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APPENDIX

RESPONSE TO SPECIFIC QUESTIONS

This Appendix is an integral part of our comment letter to the International Sustainability Standards Board's (ISSB's) Draft IFRS S2 Exposure Draft. The chart below is an inventory of the specific questions in the ISSB's Draft IFRS S2 Exposure Draft, the responses of which follow. The objective of the chart is to connect the questions to paragraphs within Draft IFRS S2 and then to provide a quick reference to the applicable section within the SEC Proposed Rule, should a reader want to identify where our views are expressed in CFA Institute's SEC Climate Comment Letter. Our responses herein are structured as a comparison between the SEC and ISSB's proposal as we seek to advance the notion of a global baseline by highlighting the differences.

We note that several questions (Questions #12-17) do not relate to a specific paragraph within the Draft IFRS S2, but relate to implementation, effective date, cost benefit issues and objectives of the standard. Also, various items within the SEC's Proposed Rule do not have relevant sections within Draft IFRS S2. As noted in the body of the letter, we have also prepared:

- A comparison of climate-related disclosure requirements proposed in the ISSB's Draft IFRS S2 Exposure Draft (Paragraphs 1-24) and the SEC's Proposed Rule (Section VIII, Statutory Authority), and
- A comparison between the climate-related disclosure definitions from Appendix A of the ISSB's Draft IFRS S2 Exposure Draft and the SEC's Proposed Rule (Section VIII, Statutory Authority, Item 1500). The table is organized using the ISSB's definitions as the anchoring and ordering point and the SEC's definitions are matched up as best as possible in a side-by-side comparison.

?#	SUBJECT OF QUESTION	IFRS S2	SEC 17 CFR
1	OBJECTIVE OF THE EXPOSURE DRAFT	¶2 (¶1, 3)	-
2	GOVERNANCE	¶5 (¶4, 6)	§229.1501
3	IDENTIFICATION OF CLIMATE-RELATED RISKS AND OPPORTUNITIES	¶9 (¶7, 8, 10)	§229.1502(a)
4	CONCENTRATIONS OF CLIMATE-RELATED RISKS AND OPPORTUNITIES IN AN ENTITY'S VALUE CHAIN	¶12 (¶11)	§229.1502(b)&(c)
5	TRANSITION PLANS AND CARBON OFFSETS	¶13	§229.1502(b)&(c) §229.1503(c) §229.1506(d)
6	CURRENT AND ANTICIPATED EFFECTS	¶14	§229.1502(d) §210.14-01, §210.14-02
7	CLIMATE RESILIENCE	¶15	§229.1502(f)
8	RISK MANAGEMENT	¶17 (¶16, 18)	§229.1503(a)&(b)
9	CROSS-INDUSTRY METRIC CATEGORIES AND GREENHOUSE GAS EMISSIONS	¶21 (¶19, 20, 22) ¶21(a) ¶21(b),(c)&(d) ¶21(e) ¶21(f) ¶21(g)	 §229.1504 §229.1502(a) §229.1502(b)&(c) §229.1502(e) -
10	TARGETS	¶23 (¶24)	§229.1506
11	INDUSTRY-BASED REQUIREMENTS	APPENDIX B	NOT PROPOSED BY SEC
12	COSTS, BENEFITS AND LIKELY EFFECTS	-	-
13	VERIFIABILITY AND ENFORCEABILITY	-	-
14	EFFECTIVE DATE	-	-
15	DIGITAL REPORTING	-	§229.1507
16	GLOBAL BASELINE	-	-
17	OTHER COMMENTS	-	-
	DEFINITIONS	APPENDIX A	§229.1500
	ATTESTATION OF GHG EMISSIONS	OUT OF ISSB AUTHORITY	§229.1505
	FINANCIAL STATEMENT METRICS	NOT PROPOSED BY ISSB OR IASB	§210.14-01, §210.14-02

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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?***
(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?***

Support Objective

We agree with the objective of Draft IFRS S2. We emphasize our goal as investors in assessing the effect or impact of a climate-related risk on the entity's enterprise value and to understand the ability of a company to adapt and effectively use resources to address climate-related risks and opportunities.

Challenges May Exist in Meeting the Objective

Below we make several observations regarding the efficacy of the disclosure requirements and whether they will facilitate meeting this objective:

- ***ISSB Includes Industry-Based Standards: An Essential Ingredient in Meeting the Objective*** – As we note in our comment letter to the SEC, a missing ingredient to assessing the effects in their Proposal is the industry-based metrics included in Appendix B of the ISSB's IFRS S2 Exposure Draft. Those are an integral part of investors ability to assess the potential effects of climate-related risks and opportunities and are included properly in the ISSB's Draft IFRS S2. These are integral to our support. See also discussion in *Industry-Based Standards: Essential to Investor Support* section in the body of this letter.
- ***Anchoring Disclosures in Financial Statements: A Missing Ingredient in Meeting the Objective*** – Unlike the SEC's Propose Rule that set's out very specific standards regarding disclosures within the financial statements, the ISSB's standard does not provide disclosures anchored in the financial statements. While Paragraph 14 notes there is a requirement to disclose the effects on the companies' financial performance, financial position and cash flows, there is no standardization of these disclosures. As we note in our letter to the SEC, the use of climate-related definitions outside of financial statements and their lack of existence in US GAAP – and similarly in IFRS – will make the creation of disclosures within financial statements, or in the financial effects section outside the financial statements, challenging. We believe the ISSB must work with the IASB to develop disclosures within financial statements that make these sustainability disclosures useful and for there to be a proper anchoring to financial statements. See also discussion in *Financial Statement Disclosures: A Missing Anchor to IFRS S2* section in the body of this letter.
- ***Cost of Reducing GHG Emissions: A Missing Ingredient in Meeting the Objective*** – As we note in our comment letter to the SEC – and similarly important to ISSB disclosures – we are concerned that with GHG emission metrics being non-financial and the discussion of the impacts on the company of climate-related risks and opportunities being highly qualitative that investors will be left with the task of ascertaining the cost of reducing the emissions. This is the real effect on enterprise value investors are seeking to discover.

- ***Qualitative Disclosures: An Area of Significant Concern*** – As with the SEC's disclosures we are concerned that many of the disclosures – other than the GHG metrics – will be highly qualitative and lack company specificity.
- ***Enforcement*****:** ***An Integral, but Uncontrollable Element of the Efficacy of the Disclosures*** In our comment letter to the SEC, we note that enforcement will be key. With the ISSB standards, the question globally is who will do such enforcement as it will likely depend on where the information is located (i.e., in securities regulatory filings or in sustainability reports) and the intended audience for that location. See also Question #13 response. Also see our comments with respect to *Content and Location Considerations* in the *Summary Considerations from Responses to Specific Questions* section of our comment letter to Draft IFRS S1 and the related Question #10 therein.
- ***Global Baseline: An Open Question on the Usefulness of Meeting the Objective*** – As we note in the *Global Baseline Remains a Bit Elusive: Theory Has Not Yet Met Practice Major Markets Are Developing Different Standards Simultaneously* section in the body of the letter, we also believe the simultaneous development of the standards in the US (by the SEC) and Europe (by EFRAG) is a real challenge to the development of a global baseline – and hence the ability of the ISSB to meet its overall remit and the objective of this standard.
- ***Adoption, Integration and Endorsement Out of Control of ISSB: Risk Toward Meeting the Objective*** – As we note in the *Important Factors Outside of ISSB's Control* section in our comment letter related to Draft IFRS S1, we observe that the many elements of adoption, integration, endorsement – and ultimately enforcement – are out of the control of the ISSB. These will impact the ability of objective to be achieved.

In our comment letter related to Draft IFRS S1 in the *Conceptual Framework Considerations* subsection of the *Summary Considerations from Responses to Specific Questions* section and in our response to Questions #1-#3 in Appendix 1 of that letter we highlight challenges broadly for the ISSB in achieving its objective.

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?

Comparison of ISSB and SEC Governance Disclosure Requirements

Below is an extract of our comparison of the IFRS S2 and the SEC disclosure requirements included here for side-by-side analysis.

GOVERNANCE	
IFRS S2 ¶4-6 (GOVERNANCE)	**17 CFR §229.1501 (ITEM 1501) 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	(a)(1) Describe the **board of director's oversight of climate-related risks**. Include the following, as applicable: (i) The **identity** of any board members or board committee responsible for the oversight of climate-related risks; (ii) Whether any member of the board of directors has **expertise** in climate related risks, with disclosure in such detail as necessary to fully describe the nature of the expertise; (iii) The **processes** by which the board of directors or board committee **discusses** climate-related risks, including how the board is **informed** about climate-related risks, and the **frequency** of such discussion; (iv) Whether and how the board of directors or board committee **considers** climate-related risks as part of its business strategy, risk management, and financial oversight; and (v) Whether and how the board of directors **sets climate-related targets or goals**, and **how it oversees progress** against those targets or goals, including (vi) the **establishment of any interim targets or goals**. (2) If applicable, a registrant may also describe the **board of director's oversight of climate-related opportunities**.
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	(b)(1) Describe **management's role** in **assessing and managing climate-related risks**. Include the following, as applicable: (i) **Whether certain management positions or committees are responsible for assessing and managing climate related risks** and, if so, the **identity of such positions or committees** and the **relevant expertise** of the position holders or members in such detail as necessary to fully describe the nature of the expertise; (ii) The processes by which such positions or committees are **informed about and monitor** climate-related risks; and (iii) Whether and **how frequently such positions or committees report to the board or a committee** of the board on climate-related risks. (2) If applicable, a registrant may also describe **management's role in assessing and managing climate-related opportunities**.

basis, providing integrated governance disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication. **See also Paragraph 21(g) on Remuneration disclosures.**	

Views on SEC Governance Disclosure Requirements

Broadly we supported the SEC's governance disclosure requirements – as we noted in CFA Institute's SEC Climate Comment Letter where we address in the summary on Pages 18 and in detail on pages 60-61. Our views on the governance disclosures in our Summary of Positions at Page 18 were as follows:

Governance Disclosure	
Board Oversight	Support disclosure requirements. Make observations regarding the following: ▪ quality of compliance, ▪ need for board authorship, ▪ relative importance of these disclosures for climate but no other risks, ▪ false narrative of competitive harm, and ▪ proportionality of needed expertise.
Management Oversight	Support disclosure requirements. Make observations regarding the following: ▪ relative importance of these disclosures for climate but not for other risks; and ▪ the fact that failure to require disclosure of link to compensation is a missing, but important, link to progress.

Views on ISSB Governance Disclosure Requirements

While we could make a detailed point-by-point analysis of the specific disclosure requirements and whether these requirements will provide the same disclosures, if the ISSB is meant to create a global baseline, investors should not be required to do so. It should be more obvious. We will not do this analysis at this time we simply highlight the differences for the Jurisdictional Working Group to consider. Overall, we would make the broad observation that the disclosures related to board oversight and management oversight are not parsed in the same manner or with the same degree of specificity. We believe the SEC and ISSB need to work together to make the language more consistent to ensure the disclosures are equivalent. As written, the ISSB is not a global baseline, it is simply different from the SEC's requirement.

We make two specific observations of importance related to the ISSB's governance disclosures:

- ***Management Governance*** – First, while we support the ISSB's governance disclosures (Paragraph 5) in principle, we would note, that the board and management oversight responsibility language is not the same and most specifically, the ISSB's disclosures related to management oversight seem sparse in comparison to those of the SEC's Proposed Rule. We believe more consistent language, preferably with the SEC management oversight disclosure language, needs to be developed.

- ***Link to Remuneration*** – Second, in our comment letter to the SEC, we noted there needed to be a link to remuneration. While there is no such requirement in the ISSB disclosures as part of the Governance disclosures in Paragraphs 4-6 of Draft IFRS S2 it is included in Paragraph 21(g), as excerpted below, related to cross-industry metrics:

  21(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))*

  We are supportive of the ISSB's proposal at Draft IFRS S2 Paragraph 21(g) to include such a remuneration metric within the cross-industry metrics disclosures as addressed in Question #9. We believe, however, these disclosures need to be included and contextualized with the relevant disclosures, in this case the governance disclosures.

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QUESTION 3—IDENTIFICATION OF CLIMATE-RELATED RISKS & 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?

(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?

Comparison of ISSB and SEC Climate-Related Risks & Opportunities Disclosure Requirements

Below is an extract of our comparison of the SEC Proposed Rule (17 CFR §229.1502(a)) and Draft IFRS 2 ¶9-10 related to climate-related risks and opportunities.

CLIMATE-RELATED RISKS & OPPORTUNTITIES	
IFRS S2 ¶9-10 CLIMATE-RELATED RISKS & OPPORTUNITIES	**17 CFR §229.1502(a) CLIMATE-RELATED RISKS & 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).** **See also Paragraph 21(b & c) on Physical & Transition Risk disclosures.** **See also Paragraph 21(d) on Climate-Related Opportunities disclosures.**	(a) **Describe any climate-related risks reasonably likely to have a material impact on the registrant**, including on its business or consolidated financial statements, which may manifest over the short, medium, and long term. If applicable, a registrant may also disclose the actual and potential impacts of any climate-related opportunities when responding to any of the provisions in this section. (1) **Discuss such climate-related risks,** specifying whether they are **physical or transition risks and the nature of the risks** presented. (i) For **physical risks**, describe the **nature of the risk**, including if it may be categorized as an **acute or chronic risk,** and the location and nature of the properties, processes, or operations subject to the physical risk. (A) If a **risk concerns the flooding** of buildings, plants, or properties located in flood hazard areas, disclose the percentage of those assets (square meters or acres) that are located in flood hazard areas in addition to their location. (B) If a **risk concerns the location of assets in regions of high or extremely high water stress**, disclose the amount of assets (e.g., book value and as a percentage of total assets) located in those regions in addition to their location. Also disclose the percentage of the registrant's total water usage from water withdrawn in those regions. (ii) For **transition risks**, describe the nature of the risk, including whether it relates to regulatory, technological, market (including changing consumer, business counterparty, and investor preferences), liability, reputational, or other transition-related factors, and how those factors impact the registrant. A registrant that has significant operations in a jurisdiction that has made a GHG emissions reduction commitment may be exposed to transition risks related to the implementation of the commitment.

	(2) **Describe how the registrant defines short-, medium-, and long-term time horizons**, including how it takes into account or reassesses the expected useful life of the registrant's assets and the time horizons for the registrant's climate-related planning processes and goals.

Views on SEC Climate-Related Risks & Opportunities Disclosure Requirements

CFA Institute's SEC Climate Comment Letter (See Pages 16-17 and 52-57) addresses our views – and general support for – disclosures of climate-related risks and opportunities. In our Summary of Positions at Page 16-17 we note the following:

Disclosure of Climate-Related Risks	
Definitions	▪ See Overarching Considerations (Definitions) in **Table 1** and Disclosures Inside Financial Statements (Definitions, Terminology, and Interpretive Issues) in **Table 4**.
Value Chain Disclosures	▪ Agree with the spirit of making climate-related disclosures within a registrants' value chain. Obtaining such information and verifying its veracity is likely to be challenging. Expands the boundaries of financial reporting.
Physical Risk Disclosures	▪ Support physical risk disclosures. Clarity is needed on several elements of rule. ▪ Need book value or percentage of total assets subject to physical risk—not simply for high-water stress areas. Need book value for flood hazard areas as well. For both, replacement value is likely a more important measure than book value—as well as the impact on financial performance (revenues and expense) of this risk, should it emerge. ▪ Support separating physical and transition risks for purposes of climate-related risk disclosures. May not be easy to parse risks. ▪ Physical risk disclosures will be at a level of disaggregation that investors seek for other information within financial statements.
Transition Risk Disclosures	▪ Support but worry that transition risk disclosures will be qualitative and boilerplate as unlike for physical risks there are no required quantitative disclosures. ▪ Important disclosure is needed regarding changes in legislation or regulations and international accords or agreements that may have differing impacts by geography. Need GHG and transition considerations by geography.
Opportunities	▪ Support discussion of opportunities. ▪ Remain skeptical that many companies will make these disclosures. ▪ Monitoring/enforcement may be necessary to ensure that climate-related opportunities discussed by registrant as part of marketing a company's stock in venues, forums, or publications other than SEC filings is not omitted as a disclosure within the company's SEC filings. Consider language that makes the opportunities discussion optional unless included in other public communications.
Other Metrics	▪ See Information Must Be Decision-Useful and Predictive: A Link Is Needed Between Disclosures Inside and Outside Financial Statements within the Overarching Considerations section **Table 1**.

Time Horizons and Materiality Determination	▪ See Overarching Considerations (Materiality) and (Discussion in Proposal vs. Actual Proposed Rule) subsections in **Table 1** regarding materiality application by the SEC and a description of materiality conclusions by the registrant. ▪ SEC should provide guidelines on the definition of short, medium, and long term. ▪ Industries and businesses may have very different business models that necessitate discussion over very different time horizons. ▪ Issuer disclosure of their time horizons (even if guidelines are provided) is important for comparison between years and with competitors. ▪ Support safe harbor provisions.

Views on ISSB Climate-Related Risks & Opportunities Disclosure Requirements

We have not done a precisely detailed analysis and synthesis of the exact working differences. We believe the ISSB and the Working Group Addressing Jurisdictional Differences it has created need to compare the language and ascertain whether the language will result in similar disclosures of climate-related risks and opportunities and whether it is sufficient to develop a global baseline. We make several high-level observations:

- ***Materiality*** –
  - *Material vs. Significant Risks and Optional vs. Mandatory Disclosure of Opportunities* – We note the requirement to disclose "significant" climate-related risks and opportunities in Draft IFRS S2. We note no reference in the Draft IFRS S2 language that necessitates a need to disclose "material" climate-related risks and opportunities. As a side observation, we note the topic of material or materiality is barely mentioned in the Draft IFRS S2 disclosure requirements. In the SEC's Proposed Rule material climate-related risks are required to be disclosed. This language difference could result in differences in the risk disclosed.

    We also note that climate-related opportunities are optional disclosures under the SEC's Proposed Rule while they do not appear optional under Draft IFRS S2.

    See our analysis of the need for greater interpretative guidance on the assessment of materiality based on enterprise value in our comment letter related to Draft IFRS S1 in the *Conceptual Framework Considerations* subsection of the *Summary Considerations from Responses to Specific Questions* section and in our response to Questions #8 in Appendix 1 of that letter.

  - *No Requirement to Discuss Materiality Determination* – Within the SEC's Proposed Rule, the SEC is requiring through 17 CFR §229.1503(a)(1)(iv) the issuer disclose how they determined a risk was material. This is a first for the SEC and this too should be included in IFRS S2 as investors need to understand how materiality was determined.

  - *Other SEC Materiality Considerations* – See also discussion of materiality related to climate risks at CFA Institute's SEC Climate Comment Letter (See Page 40).

- ***Time Horizons*** – In both proposals we see the need to make disclosures regarding time horizons, we believe this is useful. That said, we believe guidelines on the definition of short, medium, and long term are necessary in the ISSB disclosure requirements.

- ***Physical vs. Transition Risks Disclosure Descriptions Are Less Detailed for IFRS S2: Likely Less Specific Disclosures will be Provided*** – We note there is not a requirement to make disclosures by physical and transition risks in the same level of detail in Draft IFRS S2 as there is in the SEC's Proposed Rule. We do note that the Paragraph's 21(b), (c) and (d) provide some additional disclosure requirements related to the amount and percentage of assets or business activities vulnerable to physical and transition risks or aligned with climate-related opportunities, but they are very generic and not likely to yield consistent disclosures with the SEC. The SEC Proposal has much more specific requirements related to flooding and high-water stress physical risks, and we believe there needs to be similar requirements in Draft IFRS S2.

- ***Industry-Based Requirements*** – We support the requirement in Paragraphs 10, 20(b) and 22 to consider the applicability of disclosure topics in the industry-based requirements as we believe this consideration will result in greater relevance of disclosures and greater comparability both within an industry and across industries because this is the first materiality filter and will result in similar judgements within industry regarding the most material risks and opportunities. See also our response to Question #11.

- ***Definitions*** – In Question #6 we highlight the importance of the definitions used for climate disclosures and their impact on the disclosure of financial effects between disclosures inside and outside the financial statements.

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?***

(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?***

EFFECTS ON STRATEGY, BUSINESS MODEL, OUTLOOK, DECISION-MAKING & TRANSITION PLANS

Responding to Questions #4, #5, #6 and #7:
Challenging Comparison of Draft IFRS S2 to SEC's Proposed Rule

Determining how to respond to Question #4 on Value Chain (Paragraph 12), Question #5 on Transition Plans (Paragraph 13(a)) and Carbon Offsets (Paragraph 13(b)), Question #6 on Current and Anticipated Effects (Paragraph 14)) and Question #7 on Climate Resilience (Paragraph 15) was challenging when doing it as a comparison to the SEC's Proposed Rule.

These paragraphs and the related questions are all within the Strategy section of Draft IFRS S2 but not necessarily within that same categorization within the SEC's Proposed Rule 17 CFR §229.1502 on Strategy, Business Model and Outlook. These disclosures, more than any others, showed the challenge of achieving a global baseline for investors.

What we noted was that the ISSB's disclosures on the effects or impacts of climate-related risks and opportunities in Paragraphs 12 and 13 are weak, as the focus in those paragraphs – as evidenced by the focus of Questions #4 and #5 – is on the value chain and transition plans whereas the most comparable section in the SEC's Proposed Rule is 17 CFR §229.1502(b) and it focuses on impacts and effects of climate-related risks. Further confusing the issue is that transition plans and carbon offsets are not included in the SEC's Proposed Rule 17 CFR §229.1502 on Strategy, Business Model and Outlook. They are addressed, respectively, in Risk Management in the SEC's Proposed Rule at 17 CFR §229.1503(c) and Targets and Goals in the SEC's Proposed Rule 17 CFR §229.1506.

Responding to Question #6 on Current and Anticipated Effects (Paragraph 14)) and Question #7 on Climate Resilience (Paragraph 15) were more straightforward as they were comparable to SEC's Proposed Rule 17 CFR §229.1502 (c)&(d) and then (f), respectively.

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Below is an extract of our comparison of the SEC Proposed Rule (17 CFR §229.1502(b & c)) and Draft IFRS 2 ¶'s 11-13.

VALUE CHAIN, STRATEGY, DECISION-MAKING & TRANSITION PLAN EFFECTS

IFRS S2 ¶11-13
STRATEGY AND DECISION-MAKING

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.

VALUE CHAIN

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, DECISION-MAKING & TRANSITION PLANS

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:
        1. information about **current and anticipated changes to its business model**, including:
            a. 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.
            b. information about <u>**direct**</u> **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).
            c. information about <u>**indirect**</u> **adaptation and mitigation efforts it is undertaking** (for example, by working with customers and supply chains or use of procurement).
        2. **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**;

17 CFR §229.1502(b) & (c)
IMPACTS ON STRATEGY BUSINESS MODEL & OUTLOOK

(b) Describe **the actual and potential impacts of any climate-related risks** identified in response to paragraph (a) of this section on the registrant's **strategy, business model, and outlook**.

(1) Include **impacts on the registrant's**:
- (i) **Business operations**, including the types and locations of its operations;
- (ii) **Products or services**;
- (iii) **Suppliers** and other parties in its **value chain**;
- (iv) **Activities to mitigate or adapt** to climate-related risks, including adoption of new technologies or processes;
- (v) **Expenditure for research and development;** and
- (vi) **Any other** significant changes or impacts.

(2) Include **the time horizon** for each described impact (i.e., in the short, medium, or long term, as defined in response to paragraph (a) of this section).

(c) **Discuss** whether and **how any impacts described in response to paragraph (b)** of this section are **considered as part of the registrant's business strategy, financial planning, and capital allocation**. Provide both **current and forward-looking disclosures** that **facilitate** an **understanding** of whether **the implications of the identified climate-related risks have been integrated** into the **registrant's business model or strategy**, including how any resources are being used to mitigate climate-related risks.

Include in this discussion how and of the metrics referenced in §210.14–02 of this chapter and §229.1504 or any of the targets referenced in § 229.1506 relate to the registrant's business model or business strategy. If applicable, include in **this discussion the role that carbon offsets or RECs** play in the registrant's climate-related business strategy.

See requirements related to Transition Plans under Risk Management 17 CFR §229.1503(c) below. Question #5.

See requirements related to Carbon Offsets under Targets and Goals at 17 CFR §229.1506(d) below. Question #5.

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. See also Paragraph 21(e) on Capital Deployment disclosures. See Question #6 and #7 for comparison to Draft IFRS S2 Paragraphs 14 and 15.	

We detail out below the challenge in making these comparisons as it is important to understand before considering the question responses which follow:

- ***Value Chain Effects, But Limited Reporting Entity Effects*** – Question #4 queries disclosures in Paragraph 12 with a focus on those in the value chain (Paragraphs 12(a) and (b)). It does not pose questions regarding the sufficiency of the disclosures related to the reporting entity other than the value chain. The focus on the value chain creates confusion when Paragraph 12 is compared to SEC Proposed Rule 17 CFR §229.1502(b) where there are more significant disclosures regarding the impact of climate-related risks and opportunities on the business – not simply the value chain. Further, Paragraphs 12(a) and (b) are then meant to be value chain related disclosures comparable to SEC Propose Rule §229.1502(b)(1)(iii). In the case of value chain disclosures, the ISSB's disclosures may be more robust, but as we note in the letter to the SEC, the value chain disclosures may be difficult to obtain irrespective of the disclosure requirements. We do not believe the lead-in to Paragraph 12 is sufficient in its requirement to disclose the effects or impacts of sustainability-related risks and opportunities.

- ***Transition Plans and Carbon Offsets, But No Reporting Entity Effects*** – Question #5 on transition plans and carbon offsets only exacerbated the confusion as Paragraph 13 only mentions transition plans in the lead-in portion of that paragraph. As with Paragraph 12 above, there did not appear to be disclosures in Paragraph 13 equivalent to SEC Proposed Rule 17 CFR §229.1502(b) on the effects or impacts of climate-related risks and opportunities. Rather, there seemed to be a jump from climate-related risks (Paragraph 9-10) to the transition plan (Paragraph 13) with a pit stop at value chain disclosures (Paragraph 12).

We do not believe the lead-in to Paragraph 13 or Paragraph 12 is sufficient in its requirement to disclose the impacts or effects of sustainability-related risks and opportunities.

From Question #4 we have come to understand that Paragraph 13(a) relates more to transition plans in the ISSBs view than to the disclosure of the effects or impacts of climate-related risks and opportunities on the business. Paragraph 13(b) then covers targets and goals and the related use of carbon offsets. These are addressed in Question #5 which follows.

- ***Transition Plan Disclosures Are Within Risk Management in the SEC Rule*** – Making the situation more confusing is that the SEC's Proposed Rule transition plan disclosures – those more comparable to Paragraph 13(a) – reside within Risk Management at 17 CFR §229.1503(c). See Question #5.

- ***Carbon Offset Disclosures Are Within Targets and Goals in the SEC Rule*** – Paragraph 13(b) related to carbon offsets resides within Targets and Goals in the SEC's Proposed Rule 17 CFR §229.1506. See Question #5.

Views on SEC vs. ISSBs Disclosure Requirements on the Impacts or Effects of Climate-Related Risks

The consultation does not in our view, sufficiently, query the efficacy of the disclosure requirements related to the impact of climate-related risks on strategy and decision-making. There is more focus on the value chain and transition plan disclosures. As investors we need to know the impacts on strategy and decision-making and then the adaption or transition that is planned.

As we note in our comment letter related to Draft IFRS S1 in the *Content and Location Considerations* subsection of the *Summary Considerations from Responses to Specific Questions* section and in our response to Question #4 in Appendix 1 of that letter – we see this same issue in Draft IFRS S1. We note there, as here, that we do not believe disclosures should focus more on transition plans than the effects. Investors need to first understand the effects and then understand the transition plans. Without understanding the effects investors can't assess the efficacy of the transition plans.

Overall, review of a side-by-side comparison, as in the table above, of the ISSB's and the SEC's proposed disclosures you note that the ISSB provides: i) more disclosure requirements on the effects on the value chain than does the SEC, ii) limited disclosure guidance or requirements on the actual effects on strategy and decision-making, and iii) more disclosure guidance on the adaption or change in business and strategy in this section than the simple articulation of the effects or impact. The ISSB, however, provides less detailed disclosure requirements on transition plans than does the SEC in its risk management section.

Views on SEC Disclosure Requirements – In CFA Institute's SEC Climate Comment Letter (See Pages 17 and 57-61) we noted our concern – as also expressed by the TCFD – that compliance with the disclosures will be boilerplate and qualitative, and without significant enforcement will persist under the SEC's Proposed Rule 17 CFR §229.1502(b) & (c). We also

note the challenge registrants will have in making the discussion and analysis of metrics in the second paragraph of the SEC's Proposed Rule 17 CFR §229.1502(c). In our Summary of Positions at Page 17 we note the following:

Disclosures Regarding Climate-Related Impacts on Strategy, Business Model, and Outlook	
Disclosure of Material Impacts	▪ Support, in principle, disclosures of the material impacts of climate-related physical and transition risks describing the actual or potential impacts of these risks on the registrants' strategy, business model, and outlook with an emphasis on doing so with respect to time horizons and giving consideration of how it has impacted strategy, financial planning, and capital allocation. ▪ Concerned that disclosures will remain high-level and qualitative and not quantitative, nor company specific. ▪ Need quantitative and qualitative description of impacts. The only disclosure that might garner a quantitative disclosure is the requirement to disclose research and development expenditures. ▪ Support the spirit of the attempt to link the discussion of climate-related risks to their impact, both current and forward-looking, and to the financial statements, but we believe the non-financial nature of GHG emission metrics—with no required quantification of the cost to reduce them required to be disclosed—combined with mostly backward accrual-based financial statement caption metrics will make such linkage challenging. See Overarching Considerations (Information Must Be Decision-Useful and Predictive: A Link Is Needed Between Disclosures Inside and Outside Financial Statements) in **Table 1**. ▪ Support disclosure regarding how any resources are used to mitigate climate-related risks. ▪ We would not oppose additional disclosures regarding how the registrant leverages climate-related financing instruments.

The SEC's disclosure requirements in Proposed Rule 17 CFR §229.1502(b) and (c) focus on:

i) describing the impacts on a variety of elements of a registrant's business,
ii) how these impacts are considered as part of the business strategy, financial planning, and capital allocation, and
iii) requiring a discussion of how the:
   - financial statement metrics (within the financial statements) in17 CFR §210.14-02;
   - the GHG emission metrics in17 CFR §229.1504;
   - or any targets and goals in 17 CFR §229.1506 (including the carbon offset disclosures in 17 CFR §229.1506 (d))

   relate to the business model or strategy.

Views on ISSB Disclosure Requirements – If we consider the ISSBs disclosures in the aggregate, and the related questions (Questions #4 and #5), we make the following observations regarding the efficacy of the ISSBs disclosures:

- *Effects on Strategy & Business Model* – The ISSB has more limited disclosure requirements on the effects on strategy and decision-making in Paragraphs 12 and 13 than is required under SEC's Proposed Rule 17 CFR §229.1502(b) & (c). The ISSB's disclosures are more focused on change and adaption than allowing investors to first understand the effects.
- *Value Chain Disclosures* – The ISSB has more focus on disclosures related to the effects on the value chain in Paragraph 12 than under SEC's Proposed Rule 17 CFR §229.1502(b)(1)(iii)

- *Capital Allocation or Deployment* – A precise comparison of what disclosures will result from the SEC's Proposed Rule 17 CFR §229.1502(c) relative to Draft IFRS S2 Paragraph 13(a) and Paragraph 21(e) on capital deployment is necessary by the ISSB.
- *Transition Plans* – The comparison of transition plan disclosures in Paragraph 13(a) relative to SEC's Proposed Rule 17 CFR §229.1503(c) show the SEC will likely have more detailed disclosures. See also discussion under Question #5.
- *Carbon Offsets* – See discussion under Question # 5.
- *Targets & Goals* – See discussion which follows in Question #5 and #10.
- *Financial Effects* – See discussion which follows in Question #6.

VALUE CHAIN

Climate-Related Risks & Opportunities Value Chain Disclosure Requirement Comparison of ISSB and SEC

Below is an extract of our comparison of the SEC Proposed Rule (17 CFR §229.1502(b)) and Draft IFRS 2 Paragraphs11-12 related to climate-related risks and opportunities.

VALUE CHAIN, STRATEGY, DECISION-MAKING & TRANSITION PLAN EFFECTS	
IFRS S2 ¶11-12 **STRATEGY AND DECISION-MAKING**	**17 CFR §229.1502(b)** **IMPACTS ON STRATEGY BUSINESS MODEL & OUTLOOK**
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).	(b) Describe **the actual and potential impacts of any climate-related risks** identified in response to paragraph (a) of this section on the registrant's **strategy, business model, and outlook**. (1) Include **impacts on the registrant's**: (i) **Business operations**, including the types and locations of its operations; (ii) **Products or services**; (iii) **Suppliers** and other parties in its **value chain**; (iv) **Activities to mitigate or adapt** to climate-related risks, including adoption of new technologies or processes; (v) **Expenditure for research and development;** and (vi) **Any other** significant changes or impacts. (2) Include **the time horizon** for each described impact (i.e., in the short, medium, or long term, as defined in response to paragraph (a) of this section).

Views on SEC Climate-Related Risks & Opportunities Value Chain Disclosure Requirements

CFA Institute's SEC Climate Comment Letter (See Pages 16 & 52 (Overall); 72 (Financial Statements); 89 (Data Sources); 91, 94 and 98 (Scope 3)) addresses our views on value chain disclosures. In our Summary of Positions at Page 16 we note the following:

Disclosure of Climate-Related Risks	
Value Chain Disclosures	▪ Agree with the spirit of making climate-related disclosures within a registrants' value chain. Obtaining such information and verifying its veracity is likely to be challenging. Expands the boundaries of financial reporting.

In the Appendix to our SEC letter on Page 52, we note the following:

> *Value Chain Disclosures, May Be Challenging to Obtain—We agree with the spirit of making climate-related disclosures 17 CFR §229.1502(b) within a registrants' value chain; however, obtaining such information and verifying its veracity is likely to be challenging. It also seems to expand the boundaries of the financial reporting beyond simply the registrant, which may be challenging and require safe harbor provisions. Investors need to understand the nature of such information may be substantially less reliable*

> *than the information controlled by the company. Like Scope 3 emissions, this information may be challenging to obtain and of varying degrees of quality.*
>
> *Further, as we note in the Disclosures Inside Financial Statements (Identifying Climate-Related Impacts from Supplier (Upstream) Costs: Likely the Most Significant, But Not Included in Financial Statement or Expenditure Metrics) section, the metrics included in the Proposed Rule, will not likely capture such climate-related risks.*

Overall, we conclude there that the value chain disclosures will be challenging to obtain and likely qualitative. We support the Scope 3 emission disclosures (i.e., a type of value chain disclosure) knowing they are likely more quantitative than the description offered by the language in 17 CFR §229.1502(b)(iii). We also believe the production of Scope 1 and Scope 2 emissions in the value chain for this risk will likely be more accessible to obtain than for other risks. Further, we highlight in our comment letter to the SEC that investors are more interested in relevant than perfectly reliable information and Scope 3 is likely the most relevant for a registrant. That said, we also note there that we recognize that, for example, the SEC's proposed financial statement metrics likely won't ever show the effects of these value chain disclosures as they will not be reported by suppliers or captured by the public company reporting the data. The real question is how investors will – other than using their own pricing of Scope 3 emission reductions – establish a value-relevant link to the company of such disclosures.

Views on ISSB Climate-Related Risks & Opportunities Value Chain Disclosure Requirements

This question and Paragraph 12, because of Paragraphs 12(a) and (b) are focused on disclosures within the value chain and are comparable to SEC Proposed Rule §229.1502(b)(1)(iii). Both of which are highlighted in grey above. While the ISSB's value chain disclosure requirements may be more extensive, as we noted in our letter to the SEC, we believe these value chain disclosures may be difficult to obtain – and the actual financial effects nearly impossible to isolate in any meaningful way. We believe the same to be true for the ISSB's disclosures.

We believe these disclosures will require some sort of safe harbor. See our comments related to the ISSB's need to consider the safe harbor provisions in our response to Question #7 on Climate Resilience.

In the section above that precedes our response to Question #4, we highlight our view that we do not believe the lead-in to Paragraph 12 or Paragraph 13 are sufficient in their requirement to disclose the effects or impacts of sustainability-related risks and opportunities on the entity more broadly. The focus of Paragraphs 12 and 13 and Questions #4 and #5 are on the value chain and transition plan, but not on a detailed description of the overall effects to the business of the reporting entity. See our comments in the lead-in to our response to Question #4.

CFA Institute

APPENDIX

QUESTION 5—TRANSITION PLANS AND CARBON OFFSETS

(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?

TRANSITION PLANS

Comparison of ISSB and SEC Transition Plan Disclosure Requirements

Below is an extract of our comparison of the SEC Proposed Rule (17 CFR §229.1503(c) under Risk Management) and Draft IFRS 2 (Paragraph 13) related to transition plans.

<table>
<tr><th colspan="2">RISK MANAGEMENT</th></tr>
<tr><td>Requirements related to Transition Plans are supposedly included under Paragraph 13, but there are no disclosures labelled as transition plan specific. Rather than are embedded within the language of Paragraph 13(a) which is duplicated below:

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:
1. information about current and anticipated changes to its business model, including:
a. 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.</td><td>TRANSITION PLAN (17 CFR §229.1503(c))
(c)(1) If the registrant has adopted a transition plan as part of its climate-related risk management strategy, describe the plan, including the relevant metrics and targets used to identify and manage any physical and transition risks. To allow for an understanding of the registrant's progress to meet the plan's targets or goals over time, a registrant must update its disclosure about the transition plan each fiscal year by describing the actions taken during the year to achieve the plan's targets or goals.
(2) If the registrant has adopted a transition plan, discuss, as applicable:
(i) How the registrant plans to mitigate or adapt to any identified physical risks, including but not limited to those concerning energy, land, or water use and management;
(ii) How the registrant plans to mitigate or adapt to any identified transition risks, including the following:
(A) Laws, regulations, or policies that:
(1) Restrict GHG emissions or products with high GHG footprints, including emissions caps; or
(2) Require the protection of high conservation value land or natural assets;
(B) Imposition of a carbon price; and
(C) Changing demands or preferences of consumers, investors, employees, and business counterparties.
(3) If applicable, a registrant that has adopted a transition plan as part of its climate-related risk management strategy may also describe how it plans to achieve any identified climate-related opportunities, such as:
(i) The production of products that may facilitate the transition to a lower carbon economy, such as low</td></tr>
</table>

b. 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). c. information about **indirect adaptation and mitigation efforts it is undertaking** (for example, by working with customers and supply chains or use of procurement). 2. **how these plans will be resourced**.	emission modes of transportation and supporting infrastructure; (ii) The generation or use of renewable power; (iii) The production or use of low waste, recycled, or other consumer products that require less carbon intensive production methods; (iv) The setting of conservation goals and targets that would help reduce GHG emissions; and (v) The provision of services related to any transition to a lower carbon economy.

Views on SEC Transition Plan Disclosure Requirements

CFA Institute's SEC Climate Comment Letter (See Pages 18, 22, 55 and 65) articulates our support for transition plan disclosures. In our Summary of Positions at Page 18 we note the following:

Risk Management Disclosure	
Processes for Identifying, Assessing, and Managing Climate-Related Disclosures	Support disclosure requirements. Make observations regarding the following: ▪ importance of integration with overall risk management; ▪ risk of boilerplate disclosures unless inclusion of metrics and proper enforcement; ▪ need for regulatory reform disclosures by geography; ▪ relative importance of these disclosures for climate but not for other risks; ▪ precedent-setting nature of requirement to describe materiality conclusions; and ▪ false narrative of competitive harm.

Transition Plan Disclosure	▪ Support the Proposed Rule's requirement that a registrant disclose, if it has adopted, a transition plan as part of its climate-related risk management strategy.
	▪ Support the inclusion of transition plans related to physical and transition risks.
	▪ Agree with the view that disclosures will facilitate investor understanding of whether the company has a plan and whether it may be effective in the short, medium, and long term in achieving such a transition.
	▪ Make observations regarding the need:
	  ▪ to connect transition plan to risk disclosures;
	  ▪ for standardized metrics not simply, those based upon management judgment;
	  ▪ to connect the plan to management compensation; and
	  ▪ to update only annually unless there are significant changes.

Overall, we are supportive of the SEC's transition plan disclosures.

APPENDIX

Views on ISSB Transition Plan Disclosure Requirements

Paragraph 13 of Draft IFRS S2 only mentions transition plans in the lead-in sentence in Paragraph 13 whereas the SEC's Proposed Rule includes an entire section on transition plan disclosures under Risk Management subsection 17 CFR §229.1503(c).

In the section above that precedes our response to Question #4, we highlight our view that we do not believe the lead-in to Paragraph 13, or Paragraph 12, are sufficient in their requirement to disclose the effects or impacts of sustainability-related risks and opportunities on the entity more broadly. As we note there, Paragraphs 12 and 13 and Questions #4 and #5 are on the value chain and transition plan, but not on a detailed description of the overall effects to the business of the reporting entity. See our comments in lead-in to our response to Question #4.

Further, the Draft IFRS S2 Paragraph 13(a) lacks the specificity of transition plan requirements that the SEC Proposed Rule does in 17 CFR §229.1503(c), particularly as it relates to physical and transition risks and the impacts of laws and regulations.

The SEC's Proposed Rule appears to have more useful disclosures related to transition planning than those in Paragraph 13(a) of Draft IFRS S2. We believe the ISSB needs to set forth more specific transition plan disclosures separate and apart from the description of the effects of climate-related risks and opportunities as it appears the SEC has done in separating the disclosures in the Strategy and Risk Management section.

Overall, we believe from reviewing this important comparison of climate-related effects and transition plans that a global baseline is not emerging.

CARBON OFFSETS

Comparison of ISSB and SEC Carbon Offsets Disclosure Requirements

Below is an extract of our comparison of Draft IFRS S2 Paragraph 13(b) when compared to the SEC's Proposed Rule on carbon offsets in 17 CFR §229.1506(d).

<table>
<tr><th colspan="2">VALUE CHAIN, STRATEGY, DECISION-MAKING & TRANSITION PLAN EFFECTS</th></tr>
<tr><td>TARGETS (MOSTLY CARBON OFFSETS)

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:
d. [See transition plan section above]
e. information regarding climate-related targets for these plans including:
iv. the processes in place for review of the targets;
v. the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain;
vi. 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).
f. 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.
See also Targets and Goals section Draft IFRS S2 Paragraphs 23-24 and the SEC comparison at 17 CFR §229.1506 which follows. (Question #10)</td>
<td>Paragraph 17 CFR §229.1506(d) within Targets and Goals relates to carbon offsets but is duplicated for comparison below:

(d) If carbon offsets or RECs have been used as part of a registrant's plan to achieve climate-related targets or goals, disclose the amount of carbon reduction represented by the offsets or the amount of generated renewable energy represented by the RECS, the source of the offsets or RECs, a description and location of the underlying projects, any registries or other authentication of the offsets or RECs, and the cost of the offsets or RECs.</td></tr>
</table>

Views on SEC Carbon Offsets Disclosure Requirements

CFA Institute's SEC Climate Comment Letter (See Pages 17, 22, 89 and 106) articulates our support for carbon offset disclosures noting that we do not support net presentation of emissions after carbon offsets. In our Summary of Positions at Pages 17 and 22 we note the following:

Disclosures Regarding Climate-Related Impacts on Strategy, Business Model, and Outlook	
Carbon Offsets and Renewable Energy Credits	▪ Support disclosure that requires discussion of how carbon offsets or renewable energy credits (REC) have been used in the registrant's climate-related strategy. ▪ See also the Targets and Goals Disclosures portion of **Table 3**.

TARGETS AND GOALS	
Targets and Goals	▪ Support disclosure of ***any*** targets or goals given that what gets disclosed gets measured and monitored. ▪ Disclosure could discourage setting targets or goals, but the disclosures, more importantly, will reduce virtue signaling (false) targets/goals. ▪ No incremental cost to disclose, as this should follow internal reporting on targets and goals and related progress. ▪ Disclosure regarding progress over time are key to establishing accountability and verifiability over time. Progress should be reported quantitively and qualitatively. ▪ Support disclosures associated with the role carbon offset and renewable energy credits are expected to play and have played in achieving targets. ▪ Prefer disclosures in tabular format with progress reporting tabularly over time. ▪ Support safe harbor protections on such disclosures.

Views on ISSB Carbon Offsets Disclosure Requirements

Carbon offset disclosure requirements are included within Paragraph 13(b)(iii) of Draft IFRS S2 which is about targets while there is also a separate section on targets in Paragraph 23 of Draft IFRS S2. See Question #10. The SEC's Proposed Rule includes its carbon offset disclosures within 17 CFR §229.1506(d) on Targets and Goals. See sections highlighted in grey above. We have done our best to provide a side-by-side comparison of the requirements, but this is an area where the ISSB needs to work to create greater consistency and comparability.

We believe the ISSB's Draft IFRS S2 may present more detailed information.

It would also be helpful to include the offsets discussion within Paragraphs 23 of Draft IFRS S2 so that there are not two discussions of targets – one in Paragraph 13(b) and another in Paragraph 23. It would also make comparison easier between the ISSB Draft IFRS S2 and the SEC's Proposed Rule.

As with transition plans, a global baseline does not appear to emerge from this comparison or carbon offset disclosures.

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?

(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?

Comparison of ISSB and SEC Financial Effects Disclosure Requirements

Below is a chart which summarizes our comparison of the requirements of Paragraph 14 as compared to the SEC's Proposed Rule 17 CFR §229.1502(d) related to financial effects that have affected, or are reasonably like to affect, the registrants' financial statements. Notably this comparison – in the second paragraph of SEC Proposed Rule 17 CFR §229.1502(d) – highlights the fact that the SEC's Proposed Rules include specific metrics to be included within financial statements in Article 1400 (Climate Relate Financial Disclosures). This is likely the most significant difference between the US and international proposals, as we discuss in the body of the letter in the *Financial Statement Disclosures: A Missing Anchor to IFRS S2* section.

FINANCIAL STATEMENTS EFFECTS	
IFRS S2 ¶14 **EFFECTS ON FINANCIAL POSITION, FINANCIAL PERFORMANCE AND CASH FLOWS**	**17 CFR §229.1502(d)** **IMPACT ON CONSOLIDATED FINANCIAL STATEMENTS**
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:	(d) Provide a **narrative discussion** of whether and how any climate-related risks described in response to paragraph (a) of this section **have affected** or are **reasonably likely to affect the registrant's consolidated financial statements**. The discussion should **include any of the climate-related metrics referenced in § 210.14–02 of this chapter** that demonstrate that the identified climate-related risks have had a material impact on reported financial condition or operations. See also Article 14 (17 CFR §210.14-01 and 14-02) and the section below which provides the detailed financial statement metrics required by the SEC's Proposed Rule.

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.	

Views on SEC Financial Effects Disclosure Requirements

CFA Institute's SEC Climate Comment Letter (See Pages 16-18 and 66-82) articulates our view on the SEC's Proposed Rule requirements in Article 1400, *Climate-Related Disclosures,* (17 CFR §210.14-01 and §210.14-02) related to financial statement metrics and disclosures.

We won't repeat the views here as there are no such specific requirements in the ISSB standards, but broadly we proposed alternative cash-based metrics as well as quantitative amounts of changes in estimates and assumptions in lieu of the SEC's proposed requirements.

Most importantly, however, we supported the fact that disclosures outside the financial statements were being anchored to disclosures within the financial statements and that the SEC's recognition of amounts within financial statements would enhance the interpretation of definitions used throughout the climate-related disclosure ecosystem and that disclosures within financial statements would provide confirmatory evidence to the anticipated effects disclosed outside the financial statements over time. We highlight this missing anchoring for the ISSB standards in the *Financial Statement Disclosures: A Missing Anchor to IFRS S2* section in the body of this letter.

While some might indicate that the disclosures within Paragraph 14 of the Draft IFRS S2 accomplishes this anchoring, we question that view as we note in the following section.

Views on ISSB Financial Effects Disclosure Requirements

As it relates to the Draft IFRS S2 disclosures in Paragraph 14 and Question #6, we provide our views as follows.

Disclose Quantitative Effects, Unless Unable to Do So

Our experience suggests that a requirement to disclose quantitative effects unless unable to do so will result in only qualitative disclosures. This is equivalent to a comply or explain requirement. Investors generally oppose comply or explain requirements as they know there will be neither compliance nor explanation. We note throughout the SEC's discussion of its Proposed Rule that

it cites that the TCFD has found compliance with its disclosure requirements related to financial effects has been limited. Our concern is that will be the result with the inclusion of this language with the vast majority of the disclosures being qualitative and boilerplate, but unlike with the public companies subject to SEC enforcement there will likely be uneven enforcement. As such, we do not support this provision.

Disclosure of Ranges

As a general rule, we support the disclosure of ranges. As such, we would not oppose this language being included in a final IFRS S2. As we note above, we are concerned that much of the disclosure will be qualitative so this may not even result in the disclosure of a range, but we would hope this could facilitate range disclosures.

Disclosure Financial Effects of Climate-Related Risks and Opportunities: Financial Performance, Financial Position & Cash Flows

Recent Reported Effects – As we read the language of Paragraph 14 and 14(a), it is not precisely what disclosures will manifest from this disclosure requirement – even if quantitative – and how they will be reported and connectable to the financial statements.

Without more specific guidance, we doubt these disclosures will be effective for a plethora of reasons – many of which are noted above – but maybe most importantly because the terms and definitions used in the ISSB disclosures likely do not exist in IFRS like they do not exist in US GAAP. As we describe on Pages 14,16 and 23 in the Summary of Positions and Pages 37, 52-53, and 68-73 in the Overarching Considerations section and Appendix to CFA Institute's SEC Climate Comment Letter, we believe the lack of existence of the terms in Appendix A of Draft IFRS S2 within the accounting standards (IFRS or US GAAP) will make interpretation as well as capturing, recording and reporting the financial effects challenging.

Without greater guidance we do not believe this disclosure will amount to anything more than a qualitative intangible discussion. As we discuss above, we believe anchoring the disclosures outside the financial statements to those within financial statements is very important, but we are skeptical that these disclosures will be effective.

Anticipated Effects by Time Horizon – Paragraph 14 also requires disclosure of anticipated effects over the short, medium, and long term. While we agree with the spirit of these proposed disclosures, we worry that these will likely be mostly qualitative and that because of that time horizons may not be particularly meaningful.

Material Adjustments to Assets – As we read the language of Paragraph 14(b), we find we are supportive of this disclosure as it seems in line with our commentary to the SEC that we would like information on changes in estimates and assumptions. What is not clear is whether this disclosure will be quantitative. It will not be a particularly useful disclosure if it is qualitative and not linked to a financial statement caption.

Financial Position & Financial Performance, But No Cash Flow Disclosures:
The Most Important Piece is Missing – We observe in our review of Paragraph 14 that it requires disclosure of effects on financial position (balance sheet), financial performance (income statement) and cash flows (statement of cash flows). However, when we review Paragraph 14(c) and 14(d), we note they relate to financial position and performance, respectively, but that there is no disclosure requirement to explain how cash flows will change over time. This is a significant missing element in our view as what investors ultimately need is the changes in anticipated cash flows over time. How financial position and performance change over time is dependent upon cash flows, not vice versa. This is an area of improvement that is needed in Draft IFRS S2.

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?

(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?

Comparing the ISSB and SEC Climate Resilience Disclosure Requirements

Below is a chart which summarizes and compares the requirements of Paragraph 15 as compared to the SEC's Proposed Rule 17 CFR §229.1502(f) related to the climate-related resilience (scenario analysis).

CLIMATE RESILIENCE (SCENARIO ANALYSIS)	
IFRS S2 ¶15 **CLIMATE RESILIENCE**	**17 CFR §229.1502(f)** **SCENARIO ANALYSIS**
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;	(f) **Describe** the **resilience of the registrant's business strategy** in light of **potential future changes in climate-related risks**. **Describe** any **analytical tools, such as scenario analysis, that the registrant uses** to assess the impact of climate-related risks on its business and consolidated financial statements, and to support the resilience of its strategy and business model. **If the registrant uses scenario analysis to** assess the resilience of its business strategy to climate-related risks, **disclose** the scenarios considered (e.g., an increase of no greater than 3 °C, 2 °C, or 1.5 °C above pre-industrial levels), **including parameters, assumptions, and analytical choices, and the projected principal financial impacts** on the registrant's business strategy under each scenario. The disclosure should include both **qualitative** and **quantitative** information.

(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.	

APPENDIX

Views on SEC Climate Resilience Disclosure Requirements

CFA Institute's SEC Climate Comment Letter (See Pages 14 & 43 (Safe Harbor), 17 & 18 (Summary) and 60 & 61 (Discussion in Appendix)) articulates our view on the SEC's Proposed Rule requirement 17 CFR §229.1502(f) related to scenario analysis, referred to as climate resilience in Draft IFRS S2. In the Summary of Position on Pages 17 and 18 we noted the following:

Disclosures Regarding Climate-Related Impacts on Strategy, Business Model, and Outlook	
Scenario Analysis	▪ Lack of a requirement for scenario analysis is disappointing as a registrant simply needs to state they do not perform such scenario analysis to avoid making such disclosure. ▪ Not clear whether requirement to disclose both quantitative and qualitative information applies only if scenario analysis is disclosed. ▪ Investors have long advocated for better enforcement of sensitivity analysis disclosure requirement for critical estimates because it is decision useful as would be scenario analysis on climate risks. ▪ Lack of scenario analysis provides qualitative evidence that a company's climate-related risk management, governance, and strategy may not be sufficiently robust or effective at assessing the resilience of a company's climate-related risk strategy.

We support the safe harbor the SEC is proposing for this disclosure given its subjectivity and forward-looking nature.

Views on ISSB Climate Resilience Disclosure Requirements

As it relates to the ISSB specific disclosures in Paragraph 15 of Draft IFRS S2 and Question #7, we note the following:

- ***No Requirement for Scenario Analysis*** – As with the SEC, there is no requirement to perform scenario analysis, but the language suggests greater expectation there will be one done and if one is not done, disclosures on alternative methods and techniques are required – which we support.
- ***ISSB Scenario Analysis Disclosure Requirements Are More Comprehensive than SEC's*** – The ISSB disclosure requirements related to scenario analysis are more comprehensive regarding the inputs and estimates used in and the results of the scenario analysis than are the SEC's and we are supportive of these more detailed disclosures.
- ***Disclosures Required When Scenario Analysis is Not Completed*** – There are specific disclosure requirements if scenario analysis is not completed including explaining why it could not be completed – not simply allowing scenario analysis to be bypassed because it is not used. We support the ISSB over the SEC's disclosures in this regard.
- ***Safe Harbor*** – The ISSB does not have the authority to issue a safe harbor related to these scenario analysis disclosures. This safe harbor from securities regulators is, however, something that we believe will be essential before companies will make this disclosure. The ISSB needs to address how a company will be able to issue a Statement of Compliance as required if Draft IFRS S1, Paragraphs 91-92, if no safe harbor relief is provided.

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?

Comparison of the SEC and ISSB Risk Management Disclosure Requirements

Below we extract the side-by-side comparison of Draft IFRS S2 Paragraphs 16-18 and the SEC Proposed Rule 17 CFR §229.1503 as it relates to risk management disclosures. As we describe in our response to Question #4 above, the SEC Proposed Rule includes disclosure requirements related to transition plans which are not included in a separate section in Draft IFRS S2, but part of Paragraph 13. Below, we have undertaken a very rough comparison of the requirements which we have parsed into the major risk management categories, those being identify, manage, and integrate risks.

RISK MANAGEMENT	
IFRS S2 ¶16-18 **RISK MANAGEMENT**	**17 CFR §229.1503 (ITEM 1503)** **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) Describe any **processes the registrant has for identifying, assessing, and managing climate-related risks**. If applicable, a registrant may also describe any processes for identifying, assessing, and managing climate-related opportunities when responding to any of the provisions in this section.
IDENTIFY a. the **process, or processes, it uses to <u>identify</u> climate-related**: i. risks; and ii. opportunities; b. the **process, or processes, it uses to <u>identify</u> climate-related risks <u>for risk management</u> 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 <u>identify, assess and prioritise</u> climate-related <u>opportunities</u>**;	IDENTIFY (1) When describing any processes for **<u>identifying and assessing</u> climate-related risks, disclose, as applicable, how the registrant**: (i) Determines the relative **significance of climate-related risks compared to other risks**; (ii) Considers **existing or likely regulatory requirements** or policies, such as GHG emissions limits, when identifying climate-related risks; (iii) Considers **shifts in customer or counterparty preferences**, technological changes, or changes in market prices in assessing potential transition risks; and (iv) **Determines the materiality of climate-related risks**, including how it assesses the potential scope and impact of an identified climate-related risk, such as the risks identified in response to § 229.1502.
MONITOR & MANAGE d. the process, or processes, it uses **to <u>monitor and manage</u> the climate- related**: i. risks, including related policies; and ii. opportunities, including related policies;	MANAGE (2) When describing any **processes for <u>managing</u> climate-related risks**, disclose, as applicable, how the registrant: (i) Decides **whether to mitigate, accept, or adapt to a particular** risk; (ii) **Prioritizes whether to address climate-related risks**; and (iii) Determines how to **mitigate any high priority risks**.
INTEGRATE e. the **extent to which** and how the **<u>climate-related risk</u>** identification, assessment and management process, or processes, are **<u>integrated</u> into the entity's overall risk management process**; and f. the **extent to which** and how the **<u>climate-related opportunity</u>** identification, assessment and management	INTEGRATE (b) Disclose whether and how any processes described in response to paragraph (a) of this section are **<u>integrated</u> into the registrant's overall risk management system or processes**. If a separate board or management committee is responsible for assessing and managing climate-related risks, a registrant should disclose how

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.	that committee interacts with the registrant's board or management committee governing risks.

Our Views on SEC Risk Management Disclosure Requirements

CFA Institute's SEC Climate Comment Letter (See Pages 18, 63 and 64) articulates our support for the risk management disclosures. In our Summary of Positions at Page 18 we note the following which is described in more detail at Pages 63-64:

Risk Management Disclosure	
Processes for Identifying, Assessing, and Managing Climate-Related Disclosures	Support disclosure requirements. Make observations regarding the following: ▪ importance of integration with overall risk management; ▪ risk of boilerplate disclosures unless inclusion of metrics and proper enforcement; ▪ need for regulatory reform disclosures by geography; ▪ relative importance of these disclosures for climate but not for other risks; ▪ precedent-setting nature of requirement to describe materiality conclusions; and ▪ false narrative of competitive harm.

Overall, we support the risk management disclosure requirements, refuting the false narrative that they may cause competitive harm, but expressing concern they may be qualitative and boilerplate without enforcement and highlighting the need for disclosure of regulatory actions by geography to understand the potential risk of mitigating climate exposures. We query why the disclosures of such detail wouldn't be needed for other risks. We also note the SEC's precedent setting requirement to have management disclose their method of making materiality decisions in 17 CFR §229.1503(a)(1)(iv) and described in more detail in our response to Question #3.

Our Views on ISSB Risk Management Disclosure Requirements

As can be seen by the rough comparison of the provisions above, we have undertaken to parse the requirements by major category (identify, monitor, and manage and integrate). More detailed comparison of the wording is challenging and illustrates the difficulty in discerning a global baseline other than simply by the existence of these broad categorizations. We make the following observations on the detailed requirements:

- ***Materiality*** – As we note above in our response to Question #3, the SEC's proposal to require management to describe how it decided climate-related risks where material is unique for the SEC. A similar requirement does not appear to exist in the ISSB requirements. See our comments regarding materiality more broadly in the *Conceptual Framework Considerations* subsection within the *Summary Considerations from Responses To Specific Questions* section in our comment letter on Draft IFRS S1. In our view this SEC requirement should also be included in Draft IFRS S2 as it would facilitate an understanding of how materiality assessments based upon enterprise value were made by preparers.

- ***Regulatory Requirements*** – We believe Draft IFRS S2 should include language similar to 17 CFR §229.1503(a)(1)(ii) on disclosures regarding existing or likely regulatory requirements on matters such as GHG emissions. This is likely the most important exogenous risk factor to companies, and it should be included more explicitly in the Draft IFRS S2 requirements.

- ***Differing Language will Result in Differing Disclosures*** – The comparison of the detailed wording is particularly challenging in this section other than in the broad categories as we discuss above.

  <u>*Qualitative and Boilerplate*</u> – We noted in our views to the SEC that their disclosure requirements may result in highly qualitative and boilerplate disclosures. We would have the same views with respect to the disclosure requirements under Draft IFRS S2. With the SEC, however, they have control of enforcement. The ISSB does not. This, to our mind, means the ISSB needs to be a bit more specific in its disclosure requirements to ensure greater consistency and ease of enforcement.

  <u>*Opportunities*</u> – We also note the SEC's Proposed Rule disclosure requirements related to opportunities are optional. This does not appear to be the case for Draft IFRS S2. We would like clarity on this issue.

- ***Integrated Risk Disclosures*** – See our comments regarding integrated risk disclosures (Draft IFRS S2 Paragraph 18) in the *Location and Content Considerations* subsection within the *Summary Considerations from Responses To Specific Questions* section in our comment letter on Draft IFRS S1.

CFA Institute

APPENDIX

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?***

(b) ***Are there any additional cross-industry metric categories related to climate- related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.***

(c) ***Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?***

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

(e) ***Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:***

- ***i.*** ***the consolidated entity; and***
- ***ii.*** ***for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?***

(f) ***Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?***

APPENDIX

ANALYSIS OF THE DISCLOSURES WITHIN CROSS-INDUSTRY METRICS: EXCLUDING GREENHOUSE GAS EMISSIONS

Consideration of the Metrics Relative to Other Disclosure Sections

Paragraphs 19-24 relate to metric and target disclosures. Paragraphs 19 being introductory paragraphs and Paragraph 20 relating to the objective of the disclosures. Paragraph 23-24 relate to targets and goals which are addressed via Question #10 below. Paragraph 21 is the key paragraph related to cross-industry metrics supplemented with Paragraph 22 that refers to the need for industry-based metrics as needed. The specific cross-industry metrics include:

- *Greenhouse Gas Emissions* – Paragraph 21(a) is the most substantive cross-industry metric that relates to GHG emissions and is comparable to the SEC's Proposed Rule 17 CFR §229.1504. The table below shows a comparison of those provisions and that is the principal subject of our commentary for Question #19 herein.
- *Climate-Related Transition and Physical Risks and Climate-Related Opportunities* – Paragraphs 21(b), (c) and (d) relate to climate-related transition and physical risks and climate-related opportunities. We address those in Question #3 related to Climate-Related Risks and Opportunities noting they lack a degree of specificity to make them meaningful.
- *Capital Deployment* – Paragraph 21(e) relates to capital deployment and relates to Questions #5 and #6 related to the impact on Strategy, Business Model, Decision-making, and Transition Plans. There too we note the requirement lacks a degree of specificity that will ensure anything meaningful arises from the disclosure.
- *Remuneration* – Paragraph 21(g) relates to remuneration which we address, and support, in the Governance section in Question #2.
- *Internal Carbon Prices* – Paragraph 21(f) relates to internal carbon prices. As those are not addressed by any other question herein and they are also a disclosure consideration of the SEC's Proposed Rule 17 CFR §229.1502(e), we consider them below in the same comparative manner as elsewhere herein.

ISSB vs. SEC Disclosures – An excerpt from the side-by-side comparison follows:

INTERNAL CARBON PRICE	
See Paragraph 21(f) which follows on internal carbon price disclosures. **21(f) internal carbon prices:** vii. the **price for each metric tonne of** greenhouse gas emissions that the entity uses to assess the costs of its emissions; viii. an explanation of **how the entity is applying the carbon price in decision-making** (for example, investment decisions, transfer pricing and scenario analysis);	**17 CFR §229.1502(e)** **INTERNAL CARBON PRICE** (e)(1) If a registrant maintains an internal carbon price, disclose: (i) The **price in units of the registrant's reporting currency per metric ton of CO2e**; (ii) The **total price**, including how the total price is estimated to change over time, if applicable; (iii) The **boundaries for measurement of overall CO2e on which the total price is based** if different from the GHG emission organizational boundary required pursuant to §229.1504(e)(2); and (iv) The **rationale for selecting the internal carbon price** applied. (2) Describe **how the registrant uses any internal carbon price** described in response to paragraph (e)(1) of this section **to evaluate and manage climate-related risks**. (3) If a **registrant uses more than one internal carbon price**, it must provide the disclosures required by this section for each internal carbon price, and disclose its reasons for using different prices.

Views on SEC's Disclosures – In CFA Institute's SEC Climate Comment Letter we note the following with respect to internal carbon pricing in the Summary of Position on Page 17 which is discussed in more detail at Page 59.:

Disclosures Regarding Climate-Related Impacts on Strategy, Business Model, and Outlook	
Internal Carbon Pricing	▪ Support disclosure of internal carbon price, if maintained. ▪ Some companies may simply fail to maintain an internal carbon price to avoid disclosure of potentially negative impacts on enterprise value. ▪ Different methods and prices may result in a lack of comparability and may be too early to require the use of an internal carbon price or a particular carbon-pricing methodology. Carbon markets also may not be sufficiently robust. Investors, however, likely will make their own estimation of price/cost to reduce GHG emissions by obtaining price/cost estimates and applying to GHG emission disclosures.

Views on ISSB's Disclosures – As it relates to the ISSB's rule the most significant observation is that a disclosure of internal carbon price need only be made if a registrant maintains one in the US by the SEC in their Proposed Rule, but Paragraph 21(f) of Draft IFRS S2 does not appear to make the disclosure conditional upon maintaining an internal carbon price as does the SEC's 17 CFR §229.1503(e)(1). The question for the ISSB is whether there is a disclosure for internal carbon price if one is not maintained or if one is to be developed. Additionally, the SEC disclosure requirements appear more detailed than Draft IFRS S2 if an internal carbon price is maintained.

Sufficiency of Cross-Industry Metrics

As it relates to the sufficiency of the cross-industry metrics, we don't have any specific items to add. We would note, however, that reference to these metrics in the sections to which they relate (e.g., physical and transition risks and opportunities in the climate-relate risks and opportunities section, capital deployment and internal carbon pricing within the strategy and decision-making section, and remuneration within governance) would make them more effectively contextualized.

As it relates to the language in Paragraph 22, see our comment letter on Draft IFRS S1. Specifically, as it relates to Paragraph 22(a) in Draft IFRS S2, see comments related to scope as addressed in our response to Questions #1-3 in Draft IFRS S1 and in the *Conceptual Framework Considerations* subsection within the *Summary Considerations from Responses to Specific Questions* section. As it relates to Paragraph 22(b) in Draft IFRS S2, the paragraphs referenced there relate to the reporting entity response in Question #5 in Draft IFRS S1 but also to financial effects and interconnected reporting in the *Conceptual Framework Considerations* as well as the *Location and Content Considerations* subsections within the *Summary Considerations from Responses to Specific Questions* section.

GREENHOUSE GAS EMISSIONS

Comparison of the SEC and ISSB Greenhouse Gas Emission Disclosure Requirements

Below we extract the side-by-side comparison of Draft IFRS S2 Paragraph 21 and the SEC Proposed Rule 17 CFR §229.1504 as it relates to GHG emission disclosures.

CROSS-INDUSTRY & GREEN HOUSE GAS EMISSIONS METRICS	
IFRS S2 ¶21 **GHG EMISSIONS,** **TRANSITION & PHYSICAL RISKS, OPPORTUNITIES,** **CAPITAL DEPLOYMENT,** **INTERNAL CARBON PRICES & REMUNERATION**	**17 CFR §229.1504 (ITEM 1504)** **GREENHOUSE GAS EMISSIONS**
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 CO2 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 CO2 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	**(a) General.** Disclose a registrant's GHG emissions, as defined in § 229.1500(h), for its most recently completed fiscal year, and for the historical fiscal years included in its consolidated financial statements in the filing, to the extent such historical GHG emissions data is reasonably available. (1) For each required disclosure of a registrant's Scopes 1, 2, and 3 emissions, disclose the emissions both disaggregated by each constituent greenhouse gas, as specified in § 229.1500(g), and in the aggregate, expressed in terms of CO2e. (2) When disclosing a registrant's Scopes 1, 2, and 3 emissions, exclude the impact of any purchased or **generated offsets**. **(b) Scopes 1 and 2 emissions.** (1) Disclose the registrant's total Scope 1 emissions and total Scope 2 emissions separately after calculating them from all sources that are included in the registrant's organizational and operational boundaries. (2) When calculating emissions pursuant to paragraph (b)(1) of this section, a registrant may exclude emissions from investments that are not consolidated, are not proportionately consolidated, or that do not qualify for the equity method of accounting in the registrant's consolidated financial statements. **(c) Scope 3 emissions.** (1) Disclose the registrant's total Scope 3 emissions if material. A registrant must also disclose its Scope 3 emissions if it has set a GHG emissions reduction target or goal that includes its Scope 3 emissions. Disclosure of a registrant's Scope 3 emissions must be separate from disclosure of its Scopes 1 and 2 emissions. If required to disclose Scope 3 emissions, identify the categories of upstream or downstream activities that have been included in the calculation of the Scope 3 emissions. If any category of Scope 3 emissions is significant to the registrant, identify all such categories and provide Scope 3 emissions data separately for them, together with the registrant's total Scope 3 emissions. (2) If required to disclose Scope 3 emissions, describe the data sources used to calculate the registrant's Scope 3 emissions, including the use of any of the following: (i) Emissions reported by parties in the registrant's value chain, and whether such reports were verified by the registrant or a third party, or unverified; (ii) Data concerning specific activities, as reported by parties in the registrant's value chain; and (iii) Data derived from economic studies, published databases, government statistics, industry associations, or other third-party sources outside of a registrant's

example, because it is unable to obtain a faithful measure;	value chain, including industry averages of emissions, activities, or economic data. (3) A smaller reporting company, as defined by §§ 229.10(f)(1), 230.405, and 240.12b–2 of this chapter, is exempt from, and need not comply with, the disclosure requirements of this paragraph (c). **(d) GHG intensity.** (1) Using the sum of Scope 1 and 2 emissions, disclose GHG intensity in terms of metric tons of CO2e per unit of total revenue (using the registrant's reporting currency) and per unit of production relevant to the registrant's industry for each fiscal year included in the consolidated financial statements. Disclose the basis for the unit of production used. (2) If Scope 3 emissions are otherwise disclosed, separately disclose GHG intensity using Scope 3 emissions only. (3) If a registrant has no revenue or unit of production for a fiscal year, it must disclose another financial measure of GHG intensity or another measure of GHG intensity per unit of economic output, as applicable, with an explanation of why the particular measure was used. (4) A registrant may also disclose other measures of GHG intensity, in addition to metric tons of CO2e per unit of total revenue (using the registrant's reporting currency) and per unit of production, if it includes an explanation of why a particular measure was used and why the registrant believes such measure provides useful information to investors.
ISSB DIRECTLY INCORPORATES GHG PROTOCOL IN DRAFT IFRS 2, AS SUCH NO COMPARABLE SECTION.	**(e) Methodology and related instructions.** (1) A registrant must describe the methodology, significant inputs, and significant assumptions used to calculate its GHG emissions. The description of the registrant's methodology must include the registrant's organizational boundaries, operational boundaries (including any approach to categorization of emissions and emissions sources), calculation approach (including any emission factors used and the source of the emission factors), and any calculation tools used to calculate the GHG emissions. A registrant's description of its approach to categorization of emissions and emissions sources should explain how it determined the emissions to include as direct emissions, for the purpose of calculating its Scope 1 emissions, and indirect emissions, for the purpose of calculating its Scope 2 emissions. (2) The organizational boundary and any determination of whether a registrant owns or controls a particular source for GHG emissions must be consistent with the scope of entities, operations, assets, and other holdings within its business organization as those included in, and based upon the same set of accounting principles applicable to, the registrant's consolidated financial statements. (3) A registrant must use the same organizational boundaries when calculating its Scope 1 emissions and Scope 2 emissions. If required to disclose Scope 3 emissions, a registrant must also apply the same organizational boundaries used when determining its Scopes 1 and 2 emissions as an initial step in identifying the sources of indirect emissions from activities in its value chain over which it lacks ownership and control and which must be included in the calculation of its Scope 3 emissions. Once a registrant has determined its organizational and operational boundaries, a registrant must be consistent in its use of those boundaries when calculating its GHG emissions. (4) A registrant may use reasonable estimates when disclosing its GHG emissions as long as it also describes the assumptions underlying, and its reasons for using, the estimates. (i) When disclosing its GHG emissions for its most recently completed fiscal year, if actual reported data is not

	reasonably available, a registrant may use a reasonable estimate of its GHG emissions for its fourth fiscal quarter, together with actual, determined GHG emissions data for the first three fiscal quarters, as long as the registrant promptly discloses in a subsequent filing any material difference between the estimate used and the actual, determined GHG emissions data for the fourth fiscal quarter. (ii) In addition to the use of reasonable estimates, a registrant may present its estimated Scope 3 emissions in terms of a range as long as it discloses its reasons for using the range and the underlying assumptions. (5) A registrant must disclose, to the extent material and as applicable, any use of third-party data when calculating its GHG emissions, regardless of the particular scope of emissions. When disclosing the use of third-party data, it must identify the source of such data and the process the registrant undertook to obtain and assess such data. (6) A registrant must disclose any material change to the methodology or assumptions underlying its GHG emissions disclosure from the previous fiscal year. (7) A registrant must disclose, to the extent material and as applicable, any gaps in the data required to calculate its GHG emissions. A registrant's GHG emissions disclosure should provide investors with a reasonably complete understanding of the registrant's GHG emissions in each scope of emissions. If a registrant discloses any data gaps encountered when calculating its GHG emissions, it must also discuss whether it used proxy data or another method to address such gaps, and how its accounting for any data gaps has affected the accuracy or completeness of its GHG emissions disclosure. (8) When determining whether its Scope 3 emissions are material, and when disclosing those emissions, in addition to emissions from activities in its value chain, a registrant must include GHG emissions from outsourced activities that it previously conducted as part of its own operations, as reflected in the financial statements for the periods covered in the filing. (9) If required to disclose Scope 3 emissions, when calculating those emissions, if there was any significant overlap in the categories of activities producing the Scope 3 emissions, a registrant must describe the overlap, how it accounted for the overlap, and the effect on its disclosed total Scope 3 emissions.
NOT ADDRESSABLE BY ISSB	**(f) Liability for Scope 3 emissions disclosures.** (1) A statement within the coverage of paragraph (f)(2) of his section that is made by or on behalf of a registrant is deemed not to be a fraudulent statement (as defined in paragraph (f)(3) of this section), unless it is shown that such statement was made or reaffirmed without a reasonable basis or was disclosed other than in good faith. (2) This paragraph (f) applies to any statement regarding Scope 3 emissions that is disclosed pursuant to §§ 229.1500 through 229.1506 and made in a document filed with the Commission. (3) For the purpose of this paragraph (f), the term fraudulent statement shall mean a statement that is an untrue statement of material fact, a statement false or misleading with respect to any material fact, an omission to state a material fact necessary to make a statement not misleading, or that constitutes the employment of a manipulative, deceptive, or fraudulent device, contrivance, scheme, transaction, act, practice, course of business, or an artifice to defraud as those terms are used in the Securities Act of 1933 or the Securities Exchange Act of 1934 or the rules or regulations promulgated thereunder.

CFA Institute

APPENDIX

Views on SEC Greenhouse Gas Emission Disclosure Requirements

Pages 7 & 8 (Executive Summary), 19 & 20 (Summary of Positions) and 83-94 (Appendix) of CFA Institute's SEC Climate Comment Letter set forth our view on the SEC's Proposed Rule requirements in 17 CFR §229.1504 related to GHG emissions. See those below.

DISCLOSURES OUTSIDE FINANCIAL STATEMENTS (REGULATION S-K)	
TOPIC	**POSITION AND COMMENTS**
GREENHOUSE GAS EMISSIONS	
GHG Emissions Disclosure Requirements	
GHG Emissions Metrics Disclosure	
Scope 1, 2 and 3 Emission Disclosures	▪ Support Scope 1 and 2 emissions disclosures to better inform investors. ▪ Because investors believe they will be the most significant GHG emissions for many companies, we support Scope 3 emissions disclosures—recognizing the many challenges associated with gathering such information (e.g., supply chain issues, need for non-public company data, estimations, delays in reporting, and materiality application questions). We would be supportive of an industry-based and size of registrant-based transition approach expressed as ranges and with appropriate safe harbors as this value-relevant information is needed for analysis even if the measurement is less than perfectly reliable. Such an approach would likely be agreeable to investors as it would provide for the largest and most significant Scope 3 emitters implementing disclosures first. ▪ GHG emissions may be a non-financial metric—that some perceive as an impact-only metric—but they are a barometer, albeit a blunt instrument, for investors to understand the current transition exposure and how progress can be, or is being, made in reducing emissions—and the cost of reducing such emissions to the enterprise. Amid increasing net-zero commitments and regulatory pressures to reduce GHG emissions, they become more financially relevant. GHG emissions need context (i.e., industry drivers, company strategy, and cost of reduction) to be most meaningful to investors.
Historical Periods and Timing of Reporting	▪ Would not object to the inclusion of current period—only GHG emission metrics, building comparative figures going forward. ▪ Support a reporting period consistent with the registrants' Exchange Act annual report (e.g., 31 December 2022) and a reporting deadline consistent with the registrants' Exchange Act annual report due date (e.g., 60 days after the period end, 1 March 2023). We would not object to a three-month reporting lag or the estimation of the last quarter's emissions.
GHG Definitions	▪ Support definitions of greenhouse gases as CO_2, CH_4, N_2O, NF_3, HFCs, PFCs, and SF_6. ▪ CO_2 equivalent (CO2e) is an appropriate metric to use as it is accepted standard.
Use of GHG Protocol	▪ Support GHG Protocol as the standard used for disclosure, but we have concerns regarding the method of incorporation in the Actual Proposed Rule and use of the standard over the longer term as interpretive issues arise. See the Overarching Considerations (Reference to, or Lack of Reference to, Relevant Frameworks and Standards) section.
Disaggregation of GHG Emission Disclosures	▪ Disaggregated climate data is more useful to investors than aggregated data and should therefore be the standard. Support disaggregation by scope, type of GHG within scope, location, geography, segment, and upstream and downstream category. Support visual display of disaggregation
Scope 3 Emissions: Materiality Assessment	▪ See comments on Scope 3 GHG emission materiality assessment challenges in the Overarching Considerations (Materiality) section.
Scope 3 Emissions: Reduction Commitments	▪ If reduction commitments include Scope 3 GHG emissions, support their disclosure irrespective of materiality. Support their disclosure even if reduction commitment does not explicitly include Scope 3, as likely the most material reduction needed to make commitment meaningful.
Scope 3 Emissions: Voluntary Disclosure	▪ Do not support a voluntary disclosure regime for Scope 3 emissions.
Scope 3 Emissions: Data Sources	▪ Support disclosure of Scope 3 emission data sources.

Scope 3 Emissions: Impact on Non-Public Companies	▪ Recognize the implication of Scope 3 GHG emission disclosures on private/non-public companies. See the Overarching Considerations (Private Company Implications) section.
GHG Emission Offsets	▪ Offsets should be disclosed separately, not part of Scope 1, 2, or 3.
GHG Intensity Metrics	▪ Support disclosure of GHG intensity metrics as metric tons of CO2e per unit of revenue and per unit of production. Industry-based guidance and additional measures of intensity may be necessary to be most meaningful.
GHG Emissions Methodology and Related Instructions	
Methodology	▪ Support disclosure of methodology, inputs, and assumptions to climate calculations. ▪ Proposed Rule may lack sufficient specificity. More guidance, or explicit requirements, may be necessary for disclosures to be meaningful. ▪ Enforcement will be important.
Use of Estimates	▪ Support use of estimates due to the new nature of this disclosure and challenges obtaining data. ▪ Should be used sparingly and within reason and not when actual data exist.
Material Changes	▪ Support disclosure of material changes in methodology, inputs, and assumptions used in climate calculations. ▪ Prior periods should be restated when changes are made.
Scope 3 Emissions: Use of Ranges	▪ Support use of ranges in making disclosures of Scope 3 emissions. ▪ SEC should require disclosures as a range as it more accurately conveys the estimated nature of the metric.
Scope 3 Emissions: Disclosure Standards	▪ Industry-based standards on Scope 3 emission disclosures should be followed, recognizing aforementioned challenge of incorporating standards in Actual Proposed Rule.
Organizational vs. Operational Boundaries *Nonconsolidated Entities*	▪ Support definition of organizational boundaries consistent with US GAAP. ▪ Support disclosure of organizational and operational boundaries. ▪ Without further interpretation, however, we believe there will be confusion regarding the definition of operational boundaries and their relationship to organizational boundaries. ▪ Support consistency of boundary definitions over time; changes should result in restatement of comparative periods. ▪ Nonconsolidated entities GHG emission disclosures should be a separate category of disclosure.
Outsourced Activities	▪ Support newly outsourced activities being included in Scope 3 emission disclosures and prior periods being recast to reflect such change.
Overlaps	▪ Support disclosure of overlaps in emission categories.
Third Party Data Sources & Data Gaps	▪ Support disclosure of third-party data sources and gaps in data.
Scope 3 Emissions Disclosure Safe Harbor and Other Accommodations	
Scope 3 Emissions Disclosure Safe Harbor	▪ Support safe harbor for Scope 3 emission disclosures to encourage disclosures and the evolution of best practices.
Other Accommodations	▪ See Other Matters: Registrants Subject to the Climate-Related Disclosures Rules and Affected Forms, as it relates to the exemption of smaller reporting company (SRCs) from the reporting of Scope 3 emissions. ▪ See Other Matters: Compliance Dates, as it relates to delayed compliance date for the reporting of Scope 3 emissions.

GHG Emission Attestation – We would note that SEC Proposed Rule 17 CFR §229.1505 related to Attestation of GHG Emissions was excluded from the comparison and summary of views because the ISSB does not have authority to address these issues. This too is an area where differences may emerge between the US and jurisdictions following ISSB standards.

Views on ISSB Greenhouse Gas Emission Disclosure Requirements

As it relates to the ISSB GHG emission disclosures in Paragraph 21(a) and the related questions within Question #9, we provide our views on the Draft IFRS S2 disclosures and differences from the SEC's Proposed Rule below.

Use of GHG Protocol – The ISSB directly references the Greenhouse Gas Protocol Corporate Standard in Paragraph 21(a)(i) of Draft IFRS S2. The SEC did not, which we discussed in the Overarching Considerations section in CFA Institute's SEC Climate Comment Letter (Page 33-36). Rather than cross reference, as they likely don't have the authority to do so, the SEC included section 17 CFR 229.1504(e) on methodology and related instructions on the preparation of GHG emission disclosures, which it indicates is drawn from the aforementioned GHG Protocol Corporate Standard. As such, there is no need for instructions similar to that SEC section in the ISSB's rule, as we note in the comparison above. We touch on this issue in the body of this letter in the *Overarching Considerations* section. We also address the use of other standard setters in the *Conceptual Framework Considerations* subsection within the *Summary Considerations from Responses To Specific Questions* section in our comment letter on Draft IFRS S1. There we note the challenge of ceding standard setting to another body on this possibly most significant metric and the challenges that emerge from such an approach. We suggest the ISSB review our detailed commentary in both the SEC Climate Comment Letter on this issue and in the comment letter on Draft IFRS S1. The additional challenge presented in comparing the ISSB and SEC approaches is that this may produce different results over time between the SEC and those following the ISSB's rules particularly when the GHG Protocol is updated but the SEC rule is not. This is a good example of a key difference in the global baseline.

GHG Types/Definitions and CO2 Equivalent – We note in our comment letter to the SEC that we support the GHG definitions and the CO2 equivalent. We note in Draft IFRS S2 that there is no requirement to disclose the emissions by type of GHG as there is in the SEC. See disaggregation comment which follows.

Absolute Emissions – We note Draft IFRS S2 states the GHG disclosure must be made on an absolute basis in Paragraph 21(a)(i). The SEC's rule does not use this term. It is not clear whether this will result in a difference. There is no definition of "absolute" in the context of emissions, we can only assume it is not those based upon intensity given the use of both terms in Questions #9 and #11 (which would not be part of a final standard) and the comparison of absolute and intensity targets in Paragraph 23. This may need to be clearer in the final IFRS S2.

Net of Offsets – The SEC Proposed Rule notes disclosures should not be made net of offsets. We note gross disclosures are to be made per Paragraph 21(a)(1) Draft IFRS S2. We would like it to be explicitly stated that netting of carbon offsets is not permitted, because "gross" does not explain "gross" of what.

GHG Intensity Metrics – We note that Draft IFRS S2 requires intensity metrics by scope whereas the SEC Proposed Rule states the intensity metric should be the sum of Scope 1 and 2 emissions together and then separate disclosure of Scope 3 intensity metrics if Scope 3 emissions are deemed material. We support separate intensity metrics as in Draft IFRS S2. We note the

intensity metric disclosure language differs as to the denominator with Draft IFRS S2 indicating *"per unit of physical or economic output"* and the SEC's Proposed Rule requiring *"per unit of revenue and per unit of production"*. The SEC also addresses what to do if there is no revenue and allows the disclosure of other measures of GHG intensity which Draft IFRS S2 does not appear to articulate.

Overall, the SEC's Proposed Rule seems more specific. We are concerned that the end result will be different intensity metrics.

Organizational Boundaries & Operational Boundaries – As we noted in our comment letter to the SEC, we support the disclosure of GHG emissions consistent with the consolidated financial statements to which they will likely accompany. We note the use of the term operational boundaries within the SEC's Proposed Rule, which is not used in Draft IFRS S2. We asked the SEC to clarify the overlap or interconnection of the two definitions (organizational vs. operational boundaries) noting that the operational boundary definition is not clear. We are not clear whether this will produce a difference in disclosures internationally and in the US.

Associates, Joint Ventures, Unconsolidated Subsidiaries & Affiliates – As we noted in our comment letter to the SEC, we supported separate disclosures of the GHG emissions for these entities – much like what has been proposed in Paragraph 21(a)(iii)(2) of Draft IFRS S2 above. It is not clear to us whether this would include equity method investments. See also our comments related to this issue in our comment letter on Draft IFRS S1 where we note in our response to Question #5 related to reporting entity that Draft IFRS S1 appears to allow a different approach by type of risk.

Disaggregation of Scope 1, 2 and 3 Emissions – We note in our comment letter response to the SEC that we are very supportive of disaggregation by scope for all scopes and by type of GHG within scope, location, geography, segment and upstream and downstream category and we noted would prefer disclosures to be displayed visually so we can quickly observe the source and location of the GHG emissions. As we read Draft IFRS S2, we note that the disaggregation criteria do not appear as specific as required by the SEC, or certainly by the disclosure categories we support.

We emphasize the importance of and need for disaggregation and specifically geographically such that investors can connect the GHG emission location to the emerging regulations by jurisdiction.

Scope 1 and 2 Emissions – The SEC requires disclosure of Scope 1 and Scope 2 emissions irrespective of materiality. From our review of Draft IFRS S1, we presume a materiality threshold will be applied for Scope 1 and Scope 2, as well as Scope 3 emissions. In our discussion of Scope 3 materiality determinations as it relates to the SEC's Proposed Rule (See Pages 37-42 of CFA Institute's SEC Climate Comment Letter) we emphasized the challenge in connecting this non-financial metric to a materiality determination based upon enterprise value without a cost of reducing the emissions being disclosed. This same issue will exist for Scope 1 and Scope 2 emission disclosures under this ISSB standard given they, unlike the SEC, will

require materiality determinations. We note that this materiality call for Scope 1 and Scope 2 will likely result in differences between the US and international rules that challenge the notion of a global baseline.

Scope 3 Emission Disclosures
Materiality – The SEC does not require disclosure of Scope 3 emissions unless they are material. As we note in the preceding paragraph, we address our views on the challenge with this approach in the SEC Climate Comment Letter noting that using a percentage of total emissions approach would likely lead to all companies needing to make the disclosure. As we note above, how that financial materiality decision will be made with a non-financial metric presents a challenge. We wonder if the materiality conclusions will be consistent between those following ISSB versus SEC guidance.

Safe Harbor – We note our support for Scope 3 emissions in our letter to the SEC, but highlight the importance of the safe harbor provisions to be afforded by the SEC. We worry that without such safe harbors – which the ISSB does not have the authority to provide – these disclosures will not be made consistently in various jurisdictions. See our comment regarding the importance of these safe harbors in our response to Question #7 on Climate Resilience and Question #4 on Value Chain disclosures.

Ranges – Draft IFRS S2 does not address disclosing Scope 3 emissions as a range. This was a question queried by the SEC. We noted that we would prefer Scope 3 emission disclosures be expressed as a range to highlight the estimation uncertainty.

Staggered Adoption – We also noted in our letter to the SEC that we would support staggered adoption of Scope 3 emission disclosures starting with the largest companies and those industries who are the largest emitters. We think the ISSB may need to consider this as well.

Size of Entity – We note that the SEC has exempted small reporting entities, but the ISSB has not. While this may be the purview of the regulator by jurisdiction, it will likely result in different results globally.

Private Company & Global Impact – As we note to the SEC, the impact of requiring disclosure of Scope 3 emissions will create for all companies globally who do business with a company subject to Draft IFRS S2 the requirement to provide Scope 1 and Scope 2 emission disclosures.

Data Sources – We note the SEC's Proposed Rule requires disclosures regarding the sources of data for Scope 3. This language does not appear to be included in Draft IFRS S2. We think it should be.

Overall – Our comparison and analysis of the GHG emission disclosures would suggest that there is more work to do to make the disclosure requirements – and ultimately the disclosures that will emerge from them – more consistent.

QUESTION 10—TARGETS

(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?

Comparison of the SEC and ISSB Targets and Goals Disclosure Requirements

Below is a chart which summarizes our comparison of the requirements of Paragraphs 23 and 24 in Draft IFRS S2 with the SEC's Proposed Rule 17 CFR §229.1506 related to targets and goals.

<table>
<tr><th colspan="2">TARGETS</th></tr>
<tr><td>IFRS S2 ¶23-24
TARGETS & GOALS</td><td>17 CFR §229.1506 (ITEM 1506)
TARGETS & GOALS</td></tr>
<tr><td>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.

See also Paragraph 13(b) on Targets above.</td><td>(a) (1) A registrant must provide disclosure pursuant to this section if it has set any targets or goals related to the reduction of GHG emissions, or any other climate-related target or goal (e.g., regarding energy usage, water usage, conservation or ecosystem restoration, or revenues from low-carbon products) such as actual or anticipated regulatory requirements, market constraints, or other goals established by a climate-related treaty, law, regulation, policy, or organization.
(2) A registrant may provide the disclosure required by this section as part of its disclosure in response to §229.1502 (Strategy, Business Model, or Outlook) or §229.1503 (Risk Management).

(b) If the registrant has set climate-related targets or goals, disclose the targets or goals, including, as applicable, a description of:
(1) The scope of activities and emissions included in the target;
(2) The unit of measurement, including whether the target is absolute or intensity based;
(3) The defined time horizon by which the target is intended to be achieved, and whether the time horizon is consistent with one or more goals established by a climate-related treaty, law, regulation, policy, or organization;
(4) The defined baseline time period and baseline emissions against which progress will be tracked with a consistent base year set for multiple targets;
(5) Any interim targets set by the registrant; and
(6) How the registrant intends to meet its climate-related targets or goals. For example, for a target or goal regarding net GHG emissions reduction, the discussion could include a strategy to increase energy efficiency, transition to lower carbon products, purchase carbon offsets or RECs, or engage in carbon removal and carbon storage.

(c) Disclose relevant data to indicate whether the registrant is making progress toward meeting the target or goal and how such progress has been achieved. A registrant must update this disclosure each fiscal year by describing the actions taken during the year to achieve its targets or goals.

(d) If carbon offsets or RECs have been used as part of a registrant's plan to achieve climate-related targets or goals, disclose the amount of carbon reduction represented by the offsets or the amount of generated renewable energy represented by the RECS, the source of the offsets or RECs, a description and location of the underlying projects, any registries or other authentication of the offsets or RECs, and the cost of the offsets or RECs.</td></tr>
</table>

APPENDIX

Views on SEC Targets and Goals Disclosure Requirements

CFA Institute's SEC Climate Comment Letter (Pages 9 (Executive Summary), 14 & 43 (Safe Harbor), 22 (Summary of Position), 42 (Materiality), 55 (Transition Plan) and 105-107 (Discussion in Appendix) articulates our views on the SEC's Proposed Rule requirements in 17 CFR §229.1506 related to targets and goals. The Summary of Position on Page 22 is as follows:

TARGETS AND GOALS	
Targets and Goals	▪ Support disclosure of ***any*** targets or goals given that what gets disclosed gets measured and monitored. ▪ Disclosure could discourage setting targets or goals, but the disclosures, more importantly, will reduce virtue signaling (false) targets/goals. ▪ No incremental cost to disclose, as this should follow internal reporting on targets and goals and related progress. ▪ Disclosure regarding progress over time are key to establishing accountability and verifiability over time. Progress should be reported quantitively and qualitatively. ▪ Support disclosures associated with the role carbon offset and renewable energy credits are expected to play and have played in achieving targets. ▪ Prefer disclosures in tabular format with progress reporting tabularly over time. ▪ Support safe harbor protections on such disclosures.

Broadly, we support the requirement to disclose with essentially no materiality threshold such commitments, targets, and goals and with a safe harbor provision. We believe commitments, targets and goals can have a focusing effect and can make, when taken seriously, transition planning and the impact on enterprise value more apparent to investors. We recognize the concern that such disclosure requirements may limit companies from making such commitments, targets, and goals. However, we believe if that is the case, it is likely due to the fact that such targets and goals were more window dressing than actual objectives of the company.

Views on ISSB Targets and Goals Disclosure Requirements

As it relates to the ISSB targets and goals disclosures in Paragraph 23 and Question #10, we provide our views on the Draft IFRS S2 as follows. As it relates to Paragraph 24, see our comments in the *Conceptual Framework and Location and Content Considerations* subsections within the *Summary Considerations from Responses To Specific Questions* section in our comment letter on Draft IFRS S1.

Focusing Effect & Materiality – Similar to our views expressed to the SEC, our view is that commitments, targets, and goals have an incredibly focusing effect for the company and investors and they provide an end objective and the ability to focus the discussion on a transition plan that helps better assess the impact on enterprise value. The SEC's Proposed Rule required disclosures of all commitments, targets, and goals, irrespective of materiality. Within Draft IFRS S2 Paragraph 15, there is no explicit reference to this effect. As such, we would assume materiality would be applied. This will likely result in a difference between US and international standards with greater disclosure of such targets and goals in the US.

Similarity of Disclosures – While the disclosures are similar it would be helpful if they lined up precisely to ensure items, for example, progress on targets is consistently communicated. Again, a potential area of difference.

Carbon Offsets & Transition Plan – Given the linkage between targets and goals and carbon offsets and transition plans, see our response to Question #5 above.

Comparison to Targets in Latest International Agreement on Climate Change **–** The second part of the requirement which states the disclosure should include…*information about how the entity's targets compare with those prescribed in the latest international agreement on climate change…,*as well as a notion that the last agreement is that of the 2016 Paris Agreement, appears to be a bridge too far as it is forcing this to be the benchmark against which all targets are to be measured when not all countries have signed on to this agreement. Further, this may change over time and countries may or may not agree to sign on to future international agreements on climate change.

This appears to be more than a "baseline" standard but a "best practice" standard. It is also not something included in the SEC's Proposed Rule indicating that the ISSB is not necessarily the baseline, but just a different standard.

Still further, we believe targets and goals relative to regulatory requirements by country/geography are more relevant as these are the ones companies will have to address and expend costs to transition toward most immediately.

QUESTION 11—INDUSTRY-BASED REQUIREMENTS

Changes to Increase International Applicability

(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?***

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?***

Industry-Based Standards

(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?***

Modification to Internationalize SASB Standards
As a matter of principal, we support changes which will internationalize the SASB standards, but we do not have an exact comparison to be able to assess the changes in detail and assess whether we agree that this objective has been achieved.

Financed or Facilitated Emissions
Time has not allowed us to make a complete consideration of the proposed changes relative to existing SASB Standards to address the measurement and disclosure of financed or facilitated emissions in the financial sector.

We understand that Draft IFRS S2 proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance, and asset management and that the proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. ***Given these financial entities have advocated heavily for climate-related disclosures, we believe it is essential they provide such emission disclosures including Scope 3 emissions.***

We also understand 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). We note the SEC's Proposed Rule discusses[1] (in the discussion section but does not include in the actual rule) the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry when discussing methodologies relative to the financial industry. We have not had time to compare the details of both. Our central question, is will differences result between ISSB and SEC standards because of the differences in methodology? We would support disclosure of absolute and intensity metrics irrespective of the standard used and we would always support description of the methodology for measuring the emissions and developing the intensity metrics.

Industry-Based Standards: Essential for Investor Support
In our January 2021 comment letter in response to the IFRS Foundation's Consultation Paper on Sustainability Reporting we set forth our support for the establishment of the ISSB. We noted there that our support was heavily dependent upon the "how" of the new board. One key element of the "how" was the integration of the SASB standards and their industry-based versus general standards focus.

In CFA Institute's SEC Climate Comment Letter, we highlighted that the ISSB industry-based metrics – related to climate –were essential for investors because:

- they provide the first materiality lens for disclosure,
- they provide investors with a more forward-looking assessment of climate-related risks,
- they create greater comparability between companies,
- investors are organized by and make asset allocation decisions by industry,
- climate risk (or any sustainability risk) impacts industries differently,

[1] See Pages 54, 57, 58, 95, 109, 115 where the PCAF is mentioned in the SEC's Proposed Rule.

- the approach provides better engagement opportunities for companies and investors with the ISSB, and
- industry-standards will likely produce more proportionality in disclosures.

The industry-based standards and the resulting metrics also provide – as we highlight in Exhibit 1 to CFA Institute's SEC Climate Comment Letter (See Page 26) – an essential link to the disclosures they are proposing in the financial statements as they will facilitate understanding regarding how these more forward-looking metrics manifest themselves in the financial statements.

While we do not oppose consideration of additional cross-industry metrics to ensure comparability across industries, we believe industry-based metrics must be the starting point. This is more effective and efficient for investors as these industry-based standards are integral to making the disclosures more decision-useful to investors in ascertaining the effects on the enterprise of sustainability-related risks.

What we think needs to be clearer to investors is how themes such as climate in Draft IFRS S2 that become IFRS Sustainability Disclosure Standards will evolve together with the SASB industry-based standards. Will IFRS Sustainability Disclosure Standards theme-based standards ultimately overtake the existing SASB standards to become theme-based rather than industry-based standards? Or will the industry-based SASB standards persist and be referenced and continually integrated in these standards?

In sum, our support for the ISSB and IFRS Sustainability Disclosure Standards is conditioned on the ISSB's integration of the industry-based nature of the SASB standards.

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?***

(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?***

Costs vs. Benefits Considerations

As investors we have experienced the situation where preparers' direct costs of implementing the disclosures are always more directly and heavily weighted, and many times overstated by preparers, than the indirect costs to investors of not providing such information. Further, the benefits of the additional information on investment decision-making are also never really captured by standard setters. We believe the ISSB should be mindful of these traditional standard-setting cost vs. benefit traps as they consider this proposal. We believe the cost-benefit analysis should also be consider the following:

- ***Consistency of Standards Will Impact Benefits*** – The cost of not reaching consistent or comparable disclosures will be borne by investors. We responded to this consultation in a comparative fashion because it will be investors – not preparers in a particular jurisdiction – that will bear the cost of a lack of comparability. The lack of industry-based metrics in some jurisdictions and the ISSB's lack of financial statement disclosures will impact the benefits derived from the ISSB standards. This lack of consistency will also reduce the quality of the structuring of sustainability data and the cost of using it.
- ***Quantitative vs. Qualitative Disclosures*** – Many of the disclosures will be qualitative or allow qualitative rather than quantitative information (e.g., financial statement effects). This will result in a decrease in the benefit of the disclosures to investors. This will also make them harder (i.e., more costly and less effective) to verify and enforce.
- ***Use of Third-Party Standards*** – On an ongoing basis the ISSB must consider the cost and benefits of deference to the GHG Protocol standards. We address this in the body of the letter in the *Overarching Considerations* section. Just as there was for fair value, there will be an underlying cost or challenge to the ISSB of referencing the work third-party standard setters.
- ***Endorsement, Adoption and Enforcement by Jurisdiction*** – The efficacy of the ISSB standards will be heavily dependent upon the endorsement, adoption, and enforcement by local jurisdictions. Overall, the quality and viability of the standards will be much more out of the ISSB's hands than the IASB's where the established jurisdictional incorporation for financial reporting is more developed.
- ***Post Implementation Reviews***– The ISSB will need to do a robust post-implementation review of their first few standards to ensure they are effectively implemented and decision-useful to investors. This will provide important information on the standard itself as well as the sustainability reporting ecosystem that their standards are being implemented within.
- ***Effects Analysis*** – The ISSB should develop an effects analysis approach that assesses whether there is a correlation between the disclosures and a reduction in the emissions. Given this will be a new standard, assessing that correlation, even if causation cannot be

established, to actual emission reductions is something the ISSB should perform as the standards mature. This will assist in illustrating the efficacy of the ISSB's standards and its overall mandate.

Our response to this same question (Question #16) in our comment letter response to Draft IFRS S1 should be read in connection with this response as we provide an even more comprehensive list of considerations therein.

QUESTION 13—VERIFIABILITY AND ENFORCEABILITY

Are there <u>any disclosure requirements</u> proposed in the Exposure Draft that <u>would present particular challenges</u> to <u>verify or to enforce</u> (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 #1 (Overall Approach) in Draft IFRS S1 includes a question on verifiability and enforceability. Our comment letter response to Draft IFRS S1 should be read in connection with this response as we provide an even more comprehensive list of considerations therein.

Verifiability

Verifiability Should Not Deter the Provision of Relevant Information:
Investors Are Willing to Trade Reliability for Relevance

In the Overarching Considerations section of CFA Institute's SEC Climate Comment Letter (See Page 34-44), we emphasize the we have seen the pursuit of verifiability (or assurance) deter the provision of relevant information for investment decision-making (e.g., standard setter and company support of amortized cost versus investors desire for fair value). And that while investors believe reliability is important, it is not as important to investors as it is to company management – and certainly auditors. Investors are willing to trade perfectly reliable information for relevant information. We discuss this in more depth in the section of the SEC letter described above and we believe the ISSB should consider this trade-off when establishing disclosures like Scope 3 emissions. Investors are willing to take less reliable, range bound Scope 3 emissions with many caveats than to be provided with nothing.

With the above in mind, we consider the verifiability of the disclosures within Draft IFRS S2.

The Verifiability of Disclosures

Verifiability, or the ability to verify the information, is dependent upon the precision of the disclosure requirements within Draft IFRS S2 and the underlying characteristics of the specific disclosures:

- *<u>Qualitative Disclosures, Forward-Looking Information & Safe Harbors</u>* – The qualitative disclosures around risks, their management and governance, as well as their impact or effects, particularly effects on business and strategy, are likely not verifiable in the way that auditors like to verify them because they are inherently subjective and forward-looking. Further, investors, as we describe below, may not want verification on many of such qualitative disclosures as they are more concerned with relevant rather than perfectly reliable information. For example, we have said to the SEC that we seek Scope 3 emission

disclosures as ranges and even including estimates knowing there is a high degree of estimation uncertainty and noting we would likely never seek assurance over these as they extend beyond the boundary of the financial statements.

- *Quantitative Disclosures & the Precision of the Disclosure Requirements* – We generally believe quantitative information could be subject to assurance – the degree of which may differ. We supported the attestation of Scope 1 and Scope 2 emissions as proposed by the SEC and would like similar attestation globally. As it relates to other quantitative disclosures within Draft IFRS S2, we believe that the language may not be sufficiently prescriptive (e.g., Paragraph 21(b) and (c) on physical and transition risks or Paragraph 21(d) on opportunities, or Paragraph 21(e) on capital deployment as well as the financial effects disclosures in Paragraph 14.
- *Industry-Based Metrics* – Depending on the particular metric the SASB has seen assurance be provided on certain industry-based metrics. As such, we see a path to verification of such disclosure requirements.
- *Scenario Analysis* – Auditors have traditionally shied away from attestation of estimates, sensitivity analysis and scenario analysis as may be provided under Paragraph 15. As such, we wouldn't expect verification of scenario analysis.
- *Degree & Disclosure of Verification* – The degree of verifiability is also an important consideration with respect to whether one can assert the standards appear verifiable. As this is outside the bounds of the ISSB's authority, this is a consideration that is not solvable by the ISSB. We would note that investors need clear disclosure and reporting regarding the verification that is done. While not under the ISSB's authority, investors need standards that auditors or other verifiers are willing to provide the verification reports for and with specificity as to what has been verified and the level of assurance. Our comment letter response to Draft IFRS S1 addresses in the *Location and Content Considerations* subsection within the *Summary Considerations from Responses to Specific Questions* the challenges to verification posed by the ISSB's location requirements.

Standards, Reporting and Oversight of Those Providing Verification or Assurance
The challenge for investors is that even if the underlying disclosure requirements produce information that is verifiable, there are a plethora of questions that will need to be answered. Unlike the SEC's Proposed Rule, disclosures produced under ISSB standards won't have to be assured unless required (i.e., by a local securities or other regulator) or requested (i.e., possibly management) by a third party. Further, there is no guidance or requirement in the ISSB standards as to who will be allowed to provide that attestation, what professional standards they will be held to – including whether they are independent – and under what attestation standards the assurance will be provided. There will also be no mandate as to the level of assurance to be provided, nor where or how there will be reporting over the information. We also won't know as investors whether those providing attestation are regulated and inspected by a third party.

In CFA Institute's SEC Climate Comment Letter we provide very detailed comments regarding the assurance provisions of the Proposed Rule (See Pages 21 and 101-103), but we are very clear that we want whoever is providing the assurance to be held to the same professional and attestation standards as public accounting firms subject to PCAOB standards, oversight and inspection.

Investors Pursuit of Verified Information
In CFA Institute's SEC Climate Comment Letter we note (See Pages 21 and 95-104) that investors have indicated they want assurance over sustainability information that generally is similar to the level of an audit, but can be done by verifiers other than auditors. We note there that we have not specifically queried the assurance they want over climate-related disclosures, specifically Scope 1 and 2 emissions.

Enforceability
With the above said, the real challenge for investors when it comes to standards promulgated by the ISSB versus those mandated by the SEC is that the SEC has enforcement authority and the ISSB does not.

But, as we have noted in CFA Institute's SEC Climate Comment Letter, enforceability will be a key ingredient in ensuring the quality of compliance with the ISSB's climate-related standards – particularly those related to the disclosures around risks, their management and governance, and the impact on strategy and the business model as they will likely be highly qualitative and may lack company specificity. Further, they likely won't be verified for the reasons noted above.

Many investors, however, do not appreciate this verification versus enforcement distinction, the importance of enforcement, and the fact that enforcement is uneven across jurisdictions. This is true when it comes to financial statements of publicly listed companies globally and will be even more true for sustainability disclosures published by the ISSB as there will be more information that is outside of the financial statements where enforcement will likely be even less stringent, where such information is not verified by auditors and where a securities regulator may or may not have enforcement authority.

As such, the efficacy of the ISSBs standards related to sustainability, more so than IASB's standards, will be more reliant on effective enforcement.

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?***
(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?***

Retrospective vs. Prospective Approach on Draft IFRS S2 Climate-Related Disclosures
As we have noted in CFA Institute's SEC Climate Comment Letter (Pages 8, 19, 85 as it relates to GHG metrics and Pages 11, 23, 48 and 68 as it relates to financial statement metrics), we are traditionally supportive of a retrospective approach in making disclosures, but because we believe most of the information is value-relevant in the future, we – uncharacteristically – are willing to support a prospective approach building comparative periods on a go forward basis for climate-related disclosures.

Consistency of Effective Dates Between IFRS S1 and IFRS S2
We believe that the effective dates between Draft IFRS S1 and S2 need to be consistent.

Period Between Issuance of Final Standard and Adoption
As we have noted in CFA Institute's SEC Climate Comment Letter (Pages 27, 48 and 112), we generally support rapid adoption of standards for all types of companies without staggering or without size exception. In our response to the SEC, we took – uncharacteristically – a more layered and staggered approach. These are discussed in the Compliance Dates (Page 27 & 112), Applicability to Registrants (Page 107-109) and Proposed Path Forward Sections (Page 48). We note in our comment letter, that we believe the effective dates in FY 2023 for filing in FY 2024 were a bit optimistic. We believe one year should be sufficient for certain disclosures with other disclosures staggered later. As it relates to the requirements in Draft IFRS S2 we believe all disclosures related to the description of risks and opportunities, governance, risk management and effects (possibly other than financial) along with Scope 1 and Scope 2 emissions could be made in the first full fiscal year following the release of the final standard as many of the largest companies will already have this information. As it relates to Scope 3 emissions, we believe a further delay is appropriate as well as for industry-based metrics.

Below we excerpt Table 7 from CFA Institute's SEC Climate Comment Letter that gives an illustration of the staggering we believe would be appropriate for the largest companies. We would not oppose a similar staggering of disclosures within the ISSB standards.

PROPOSED PATH FORWARD

In our previous comment letter in response to the SEC's 2021 Request for Public Input on Climate Change Disclosures, we advocated for an evolutionary as opposed to a revolutionary approach to climate-risk disclosures. As we consider the SEC's Proposal in its entirety—with the desire to balance investor demand for climate-related disclosures, the challenge registrants will face in preparing the information, and taking account of our desire to balance this climate-related reporting priority with other financial reporting improvements—we propose a staggered or evolutionary approach as follows:

Table 7

YEAR	PROPOSED CLIMATE DISCLOSURE TIMELINE
Year One **FY 2023** **Filed 2024**	▪ *Risk, Governance, Strategy, and Impact*—We believe the description of climate-related risks, their management, governance and impact on the strategy and the business can be accomplished relatively quickly and can be implemented one year from the passage of a final rule. We believe the physical risk location data can be deferred for one year. ▪ *Scope 1 and Scope 2 Emission and Intensity Metrics*—We believe companies should be able to implement the disclosure of Scope 1 and Scope 2 emission disclosures one year from the passage of the final rule as many companies are providing in other venues.
Year Two **FY 2024** **Filed 2025**	▪ *Physical Risk Location Information*—Physical risk location information would be incorporated with a lag of one year in year two. ▪ *Scope 3 Emissions and Intensity Metrics*—That same year we would propose registrants be required to make their first disclosures of Scope 3 GHG emissions with appropriate safe harbors. We would support disclosure by the largest registrants and most significant emitters by industry with other registrants and other industries being transitioned in over time.
Year Three **FY 2025** **Filed 2026**	▪ *Industry-Based Metrics (SASB/ISSB Standards)*—As we describe elsewhere herein, we believe it is essential that the SEC consider how to incorporate industry-based metrics—as developed by the SASB and being incorporated into the ISSB standards—that highlight drivers of future performance. These should be a priority three years from the passage of a final rule. Their inclusion combined with the data in the preceding two years would amount to significant progress toward a global baseline within three years.
Year Four **FY 2026** **Filed 2027**	▪ *Financial Impact Metrics (Outside Financial Statements)*—As described elsewhere herein, we have proposed the development of cash flow metrics and quantitative disclosures of the climate-related impact on financial estimates and judgements. We would propose their adoption four years after the passage of a final rule, but we would propose they first be provided outside the financial statements with a safe harbor provision. We believe this approach provides for time to refine definitions, disclosures, build controls and capture comparative periods, if needed. This approach would also provide time for investors to become familiar with the company's risks, their management and governance, and confirm whether managements insights from prior years are manifesting themselves in the financial impacts. ▪ *Limited Assurance: Scope 1 and Scope 2 Emissions*—Scope 1 and Scope 2 could be attested to at a limited assurance level.
Year Five **FY 2027** **Filed 2028**	▪ *Financial Impact Metrics (Inside Financial Statements)*—We would then propose the aforementioned cash flow metrics and quantitative disclosures of the climate-related impact on financial estimates and judgements be moved inside the financial statements. This could possibly be moved out one additional year to 2028 to ensure the information is of high-quality and auditable.
Year Six **FY 2028** **Filed 2029**	▪ *Reasonable Assurance: Scope 1 and Scope 2 Emissions*—Scope 1 and Scope 2 could be attested to at a reasonable assurance level.
Note: The above dates are for a large-accelerated filer. See discussion in Other Matters: Compliance Date regarding our views on staggered adoption dates for different sized filers.	

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)?

Digital Reporting

On Pages 109-111 of CFA Institute's SEC Climate Comment Letter, we provide our views which are summarized in the Summary of Positions excerpted below on Page 26.

Structured Data Requirements	
Structured Data	▪ All disclosures should be tagged. ▪ Support Inline XBRL for Regulation S-K and S-X disclosures. ▪ Generally, we do not support custom tags as it belies the point of a standard taxonomy, so we do not support custom tags on disclosures that should be highly standardized, but we recognize that some custom tagging may be necessary given the evolving nature of climate-related disclosures. ▪ Concern about consistency and comparability among climate disclosures given differing standard-setting internationally (ISSB), in the United States (SEC), and in Europe (EC/EFRAG) and the use of similar terms with different meanings. This would be made worse through different third-party taxonomies. Support bilateral or trilateral agreements to ensure consistency. ▪ We do not support a different structured data language. ▪ SEC creation of S-X rules and US GAAP will necessitate consideration of how such terms, not in US GAAP Codification and Taxonomy, are included or made consistent.

While contextualized to the US market the message is clear, investors want all disclosures tagged using Inline XBRL. And, while we generally don't support custom tags there is some capacity for that given the evolving nature of the disclosures.

Overall, investors need to be able to consume these disclosures in a digital form and trace data to source to help overcome issues associated with trust, reliability and comparability that exists in many of the surveys and alternative data sources that populate ratings and ESG data available today.

That said, concerns exist with different taxonomy's developing in different markets. The ISSB has a vital role to play in reaching agreement with, in particular, US and EU standards-setters to facilitate digital comparison. We urge the ISSB to work constructively and collaboratively with these peers to help ensure that global markets can quickly rely on these digital disclosures.

See also comments on global baseline challenges and differing definitions noted elsewhere herein.

QUESTION 16—GLOBAL BASELINE

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

See comments in the body of the letter in the section *Global Baseline Remains a Bit Elusive: Theory Has Not Yet Met Practice Major Markets Are Developing Different Standards Simultaneously*.

QUESTION 17—OTHER COMMENTS

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

See comments above in the *Overarching Considerations* section as well as all the sections in the body of the letter that precede the section *Highlights of Our Responses to the Specific Questions in the Appendix.*