics themselves, and the disclosure topics that SASB standards are structured around, are suitable in an international context (especially for emerging economies) as well. The more that the ISSB can do to ensure that material topics are appropriately covered in the ISSB standards, the less risk there will be that national governments will create their own jurisdiction-specific requirements, leading to regulatory fragmentation.

It will also be crucial for the ISSB to clearly define the scope of 'sustainability' for the purpose of the ISSB standards. National policy-makers, regulators and standard-setters will need a clear understanding of the scope of the ISSB standards, in order to determine whether, and what, additional jurisdiction-specific requirements are appropriate. Please refer to our response to IFRS S1 for further discussion.

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

Linkage between impacts and dependencies

Understanding the linkage between impacts and dependencies is key if the reporting in line with the ISSB standards is to lead to meaningful strategic and operational change in entities. It is also a core aspect of integrated thinking, which as we highlighted in our response to ED IFRS S1, is necessary for the effective management of sustainability-related risks and opportunities. This area is currently under-emphasised in the ED.

ACCA would recommend that ISSB provides more clarity in the standard, as well as further application guidance, to illustrate the loop back between external impacts and dependencies. As it currently stands, 'impacts and dependencies' are not covered in the text of the standard except from an industry-specific point of view in in paragraph B4 and in Basis in Conclusions BC54-56. To emphasise the loop, more non-authoritative guidance and examples of 'transition risks' (Glossary, and BC27) will be important.

Carbon pricing strategies, including existing and future tax measures aimed at reducing greenhouse-gas emissions, are a key example of this loop between impacts and dependencies. As the OECD sets up an Inclusive Framework for Carbon Pricing[8], the ISSB may wish to include an illustrative example around carbon pricing.

Enterprise value concept

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[8] https://www.oecd.org/tax/oecd-secretary-general-tax-report-g20-finance-ministers-indonesia-february-2022.pdf

The ED requires entities to disclose information ‘if material to the users of its general purpose financial reporting in their assessment of its enterprise value.’ This is a very difficult judgement to make for preparers, and fundamental to compliance with the standards. Enterprise value, as currently defined under ED IFRS S1, is interpreted in different ways, giving rise to risks of significantly divergent practice and damaging comparability.

As set out in our comments on ED IFRS S1, we would recommend that the ISSB supplements the definition of enterprise value to link the concept more explicitly to a consideration of the risks and opportunities over time, and the impacts of the entity’s business model and activities on external stakeholders to the extent that these will translate into risks and opportunities for the entity over time.