

**ICGN**International Corporate Governance Network  
*Inspiring good governance & stewardship*

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Dear Mr. Faber and Ms. Lloyd,

**[Draft] IFRS S2 Exposure Draft: Climate-Related Disclosures**

As a strong supporter of the International Sustainability Standards Board (ISSB), the International Corporate Governance Network (ICGN) welcomes your consultation and request for comment on a standard for climate-related disclosure. In parallel with this letter we are also submitting a comment letter with regard to [Draft] IFRS S1 Exposure Draft: General Requirements for Disclosure of Sustainability-related Financial Information. Because of the complementary nature of these two consultations, we will be employing some of the same language as in our response to the other consultation.

Led by investors responsible for assets under management of around \$70 trillion, ICGN is a leading authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 45 countries and includes companies, advisors, and other stakeholders. ICGN offers an important international investor perspective on corporate governance and investor stewardship to help inform public policy development and the encouragement of good practices by capital market participants. For more information on the ICGN, please visit [www.icgn.org](http://www.icgn.org).

ICGN wishes to underscore that in addition to the ISSB, regulators in major markets are also working towards establishing climate-related and general sustainability disclosure requirements. This presents a unique and historic opportunity for coordination to establish a truly global set of requirements that can meet the needs of both local and international markets. We urge the ISSB to continue to observe these developments and work with regulators and standards-setters to achieve this vision of a 'global baseline.'<sup>1</sup>

ICGN believes that a globally aligned climate-related disclosure regime with agreed targeted outcomes to address climate-related risk is crucial. A globally aligned disclosure standard backed by regulation and enforcement will ensure that investors are in a position to assess climate-related risks and opportunities, measure progress towards reducing company and investor-specific climate risks and advance towards a net zero economy. Global alignment will both facilitate robust comparisons and reduce the regulatory burden for registrants.

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<sup>1</sup> See the statement issued by the World Business Council for Sustainable Development, the International Federation of Accountants and the Principles for Responsible Investment at: <https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/leading-financial-market-participants-call-stronger-alignment-regulatory-standard-setting-efforts> .

ICGN has responded to similar climate reporting consultations opened by the US Securities and Exchange Commission (SEC)<sup>2</sup> and the Canadian Securities Administrators.<sup>3</sup> In the very near future we will also be responding to the EFRAG consultation on European sustainability reporting standards. Five key themes govern our overall approach, and we wish to underscore those here.

ICGN has responded to similar climate reporting consultations opened by the US Securities and Exchange Commission (SEC)<sup>4</sup> and the Canadian Securities Administrators (CSA).<sup>5</sup> In the very near future we will also be responding to the European Financial Reporting Advisory Group (EFRAG) consultation on European sustainability reporting standards. Five key themes govern our overall approach, and we wish to underscore those here.

1. **Regulatory fragmentation.** Standards-setters and regulators have a unique opportunity to achieve a global benchmark in sustainability reporting. A key threat to this is regulatory fragmentation which we see today: sustainability reporting standards varying by jurisdiction adding to the costs of corporate compliance and investor analysis. It is critical for the ISSB, the European Union and the United States (through the SEC) to work together to ensure a coherent global alignment — and to avoid fragmented standards.
2. **Fiduciary Duty.** In the first instance, institutional investors are motivated by fiduciary duty to their clients and beneficiaries. With regard to sustainability reporting, it is entirely appropriate that climate reporting relate to matters that affect enterprise value— including a company’s financial performance, cash flows, strategy and business model— all with a view to promoting sustainable value creation for investment beneficiaries. At the same time, we recognise that climate risk — and other sustainability factors — present clear systemic risks, not only for individual companies, but on the health of markets, economies, and society more broadly. In this context we believe it is important to recognise that investor fiduciary duty also extends to addressing systemic risks such as climate change.
3. **Materiality.** In the case of climate risk, as well as other systemic risks, we believe that sectoral factors are critical in the assessment of material risks for businesses. Hence, we support the application of the SASB criteria in helping to differentiate climate and other sustainability risks sector by sector. We appreciate that the ISSB is building from the single materiality framework in IASB financial reporting standards, with a focus on enterprise value and relevance to investment decision-making.

At the same time, we note that this consultation is silent on the issue of ‘single’ versus ‘double’ materiality. We understand that the ISSB is fully focused on establishing robust sustainability reporting standards on a single materiality basis building from the IASB framework. But even though the ISSB framework is investor focused, it is our experience that many institutional investors have a growing interest on the ‘second perspective’ on materiality, looking at company impacts on its stakeholders and society more broadly. This is particularly true for long term pension investors who are concerned with systemic risks and on company impact/externalities— if nothing else as potential longer-term indicators of enterprise value and the health of markets and economies more generally.

We are encouraged in this context by the Memorandum of Understanding between the IFRS Foundation and the Global Reporting Initiative to align capital market and multi-stakeholder standards to create an interconnected approach to sustainability disclosures using a ‘building blocks’ approach. If it is not to be part of the ISSB agenda to address double materiality, it is critical to build this interconnectivity to meet the full information needs of investors.

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<sup>2</sup> [ICGN Letter to SEC: The Enhancement and Standardization of Climate-Related Disclosure for Investors, June 2022](#)

<sup>3</sup> [ICGN letter to CSA - Climate Disclosure Reporting Canada, January 2022](#)

<sup>4</sup> [ICGN Letter to SEC: The Enhancement and Standardization of Climate-Related Disclosure for Investors, June 2022](#)

<sup>5</sup> [ICGN letter to CSA - Climate Disclosure Reporting Canada, January 2022](#)

4. **Climate versus other sustainability factors.** The systemic urgency of climate risk justifies an initial focus on climate relative to other sustainability factors. Many elements of climate risk are more readily quantified and measured than other sources of risk. But it is important that the ISSB also develop its standards in other key areas of sustainability including natural and human capital.
5. **Linking climate reporting to financial accounting.** Many investors are looking beyond climate reporting as part of a sustainability report and are looking to link climate risks to financial reporting as well, relating to issues that affect asset values, profits, and cash flows.<sup>6</sup> It is critical for climate reporting standards to develop that will allow material climate risks and planning to be reflected in financial statements. This development carries with it more potential for meaningful change by companies— and brings greater protections to investors.

### Objectives of the Exposure Draft (Question 1)

ICGN is in agreement with ISSB's objectives to allow users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on a company's enterprise value, how it is deploying resources to manage its risks and opportunities and its ability to adapt its business model and plans, as stated in the draft. We are also in agreement on the need to identify the full range of climate-related risks including physical and transition risks as well as potential opportunities. We believe that many of the driving sustainability risks for companies are sector-based and that the SASB industry standards provide the foundation for risk-based sustainability disclosures. Obviously, given the dynamic nature of materiality, these SASB industry standards will require regular ongoing review, including by investors, to ensure they are complete and fit for purpose.

At the same time, ICGN encourages the ISSB, however, to articulate its position on double materiality and the extent to which this might become part of the ISSB's agenda at some point in the future. As you know, materiality considerations have focused traditionally on the impact of climate and other environmental and social risks on a given business on a 'single materiality' basis. We wish to note that many investors — and, in the case of the European Union, regulators — are beginning to expand concepts of materiality to include a second perspective on materiality: the environmental and social impacts of the business on its stakeholders. This 'double materiality' approach is relevant for long-term investors who wish to address systemic issues, such as the Sustainable Development Goals, as part of their fiduciary duties. It is also of direct relevance to the growth of impact investing funds. It is our view that many shareholders and creditors, the primary users of financial reporting, are increasingly interested in both forms of materiality and both types of information. We believe there should be more guidance on how materiality decisions are made and there is scope for guidance on making materiality decisions relating to sustainability metrics

ICGN strongly supports the decision of the ISSB to base its standard for climate-related disclosures on the requirements specified in the Task Force on Climate-Related Financial Disclosures (TCFD).<sup>7</sup> We note that regulators in major markets also propose climate-related disclosures based on the TCFD. ICGN believes the direction of travel is clear, rapid, and accelerating. TCFD-aligned reporting is where the world is going, and the speed of regulatory developments will increase in 2022 and beyond.

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<sup>6</sup> SEC letter, op. cit.

<sup>7</sup> [Task Force on Climate-Related Disclosures, 2021 Status Report](#), October 2021

## Governance (ISSB Question 2)

ICGN supports the proposed rule's inclusion of governance-related disclosures for boards of directors. A board has the ultimate oversight of climate-related risks, which should be part of a robust business strategy linked to a sustainable, long-term approach and embedded in all required financial and narrative reporting.

The ICGN *Global Governance Principles (GGP)*, set out the investor expectations related to climate risk for board members, who are responsible for: overseeing the company's risk assessment and management (including relevant systemic risks such as climate change but also including ecological degradation, social inequality, and digital transformation) that affect sustainable value creation and preservation and reviewing policies annually, or with any significant business change.<sup>8</sup>

More specifically, Principle 7.5 of the Global Governance Principles states:

The board should assess the impact of climate change on the company business model and how it will be adapted to meet the needs of a net zero economy as part of a long-term strategy. This includes setting and disclosing targets to reduce carbon emissions and a period for achievement. Where climate change risks, whether physical or transitional, are identified as material and relevant, reporting should include discussion of the diligence process, strategy, metrics, targets, and initiatives used to manage the risks. Disclosure around these actions would help investors understand the resilience of companies facing climate change risks and to assess progress towards achieving net zero targets.<sup>9</sup>

Under the Global Governance Principles, ICGN has also called for the need for directors to consider the wider risks pertaining to current and emerging sustainability risks.<sup>10</sup> We advance the view that directors have a fiduciary duty to act on an informed basis, with good faith, care, and loyalty to promote the long-term best interests of the company to preserve and enhance sustainable value creation. Implicit in this concept and representing support for the emerging concept of double materiality, is our recognition of the need to generate economic risk-adjusted returns on capital for shareholders, while having regard to relevant stakeholders, and wider societal and environmental interests.<sup>11</sup>

### Board Processes

ICGN supports the ISSB's proposal that registrants disclose the processes and frequency by which the board and/or board committees discuss climate-related risks, as proposed. Some boards have already adopted an annual review of climate-related risks, while other boards have a more frequent review on an as needed basis. Many boards already disclose such details of the board's involvement in the annual proxy statement or SEC filings.<sup>12</sup> Yet, research shows that there are still too many boards that have not placed climate change on the agenda, thereby negating any oversight of the CEO and senior management's plan to address systemic risks like climate change.<sup>13</sup> The need for boards to retain flexibility in setting their own agendas and handling the business of the board is acknowledged. However, if the data show that too many boards are not yet involved in climate discussions, it leaves investors exposed to heightened risk.<sup>14</sup> For this

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<sup>8</sup> [ICGN Global Governance Principles 2021](#).

<sup>9</sup> [ICGN Global Governance Principles 2021](#).

<sup>10</sup> Investment institutions and leading governance and stewardship authorities point to the UN Sustainable Development Goals (SDGs) as providing a comprehensive list of emerging systemic risks. See George Dallas & Mike Lubrano, *Governance, Stewardship and Sustainability: Theory, Practice and Evidence*, ICGN 2021.

<sup>11</sup> [ICGN Global Governance Principles 2021](#).

<sup>12</sup> Prudential 2020 ESG Report, [Prudential Financial 2020 ESG Report details company transformation | Prudential](#), June 2021.

<sup>13</sup> Carbon Tracker, *Flying Blind: The Glaring Absence of Climate Risk in Financial Reporting*, September 2021.

<sup>14</sup> [PwC Annual Director Survey, The director's new playbook: Taking on change](#).



reason, ICGN supports the ISSB's requirement that the board's responsibilities for sustainability-related risks and opportunities (including climate) are reflected in at least one board committee terms of reference.

### *Climate Expertise on the Board*

ICGN supports the requirement that companies disclose the specific expertise the board possesses on climate-related matters. However, we emphasise a pragmatic approach here, as the requirement for specific expertise varies from sector to sector. Nomination Committees, in most cases need not recruit individuals with narrow expertise on technical climate science, but rather, should seek individuals with over-arching knowledge of climate change and climate regulation, developments among industry peers and the strategies investment institutions are putting in place to address the climate challenge. Such individuals are also likely to have expertise and insights on other sustainability-related risks and opportunities. ICGN's Global Governance Principles call for boards to have access to independent advice on climate related matters, as appropriate.

### *Management's Role*

ICGN believes that companies should have their own flexibility in designing the unique C-suite organisational model and the assignment of responsibilities to senior executive officers. That said, investors would benefit from disclosure specifying how management fulfils its role in identifying climate risks and opportunities and executing plans. Some companies may decide to place that responsibility with the Chief Financial Officer or within the realm of General Counsel. Other companies have pursued the development of new roles, such as Chief Sustainability Officer. ICGN does not have a preference where the responsibility is placed. It is the experience and authority behind the title that is essential.<sup>15</sup> Further, ICGN recommends that issuers use a comprehensive approach to the oversight of risk and disclose in basic terms the frequency of reports to the board or board committee that is charged with the responsibility of oversight for climate-related risks.

### **Strategy & Risk (ISSB Questions 3-8)**

ICGN believes that companies should assess and disclose the impact of climate risks and opportunities on business models and strategy over the short, medium, and long term, including physical and transition risks. Companies should assess these risks across the entire value chain and disclose how they will transition to the needs of a net zero economy as part of a long-term strategy. This includes setting and disclosing targets to reduce carbon emissions and a period for achievement. Where climate change risks, whether physical or transitional, are identified as material and relevant, reporting should include discussion of the diligence process, strategy, metrics, targets and initiatives used to manage the risks. Disclosure around these actions will help investors understand the resilience of companies facing climate change risks and to assess progress towards achieving net zero targets.

### *Scenario Analysis*

ICGN holds the view that scenario analysis, including a 1.5-degree scenario, is essential for establishing climate strategy, transition plans and for allowing investors to assess business model resilience. Indeed, scenario analysis is integral to establishing an over-arching framework for addressing the risks of climate change and setting plans for reducing emissions to net zero over time. Climate change will impact company strategy, operations, reputations, and finances along the entire value chain, wherever they operate and for decades to come. Although the precise shape and pace of change is uncertain, physical, transition and regulatory risks have already emerged. To plan, survive and thrive under these conditions, scenario analysis will enable

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<sup>15</sup> There has been a dramatic increase in the hiring of the chief sustainability officer (CSO) role among Fortune 500 companies, with demand for CSOs growing 228% in corporate America over the last decade, according to the [latest report](#) from CSO recruitment firm the [Weinreb Group](#). [Charting the rise of the chief sustainability officer | Business Chief North America](#), By Kate Birch June 04, 2021. See also [CSO 10 Years Later Rise of ESG 2021 - Weinreb Group | Sustainability Recruiters | ESG Recruiters](#)

companies to make strategic and risk management decisions in a structured, systematic, and analytical way.

In this context, ICGN believes companies should disclose, at minimum, basic qualitative information regarding their scenario analysis, including how it has informed strategy, operations, capital allocation and other related financial implications. The disclosure should describe the resilience of the business taking into account different climate scenarios. Over time, companies should strive to develop and disclose a range of climate scenarios and include both qualitative and quantitative information allowing investors to understand how the company believes each scenario will impact risk, strategy, business model and future cash flows. It may be helpful for disclosures on scenarios to consider them in the context of both positive and negative externalities. If a company is unable to use scenario analysis it must disclose the rationale in detail avoiding boilerplate terminology.

There is expressed concern about the inherent uncertainties and costs of conducting climate scenario planning for corporate issuers<sup>16</sup>. Yet for many companies, scenario planning is a well-established tool, and many are already disclosing scenario analysis reports. The extractives sector is particularly strong in this regard. Indeed, some extractives companies provide leading examples of how scenario analysis can be conducted and how this approach can benefit strategy, risk management and capital allocation while helping investors understand impacts on business outlook and the adequacy of the registrant's response.<sup>17</sup> While there is room for improvement in these disclosures, reporting of this nature represents a significant advance. This is the kind of information investors seek.<sup>18</sup>

### *Financial Effects*

ICGN is supportive of the ISSB's proposal that companies disclose the effects of climate-related risks on their financial position, financial performance and cash flows and the anticipated effects over the short, medium, and long term, including how climate-related risk is included in financial planning. We believe that material climate factors should be embedded within critical accounting assumptions and judgements. A failure to ensure the inclusion of material climate risks (both physical and transition-related) in the financials increases the likelihood of capital misallocation and over time raises the risks of market wide disruption.

ICGN notes that institutional investor demand for improved financial statement reliability and disclosures relating to climate change has been made clear through a number of public statements as well as their ongoing engagements with companies and audit firms.<sup>19</sup>

In September 2020, for example, investor associations from the US, Europe and Asia came together behind a statement calling for companies to ensure their financial statements properly reflected material climate risks associated with the global transition to a 1.5°C pathway in line with the Paris Climate Agreement.<sup>20</sup> Later that year, the Institutional Investor Group on Climate Change (IIGC) published detailed Investor Expectations for Paris-aligned accounts.<sup>21</sup>

Building on these expectations, in 2022 the CA100+ initiative, representing over \$60 trillion in AUM, added metrics on accounting and audit to their benchmark for assessing company performance on climate change.<sup>22</sup> This is increasingly a basis for company engagement and proxy voting. In May 2022, 52% of Exxon's shareholders supported a resolution at their Annual General

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<sup>16</sup> For example, see Leo E. Strine Jr, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, Harvard Law School Forum on Corporate Governance, 28 June 2022

<sup>17</sup> See for example [the scenario analysis disclosed by ConocoPhillips](#).

<sup>18</sup> [Financial Reporting Council, Climate Scenario Analysis](#), October 2021.

<sup>19</sup> [See ICGN Response to SEC Climate Disclosure Consultation, June 2022](#)

<sup>20</sup> [Investor groups call on companies to reflect climate-related risks in financial reporting | PRI Web Page | PRI \(unpri.org\)](#)

<sup>21</sup> [Investor Expectations for Paris-aligned Accounts – IIGCC](#)

<sup>22</sup> [Net Zero Company Benchmark | Climate Action 100+](#)

Meeting asking the Board to publish an audited account of how its financial position would be impacted by a 1.5°C pathway.<sup>23</sup>

In addition to investor demand, there are significant developments in the accounting industry. In November 2020 the International Accounting Standards Board (IASB) published guidance for including climate considerations in financial statements, consistent with existing standards.<sup>24</sup> The IASB highlighted that the materiality of this information, and thus requirement to cover it under existing rules, was determined by investor demand rather than the opinion of management. The Federal Accounting Standards Board (FASB) has also published its own Staff Paper covering climate in March 2021.<sup>25</sup> and the International Audit and Assurance Standards Board (IAASB) issued guidance reminding auditors of their responsibilities to cover material climate risks, just as they would other material factors.<sup>26</sup>

Accounting regulators in the UK and Europe have reinforced the message to both preparers and auditors that they must, under existing rules, ensure they cover material climate risks. Both the UK's Financial Reporting Council and the European Securities Market Authority issued statements in 2021 to warn of their increasing scrutiny of company accounts on this matter.<sup>27</sup>

Efficient markets depend on reliable information. Where there are gaps in information, the markets will provide the wrong signals, resulting in a misallocation of capital. In the case of climate change, markets have failed to reflect the true economic costs to society, which means these are being mis-priced, and consequently, ignored in decision-making. The result will tend to be an excessive flow of capital towards activities that harm the climate; and an inadequate flow of capital to climate-friendly activities, with negative implications for societal welfare. The longer these risks are mis-priced in the market, the greater the risk of system-wide disruption. This is clearly recognised by the US Financial Stability Oversight Council and the Federal Reserve in their efforts to track climate risks embedded in the financial sector.<sup>28</sup> These risks also need to be properly captured in company accounts.

## **Metrics and Targets (ISSB Questions 9, 10, 11)**

The exposure draft proposes that companies must disclose how their emissions-reductions targets compare to the latest international agreement on climate change. ICGN supports this disclosure. ISSB also proposes that all companies disclose across seven cross-industry metrics: greenhouse gas emissions, transition risks, physical risks, climate risks and opportunities, capital deployed towards these risks and opportunities, internal carbon prices and the percentage of executive remuneration that is linked to climate-related consideration. ICGN supports these disclosures but recommend additional disclosures linking climate risk to executive compensation.

### *Executive Compensation*

For several years, ICGN has called for companies to link executive compensation to material performance metrics related to specific sustainability targets. We believe performance measures in incentive-based plans should integrate risk considerations so that there are no rewards for taking inappropriate risks, or for failing to take action, at the expense of the company, shareholders and relevant stakeholders. Where possible, believe metrics should take into consideration the concept

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<sup>23</sup> [ExxonMobil investors back push for fossil fuel transition audit | Financial Times \(ft.com\)](#)

<sup>24</sup> [IFRS - Educational material: the effects of climate-related matters on financial statements prepared applying IFRS Standards](#)

<sup>25</sup> [FASB Staff Educational Paper-Intersection of Environmental,](#)

<sup>26</sup> [IAASB Issues Staff Audit Practice Alert on Climate-Related Risks | IFAC](#)

<sup>27</sup> [European enforcers target COVID-19 and climate-related disclosures \(europa.eu\); FRC CRR Year End Key Matters October 2021](#)

<sup>28</sup> [Financial Stability Oversight Council Identifies Climate Change as an Emerging and Increasing Threat to Financial Stability | U.S. Department of the Treasury; Speech by Governor Brainard -- Building Climate Scenario Analysis on the Foundations of Economic Research \(federalreserve.gov\)](#)

of double materiality and the company's impact on its stakeholders, and be measured over timescales and with methodologies which help ensure that performance pay is directly correlated with sustained value creation and preservation. Metrics guiding performance grants should be based on audited financial data.<sup>29</sup>

We would also underline the link between ensuring appropriate executive remuneration and delivering audited financial statements that properly reflect material climate risks. For most companies, the majority of incentive plans are tied to financial metrics based on the audited financial statements or total stock return. Where the accounts leave out, for instance, climate-related losses or liabilities, the numbers will result in inappropriate incentive payments.

### *Disclosure of Scope 1,2,3 Greenhouse Gas Emissions*

ICGN favours disclosure of Scope 1, 2, and 3 greenhouse gas emissions on an absolute and intensity basis and in conformance with the standards established by the Greenhouse Gas Protocol. ICGN recognises the debate surrounding Scope 3 measurement and disclosure but believe these disclosures are material for at least the 68 out of 77 sectors that the Sustainability Accounting Standards Board (SASB) has predicted will be significantly affected by climate risk.<sup>30</sup> A comply or explain approach may be appropriate for the 11 industry sectors that the SASB standards regard as having less material exposure to climate risks. But we would also recommend that any company that publicly proclaims a net zero strategy, regardless of sector, should also be required to disclose Scope 3 emissions in order to meet the standard.

Our position is based on three observations.

First, as reported by the Carbon Trust, Scope 3 emissions can represent as much as 90% of all company emissions — information critical for managing climate risks and setting strategy. In addition, TCFD analysis shows that of the 2,500 companies in the MSCI All Country World Index, from 2017-2019 disclosure of Scope 3 emissions increased from 28% to 34%.<sup>31</sup> That is to say, increasingly, companies are moving in the direction of Scope 3 disclosure even in the absence of mandatory regulations or standards.

Second, we note that the Scope 3 GHG Protocol was first published in 2011.<sup>32</sup> Since this time, companies and consultants have built considerable expertise in measuring Scope 3 emissions. Data and methodologies have matured sufficiently such that disclosure of relevant, material categories of Scope 3 emissions is now possible if not appropriate for companies operating in most sectors.<sup>33</sup>

Third, investor demand for complete disclosure of greenhouse gas emissions is increasing rapidly and is specifically tied to setting a target of net zero greenhouse gas emissions by 2050. This goal is supported by a proliferation of initiatives. With commitments to net zero by 2050, a new bar has been set and an increasing number of corporations and investors are developing transition plans with near, medium, and far term performance benchmarks to reach this goal.<sup>34</sup>

### *Industry-Based Requirements*

ICGN strongly supports the application of industry-based requirements and ISSB strategies to establish internationally applicable standards as well as specifications concerning financed

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<sup>29</sup> [ICGN Global Governance Principles 2021](#).

<sup>30</sup> SASB Standards: <https://www.sasb.org/knowledge-hub/sasb-implementation-supplement-greenhouse-gas-emissions-and-sasb-standards/>

<sup>31</sup> TCFD, *Guidance on Metrics, Targets and Transition Plans*, October 2021, p.55.

<sup>32</sup> *Greenhouse Gas Protocol, Corporate Value Chain (Scope 3) Accounting and Reporting Standard*.

<sup>33</sup> TCFD, *Proposed Guidance on Climate-Related Metrics, Targets and Action Plans*, p.17

<sup>34</sup> <https://www.climateaction100.org>, <https://www.transitionpathwayinitiative.org>, <https://unfccc.int/climate-action/race-to-zero-campaign>, <https://www.iigcc.org>, <https://theinvestoragenda.org>, <https://www.gfanzero.com>



emissions. In this context, we recognize the work of the Partnership for Carbon Accounting Financials (PCAF). PCAF enables financial institutions to assess and disclose greenhouse gas emissions of loans and investments.

### **Cost/Benefits and Likely Effects (ISSB Question 12)**

In terms of resourcing, the TCFD reports that, depending on size and complexity, companies will need to assign a scenario team of 4 to 20 individuals for a duration of 2 to 6 months. These may be individuals currently serving in sustainability or similar roles. We note the existence of publicly available scenarios published by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) among others. The TCFD provides extensive publicly available guidance on scenario planning and offers free on-line training programs.<sup>35</sup> The consulting industry is also making available climate scenario planning services with forecasting capabilities across a range of potential risks and impacts. In ICGN's view, the gravity of climate risks combined with the widespread availability of tools and services places an emphasis on action, rather than inaction. Companies should begin developing skill sets immediately in anticipation of adoption of new climate disclosure rules around the world.

#### *Safe Harbour Provisions*

Concerns have also been raised that the disclosure of climate scenarios raises potential legal consequences related to forward-looking statements. While not relevant for our submission to the ISSB, ICGN has advanced the view that regulators can address legal concerns by including safe harbour provisions for climate scenario planning. These provisions would be designed to allow for companies to begin the scenario planning process, recognising the challenges of this exercise, and the learning that must occur, while protecting company officers and directors from legal or regulatory liability over reported information, contingent on proof of adequate processes and controls for reporting rigour. Over time, as scenario planning becomes better established, the safe harbour provision could be removed or be subject to sunset over a period of years. ICGN has recommended a safe harbour provision with a sunset to both the Canadian Securities Administrators and the US Securities and Exchange Commission.

Regulation and critical standards-setters must find room for the learning process to occur. Perfection should not be the enemy of the good. But delaying the learning on scenario analysis, the reporting process and the eventual disclosure will only place companies behind their global competitors potentially raising the cost of global capital. Capital markets are unlikely to be well-served by such an eventuality.

### **Verifiability (ISSB Question 13)**

ICGN favours the development of independent assurance mechanisms capable of verifying the accuracy and completeness of climate-related disclosures. We are in agreement with the ISSB conception of verifiability as meaning that "various knowledgeable and independent observers could reach consensus although not necessarily complete agreement, that a particular depiction is a faithful representation." ICGN also recognises the need to build capacity to provide such assurance. For this reason, we recommend that independent assurance providers need not reside in a registered public accounting firm. In addition, the phase-in period (specified below) will give time to the audit and assurance industry to build capacity and expertise. Larger companies will establish the demand for these services and, as service suppliers scale up, we expect this will lower the costs for smaller companies as well as companies operating in emerging economies. Ultimately, the goal is to provide investors and other stakeholders with ever greater degrees of confidence in the accuracy and completeness of the information provided by companies. ICGN is hopeful that in the near future investors will receive reasonable assurance whereby there is only a remote likelihood that material misstatements will not be prevented or detected on a timely basis.

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<sup>35</sup> See <https://www.tcfhub.org/scenario-analysis/>

## Effective Dates (ISSB Question 14)

In ICGN's view, the gravity of climate risks combined with the growing availability of tools and services places an emphasis on action, rather than inaction. Companies should begin developing skill sets immediately in anticipation of the implementation of ISSB climate and sustainability disclosure standards and the adoption of new climate disclosure rules among several major regulatory agencies.

ICGN is hopeful that the ISSB standard can be finalised in 2022 and published in early 2023. Pending endorsement in individual company jurisdictions, large companies, in our view, should be asked to report in 2024. Smaller companies and those based in emerging economies should be asked to disclose governance and management arrangements in 2024 with a transition to more complete reporting (including scenario planning) in 2025. ICGN could also support an additional years' grace, for these companies, for disclosure of comparison of emissions reductions to the latest international agreement, transition plans, Scope 3 emissions and financial effects. We are also mindful, finally, that companies based in emerging economies may require further accommodation and perhaps some proportional relief on disclosure of financial effects. Such proportional accommodations may be critical to achieving sufficient global support to make the ISSB climate related disclosure standard a success.

## Scope

ICGN believes that the ISSB and other standards-setters and regulators operating in the sustainability reporting space should provide some accommodations for small to medium-sized companies, both public and private. These accommodations will be particularly important for those companies operating in emerging economies, sometimes referred to as the Global South. These businesses often face greater resource constraints than the large, publicly traded companies listed on major stock exchanges. But they are critically important for the sustainable development of local economies and for the transition to a low-carbon energy system. ISSB, along with regulators and other standards-setters, should provide for longer periods of transition to allow those firms with greater resources to establish pathways for reporting, establish the demand for services and expertise that can lower costs and ease the way for smaller enterprises. ISSB may wish to consider other forms of accommodation in consultation with these companies, investment institutions and other relevant capital markets participants

## Conclusion

ICGN again thanks the ISSB for undertaking this consultation. We are hopeful that our recommendations can help establish an international disclosure regime that is robust, yields globally comparable information for investors, is effective for addressing climate risks and positively incentivises ambition. Should you wish to discuss our comments further please contact Robert Walker, ICGN's Sustainability Policy Manager ([rwalker@icgn.org](mailto:rwalker@icgn.org)).

Yours faithfully,



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