2 August 2022

Emmanuel Faber, Chair
Suzanne Lloyd, Vice-Chair
International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD

Via electronic mail to: commentletters@ifrs.org

Re: The International Sustainability Standards Board's Exposure Drafts "IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information" and "IFRS S2 Climate-related Disclosures"

Dear Mr. Faber and Ms. Lloyd,

Carbon Tracker Initiative (Carbon Tracker) and Planet Tracker would like to thank the International Sustainability Standards Board (ISSB or Board) for the opportunity to provide comments on its Exposure Drafts ED 2022/S1 *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and ED 2022/S2 *IFRS S2 Climate-related Disclosures* (collectively, the EDs).

Carbon Tracker is an independent, London-based financial think tank that carries out in-depth analyses to help investors understand the financial impacts of the energy transition on capital markets and investments in high-cost, carbon-intensive fossil fuels. Its research makes clear that the transition to a low-carbon world will require a substantial reallocation of capital to low-carbon business and investments. This makes the issue highly relevant to investors.

Planet Tracker is an award-winning non-profit financial think tank aligning capital markets with planetary boundaries, with a particular focus on achieving transformation in the food and materials systems. Planet Tracker generates break-through analytics that reveal both the role of capital markets in the degradation of our ecosystem and show the opportunities of transitioning to a zero-carbon, nature positive economy. Both Carbon Tracker and Planet Tracker are initiatives of Tracker Group Limited. In this response, references to "we" refer to both Carbon Tracker and Planet Tracker.

In order to make informed judgements about a company's enterprise value, its use of capital, and the validity and viability of its future climate strategy, investors need timely, transparent, reliable, and comparable climate-related information. Consideration of these matters is already required in the preparation of IFRS financial statements (and audits thereof)[1]. In an effort to help investors understand the extent to which carbon-intensive companies are providing this information in their financials today, in 2021 Carbon Tracker[2] undertook desktop reviews of FY2020/21 financial statements and corporate sustainability-related

---

[1] *See: https://www.ifrs.org/news-and-events/news/2020/11/educational-material-on-the-effects-of-climate-related-matters/ and FASB_Staff_ESG_Educational_Paper .*

[2] *Along with the Climate Accounting and Audit Project, a team of independent consultants commissioned by the Principles for Responsible Investment. See https://www.unpri.org/sustainability-issues/accounting-for-climate-change.*

reports for 107 carbon-intensive companies[3]. This research revealed a considerable lack of transparency about the financial impacts of material climate-related risks in financial reporting. In fact, 80% of the companies reviewed provided no evidence that they considered material climate-related matters when preparing their financial statements.

In addition, for 72%[4] of the same 107 companies, there were clear inconsistencies in the reporting of climate matters in financial statements as compared to the disclosures in other parts of companies' reporting. Furthermore, in March 2022 Carbon Tracker[5] used the new provisional Climate Action (CA) 100+ Climate Accounting and Audit Alignment Assessment[6] to assess all CA100+ focus companies' financials and reporting. The results were even less promising[7]: out of 164 companies, none met the consistency assessment criteria[8].

The lack of requisite climate information in financial statements is of great concern to us and the investment community; this failure hinders the appropriate allocation of capital. We appreciate that through addressing sustainability and climate-related reporting[9] the ISSB is not setting financial accounting standards. However, the information in the financial statements should be complementary to the information provided by companies in their sustainability or relevant reporting. At the least, they should not contradict each other.

Our responses herein therefore follow two main themes: 1) investors' needs for quantitative information, including the significant climate-related assumptions and estimates used for, and material climate-related impacts on, financial statements today; and 2) the need for improved connectivity between general purpose financial reporting and financial statements[10].

We would also encourage continued collaboration between the ISSB and the International Accounting Standards Board (IASB) as part of ensuring both connectivity of a company's reporting and that investors receive requisite information to make the appropriate capital allocation decisions. We appreciate the work that the ISSB is doing in this area to improve the quality and relevance of information that is being provided to investors[11].

Please do not hesitate to contact me directly (bdavidson@carbontracker.org), Peter Elwin, Director of Fixed Income, Head of Food & Land Use Programme at Planet Tracker (peter@planet-tracker.org), or David Astley, Associate Analyst, Accounting, Audit and Disclosure at Carbon Tracker (dastley@carbontracker.org) if you have any questions. We remain at your disposal for further discussions on this important matter.

Barbara Davidson

Barbara Davidson
Head of Accounting, Audit and Disclosure, Carbon Tracker Initiative

[3] *See "Flying blind: The glaring absence of climate risks in financial reporting", September 2021 (Flying Blind), https://carbontracker.org/reports/flying-blind-the-glaring-absence-of-climate-risks-in-financial-reporting/.*
[4] *Ibid, p. 25.*
[5] *Along with the Climate Accounting and Audit Project.*
[6] *See https://www.climateaction100.org/net-zero-company-benchmark/methodology/ and https://www.climateaction100.org/wp-content/uploads/2021/11/CA100-CTI_CAP-Accounting-and-Audit-Indicator-methodology-Nov-21.pdf*
[7] *This was in part due to a binary scoring system versus a four-tiered system in Flying Blind.*
[8] *An analysis of FY2021/22 reporting will be in the next version of Flying Blind (expected September 2022).*
[9] *Used interchangeably herein with 'outside the financials,' 'narrative-reporting' and 'front-end reporting'.*
[10] *See also Carbon Tracker's response to the SEC's Public Input on Climate Change Disclosures, File Number S7-10-22 at https://www.sec.gov/comments/s7-10-22/s71022-20132518-303004.pdf*
[11] *We refer to investors and users interchangeably herein.*

Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1)

Question 2—Objective

(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

While the proposed objective of IFRS S1 focuses on information about an entity's "significant sustainability-related risks and opportunities", it does not define significant. We believe this could result in disparate application of this Standard, thereby reducing the level of usefulness and comparability of such information for investors.

However, the Board also provides some clarity in the IFRS S1 Basis for Conclusions (paragraph BC40), where it indicates that **significant** risks and opportunities [emphasis added] are determined by applying risk management strategies, are entity-specific, and are informed by the entity's strategy, objectives, and risk appetite. It also offers the following guidance:

> *Significant risks are those that an entity prioritises for management responses. They include risks and events that in the short, medium or long term could disrupt the entity's business model or its strategy for sustaining and developing the business model that could affect the resources or relationships on which the entity depends or that threaten the viability of, or creates opportunities for, the entity* [12].

We believe that both preparers[13] and users would find this description helpful. Accordingly, we would encourage the ISSB to elevate some, if not all, of the additional description found in IFRS 1 BC40 to the Standard-level. This would facilitate consistent application of the requirements and improve comparability of information for users.

(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

While we agree with inclusion of the reference to enterprise value, we do not believe that the definition is completely clear. We also appreciate that there is no commonly accepted definition of sustainability and that, as the Board has indicated in the Basis for Conclusions to IFRS S1, sustainability-related information could change over time. However, as the word sustainability can be interpreted (and indeed used) in diverse ways, we believe that the ISSB should still endeavour to provide a clearer definition. For example, the ISSB could draw from its remit and BC30 to make the following amendments [**changes in bold**]:

> *Information that gives insight into ~~**sustainability-related**~~ **environmental, social and governance-related** risks and opportunities that affect enterprise value, providing a sufficient basis for users of general purpose financial reporting to assess the resources and relationships on which an entity's business model and strategy for ~~**sustaining**~~ **maintaining, adapting** and/**or** developing that model depend.*

If a company's sustainability-related reporting differs from the above, the ISSB could require entities to explain any differences and whether there are material impacts on the relevant disclosures. Alternatively, the ISSB could provide additional guidance for entities so that relevance and comparability of information is maintained. Clarification will also improve the

[12] BC40, *[*Basis for Conclusions on Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information]*

[13] *We refer to preparers, management, entities, and companies interchangeably throughout this letter.*

ability of auditors and regulators to assess the adequacy of the information provided in accordance with IFRS S1.

Question 4—Core content

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

See our response to the relevant topics in IFRS S2 below.

Question 5—Reporting entity

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

In general, we agree that sustainability-related financial information should at least be provided for the same reporting entity as the related financial statements (and not less). Users expect to be able to analyse and draw conclusions about an entity and its enterprise value by using its entire suite of reporting. If the entity prepares the two sets of notionally connected information according to similar but different reporting structures this will limit the completeness and understandability of the consolidated entity's general purpose financial reporting. It would also remove or reduce the through-line from the narrative reporting to the financial statements, limiting investors' abilities to assess the financial implications of a company's sustainability-related risks, opportunities, and strategies, resulting in less effective and efficient allocation of capital.

In rare cases where more narrow boundaries are used, due for example to the inability of a company to obtain the requisite sustainability information, the company should report the reasons for the difference and make estimations or similar for how reported information might be different with aligned boundaries, if reasonably estimable. We note that this could eventually also bring into question the accounting treatment of certain subsidiaries.

However, for Scope 3 emissions (and associated risks and strategies), using the same financial and sustainability reporting entity will not always provide the information needed to assess the reporting entity's risks related to its full range of greenhouse gas (GHG) emissions. Accordingly, to ensure the completeness and usefulness of sustainability-related reporting, entities should be required to report Scope 3 emissions regardless of whether they are upstream or downstream of the financial reporting entity (for example, **supply chain as well as final end user emissions information**). See more detail in our responses to IFRS S2 consultation Questions 9 and 11 below. Reporting requirements beyond the financial reporting entity will likely also be relevant for other sustainability issues, such as biodiversity, labour practices and human rights, and water use and quality.

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

Yes, we support the proposed requirement for identifying the related financial statements; this could also help emphasise the information that auditors must read as part of the consistency check that they are required to perform today. To assist preparers, we would also suggest that the ISSB provide some examples of when and how it would be appropriate to identify related financial statements, with these examples preferably covering the various key elements of the IFRS Sustainability Disclosure Standards (herein, Standards) (i.e., strategy, risks and opportunities, metrics, and targets). For example, the Board may want to clarify if this means that the entity should identify the relevant financial reporting year, the set of financial statements to which the sustainability disclosures apply, the financial reporting entity, or to simply provide a cross reference to the relevant financial statements.

Question 6—Connected information

(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

We strongly support the proposal to require entities to provide information that will enable investors to identify and understand the connections between sustainability-related risks (and opportunities) and the impacts in the financial statements. For example, disclosure of the financial impacts of material, climate-related matters on a company's financial statements is crucial to the efficiency of capital markets. Ensuring consistent discussions of such risks and opportunities in the company's other reporting is crucial to effective investor engagement and capital allocation as part of achieving our global climate-related goals.

For example, a company may have reported a mid-century net zero target and interim absolute emissions reduction targets in the front part of an annual filing, while in its financial statements it may appear to plan to continue using carbon-intensive productive assets for another 40 or 50 years. The long life of these assets would seem to be inconsistent with reducing emissions in the mid to longer-term. Without a clear understanding of why the company appears to be providing inconsistent information, investors are unable to make accurate adjustments, while the company's emissions reduction targets may appear to be an exercise in greenwashing. Accordingly, we believe that:

1. the proposal lacks the requisite detail as to how companies should demonstrate this connectivity, particularly between the sustainability-related financial information in the strategic or other narrative reporting and the assumptions and estimates that they use to prepare their relevant financial statements. However, given the general nature of IFRS S1, specific requirements/guidance on making such connections might be more appropriately located in IFRS S2 and the other future topic-specific Standards. We have suggested improvements along these lines in our response to IFRS S2 below. That said, in response to Questions 7, 10 and 11 of the IFRS S1 consultation, we have provided suggestions as how to build these connections into the requirements of IFRS S1;

2. the proposed wording "[t]his information may also be linked to information in the financial statements and to specific metrics and targets" seems to suggest that entities can, but are not required to, provide the link back to the financial statements. Additionally, the proposed requirements seem to be focused on connecting sustainability-related risks and opportunities to each other outside of the financial statements. As noted in our cover letter, we have found significant gaps in company reporting today that we believe could be partially addressed by these requirements. Accordingly, we believe that IFRS S1 should **require** an entity to link any relevant information '**outside' of the financials back to the financial statements**; and

3. in the broader text of IFRS S1 paragraphs 42 to 44, the ISSB should include guidance to companies on disaggregating their sustainability-related disclosures so as to enable easy comparison to and connectivity with an entity's reporting segments, business activities or similar means by which a company organises its financial statements. This would allow investors to better understand how the two sets of information interact and facilitate determination of an entity's enterprise value.

Question 7—Fair presentation

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

We believe that it would be useful for the ISSB to suggest that companies present both aggregated and disaggregated sustainability information, as presently discussed in paragraph 49, in a manner that allows for easy understanding and comparison to the relevant financial statements. As such, we encourage the ISSB to require or guide companies to report on their risks and opportunities, strategies and resourcing, and metrics and targets in a manner that is easily comparable with the disaggregated reporting in its financial statements, such as reporting segments, business activities, concentration in geographies, and key assets. This would better allow, for instance, an investor to understand whether the company's investments (and so assets) appear to be focused on the activities in which opportunities are concentrated and/or whether the identified regulatory risks are associated with a reporting segment with small profit margins and large fixed asset carrying amounts and so represent significant capital at risk.

Question 10—Location of information

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

Yes, we support the disclosure of sustainability-related financial information in the general-purpose financial reporting. Locating the information in the annual reporting package allows for easier identification for investors as well as more efficient cross-referencing of information, particularly between narrative elements and the financial statements. This would help ensure that the company is referencing the same reporting period across the different information; we have seen considerable time lags between the publication of sustainability reports versus annual reports. It may also mean that the information "outside" the financial statements is subject to a higher level of management and auditor scrutiny as it would be subject to the auditor's consistency check, which improves the reliability and completeness of reporting and further benefits investors.

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

Yes, in general we agree with inclusion by cross-reference. We appreciate that it may not be practical for companies to aggregate all their sustainability-related disclosures in one place, particularly if they are already required to include some of the relevant disclosure information in specific sections of the annual report or related filing. Investors are already accustomed to seeing specific information in the management commentary, risk reporting and remuneration discussions, for example, throughout the same report. However, the cross referencing should be limited to various parts of the same general purpose financial reporting document; we do not believe that sustainability-related financial information should be included in a separate report that is then cross-referenced. Inclusion of sustainability disclosures in a separate report could reduce the effectiveness of such information, particularly if investors (and other users) have to search across numerous documents to find it. More importantly, as noted in our response to 10(a) above, inclusion in the same document would mean that the information is also subject to the auditors' consistency check. Accordingly, we would encourage the ISSB to clarify that cross-referencing should be limited to different parts of the same general purpose financial report.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors

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

Yes, we support the way in which these features have been adopted into the proposals. In particular, we welcome the proposed requirement to report metrics, particularly those that have significant estimation uncertainty, including the (nature and) sources of such metrics (e.g., whether management used information from credible climate scenarios in their calculations) and factors affecting management's estimates. Investors need to understand how management views the impacts of uncertain matters (such as the impacts of climate change) in its scenario analyses and planning; this help investors understand the company's resiliency in the face of these issues and so more effectively engage, adjust their own models, and allocate capital.

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

Yes, we strongly support the ISSB requiring disclosures about the assumptions an entity makes about the future (and other sources of significant uncertainty), as these can materially impact its financial statements. We also agree that the financial data and assumptions used for sustainability-related financial information should be consistent (at least directionally) with the corresponding financial data and assumptions that are used in the financial statements. This develops the connection between reporting in the 'front-end' of the annual report and the financial statements, reminds management that material matters such as climate can impact the financials today, and underscores that such reporting provides a through-line to the company's financial statements. As most companies that Carbon Tracker has reviewed do not disclose the relevant significant data and assumptions that they have used to prepare their financials, even when required today, requiring consistency may increase the transparency of this information.

We appreciate that there will be instances where the assumptions and estimates in the financial statements may differ from those used in sustainability-related financial reporting, such as between sensitivity analyses in the financial statements and scenario analyses in the strategic report. Companies may also include planned improvements to existing assets or investments in innovative technology when assessing their resilience to different scenarios, but these may not reflect management's best estimates and/or may not be allowed for purposes of impairment testing. However, we have seen companies use different estimates and assumptions, such as in relation to remaining asset lives, forecast CO_2 prices or yearly production amounts outside versus inside the financials as a way of explaining how they will meet their emissions targets. Often, they do not provide an explanation for the differences/apparent inconsistencies.

It therefore would be appropriate for the ISSB to also require companies to highlight such differences, provide an explanation, and the implications, if any, of these differences for their financial reporting. Understanding the quantitative inputs to the financial statements, as well as the reasons for any differences, provides investors with insight into management's views of relevant issues (such as the energy transition), its governance over these issues, and whether sustainability-related commitments or targets may be greenwashing.

Question 16—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?

We strongly support the ambitions of the ISSB in creating a global baseline for the reporting of sustainability-related financial information. We believe that such efforts will contribute to providing investors with comparable, coherent, and comprehensive reporting on the significant sustainability issues facing companies on a global basis. This work is particularly important for climate change and the energy transition, and our support is echoed in our response to the ISSB's consultation on IFRS S2. Once implemented, we believe that IFRS S1, S2 and subsequent Standards will enhance the quality and decision-usefulness of information available to investors and other market actors, especially in terms of understanding the connections between the narrative and financial reporting of these matters.

We have heard from investors that the benefit of having consistent, relevant, reliable, and comparable sustainability-related information far outweighs the cost of not receiving such information. Indeed, by consolidating prior voluntary reporting frameworks and disclosure platforms into one set of global sustainability disclosure standards, the ISSB will be reducing the reporting burden on companies and further ensuring high-quality and more reliable data for all users and so more efficient capital markets.

Exposure Draft IFRS S2 *Climate-related Disclosures* (IFRS S2)

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?

We agree with the objective to focus on a company's "exposure to significant climate-related risks and opportunities." However, we believe that the Board needs to define or provide further guidance around the meaning of the word significant, particularly since the proposed IFRS S2 already has a materiality overlay. We have included more information in our response to Question 2 above for IFRS S1.

(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?

As noted in the cover letter, it is crucial that investors understand the connection between a company's climate-related reporting[14] and its financial statements. While we appreciate that, to some degree, the stated objective addresses this connection (e.g., through references to enterprise value, use of resources, inputs, activities, outputs, and outcomes), we believe that it could be clearer in this regard. For example, the Board could add another point in the objective that specifically emphasises the importance of understanding the connections to, and impacts of, a company's climate-related risks and opportunities, targets and strategies on its financial position cash flows, and performance. In the responses that follow we highlight specific areas where we believe the requirements could be improved in order to substantiate the connections between climate-related information and the information included in, and used to prepare, the financial statements. We would encourage the Board to keep this issue front of mind while assessing responses to this consultation and finalising these and other Standards.

(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?

We believe that the requirements partly meet the objectives. We further discuss the additional disclosures needed in the relevant responses below, particularly those provided for Questions 2, 5, 6 and 7.

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?

While we do not disagree with any of the proposed governance disclosure requirements, we believe that they could be enhanced in two ways.

First, directors and audit committee (or equivalent) members are coming under increasing scrutiny from investors for the apparent lack of consideration of the financial impacts of material climate-related risks in their audited financial statements. Including a general description of the roles and responsibilities of these directors or committees when it comes to climate-related matters is not sufficient. There is increasing pressure from investors, typically in the form of votes against reappointment of directors, auditors, or approval of the financial statements[15], to ensure that senior management not only have set up relevant processes, but

[14] *Or 'general purpose financial reporting' as referenced by the ISSB and IFRS S2.*
[15] *For example, see https://www.climateaction100.org/approach/proxy-season/ .*

that **they have followed these processes** to ensure adequate consideration of these issues. Despite this, Carbon Tracker has seen very few audit committees (or equivalent) indicate that they have assessed whether the impacts of relevant material climate-related risks were included in the company's financials for the relevant fiscal year. There is also little to no mention of discussion of these issues with the external auditors. This is particularly prominent for many of the large, international, carbon-intensive companies. Accordingly, we recommend that, to the extent not already required by other regulations/jurisdictions, the ISSB also require directors, audit committees, or the equivalent to:

- provide an explanation of whether and how they ensured that the impacts of material climate-related risks were included in current period financial statements;
- indicate how they scrutinised and considered the impacts of the company's transition or emissions reduction strategy on current period financial reporting;
- indicate how they determined that the company provided consistent climate-related information across its general purpose financial reporting;
- indicate whether they discussed the treatment of material climate-related issues with its external auditors and how they scrutinised the auditor's work to ensure that they also considered the impact of material climate matters in their audit of the financial statements;
- explain how they engaged with investors to ensure that the audit remains fit for their purpose; and
- the results of these actions.

Without the above information, audit committee (or equivalent) reports are becoming less useful to investors. Additionally, investors lack the requisite understanding of whether management exercises appropriate governance over the financial reporting of these matters.

Second, research[16] has found that the lobbying activities of some businesses and other organisations have been in direct contradiction to the publicly stated climate ambitions or strategies of the individual member companies. Requiring companies to both report on their various memberships and provide an explanation for any potential differences between the activities or positions of those membership bodies and the companies' individually stated targets or ambitions would be useful information, particularly for investors that want to better understand investee commitments and/or their governance over climate-related matters. We note that many companies already provide similar information as a result of reporting in line with voluntary standards, including GRI. Such disclosures could provide a better understanding about the substance behind stated strategies and targets, which affect reputational risk and so impact enterprise value. This could also provide insight to investors as to other activities that appear to be low carbon, such as sales of electric vehicles, but that could be window dressing the fact that those same companies are lobbying against other low carbon infrastructure, such as increases in public transportation.

Question 3—Identification of climate-related risks and opportunities

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

As previously noted, we do not think that the definition of **significant** is sufficiently clear. See our response to Question 2(a) for IFRS S1 above. In addition, we welcome the proposed definitions for climate-related risks and opportunities, but suggest that the Board consider

[16] *For example, see the research of InfluenceMap, as well as its LobbyMap platform, at https://lobbymap.org/.*

adding examples to the relevant definitions in Appendix A based on the types of risks we have seen, as follows:

1. Additional examples of physical risks: an increase in outgoings as a result of shutdowns/or relocation of existing assets, significant increases in costs to insure such assets, changes to consumer behaviour (e.g., decisions to holiday in other locations).
2. Additional examples of transition risks: changes to consumer preferences and/or behaviour, and declining demand for a company's products.
3. Climate-related opportunities: The ISSB uses growth in revenues from providing increased amounts of cooling as an example of a climate-related opportunity. However, some may see this as a climate-related risk because it would mean that the entity's products could be responsible for contributing to an increase in GHG emissions. If this is the Board's intention, we would recommend indicating that this is an example of an interaction/feedback loop between climate-related risks and opportunities. Alternatively, using the opportunity to develop new products or innovative technologies to address the risks that its sector[17] faces with regards to climate change may be a better, less complicated example.

The Board may also want to bring in the thought process from BC49 by emphasising that as climate-related impacts can be wide ranging, the above examples are not intended to be comprehensive or exhaustive.

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?

As noted in response to Question 1(a), we believe that the focus on "significant climate-related risks and opportunities" is at present not sufficient due to the lack of a clear definition of the word significant, particularly in the light of an extant materiality overlay. In addition to this and the need for better disclosure of quantitative information, as set out in our response to Question 4(b) below, we would encourage the ISSB to require companies to report quantitative information (as well as qualitative) about their concentrations of climate-related risks -particularly in relation to their different reporting segments, business activities and relevant assets. Disaggregating and organising risk-related information in this manner would better enable investors to connect climate-related risks with the relevant financial statement items as part of developing a complete picture of the company and determining enterprise value. Indeed, additional disclosures about risk concentration would provide users with information to better contextualise the disclosures in response to the proposed information in paragraphs 20(b) and 20(c) of IFRS S2.

(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?

No, we do not agree. As noted above, we believe that the most decision-useful information about climate-related risks is both qualitative and quantitative (to the extent practicable). Additionally, while requesting disclosures about climate-related opportunities is understandable, we encourage the Board to continue to provide guidance that ensures that such reporting remains neutral. For example, today various integrated oil and gas companies

[17] *We use sector and industry interchangeably within.*

appear to be overly optimistic in estimating that their downstream assets have indeterminate lives, due to their views that they can continue to use these assets as part of the energy transition. This also means that the companies do not record any decommissioning provisions for these assets. Whilst some companies have supported these estimates via research or investments in technology that will enable them to do so, we question whether this is the case for all these companies. We would suggest that more disclosure supporting the reasoning for the company's decisions in the face of climate-related opportunities should be required.

We also appreciate that quantifying information may not always be practicable. However, we note that there is a growing body of accessible tools and data sources[18] to assist companies in this area, and a wide range of service providers working on climate-related risks and opportunities.[19] While disclosure requirements should not drive company behaviour, quantifying this information could lead to better governance over these matters and inclusion in internal control and risk management processes and systems. Disclosing quantitative as well as qualitative information will help investors better understand the connection to the company's financial position and reported profitability, leading to a more comprehensive understanding of the company's business in the face of climate change.

Further, paragraphs 20(b), 20(c) and 20(d) of IFRS S2 already appear to propose requiring companies to report quantitative financial information in relation to such risks. Where companies are not able to report quantitative information, the ISSB should require them to explain why.

Question 5—Transition plans and carbon offsets

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

Overall, we support the proposed requirements to disclose companies' transition plans. However, would also recommend several changes. See our answer to Question 5(b) below.

In addition, proposed paragraph 13(a)(i)(1) sets out that companies should report on their plans and assumptions for legacy assets, including strategies to manage and decommission carbon-energy- and water-intensive assets. We have two concerns with the proposed requirement:

1. We believe that legacy assets, as defined, should be a subset of the assets that are most at risk/most emissions intensive (and not the opposite, which appears to be the way this requirement is worded). This is because an entity may have existing carbon-energy- and water-intensive assets that are relatively new and so still have significant net carrying values and remaining useful lives. It is important that investors also understand how the use of such assets will be addressed, particularly as they represent significant capital at risk. Accordingly, while appreciating that some assets will merit more scrutiny than others, we recommend that companies are required to review all assets.
2. The apparent focus on 'carbon-energy- (and water-) intensive assets' appears to exclude disclosures about the treatment of assets (and activities) that, while they may not be energy-demanding, are either emissions-intensive or produce emission-intensive products. These assets will also need to be managed (and possibly decommissioned) in response to

[18] *See, for example, Paris Agreement Capital Transition Assessment (PACTA) at https://www.transitionmonitor.com/; Oasis Hub at https://oasishub.co/; EasyXDI at https://easyxdi.com/; and Climate Impact Lab at https://impactlab.org/.*
[19] *See, for example, MSCI at https://www.msci.com/our-solutions/climate-investing; Moody's at https://esg.moodys.io/climatesolutions; and S&P Global at https://www.spglobal.com/marketintelligence/en/solutions/climate-credit-analytics .*

the energy transition/achieving decarbonisation. For example, coal mining, oil exploration and production, and the manufacturing of internal combustion engines are not necessarily carbon energy intensive but result in significant end user Scope 3 emissions. A more useful framing would be 'carbon - and water-intensive assets', making it clear that the former covers assets with significant Scope 1, 2 or 3 emissions.

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

Yes. First, companies should also disclose the assumptions on which their transition plan is based, such as in relation to relevant policies, carbon pricing assumptions, and technological developments. Providing this underlying information will help investors assess the reasonableness and relevance of the plans. In addition, requiring disclosure of the relevant climate scenario, such as temperature goals, and the pathway to which the transition plan is aligned, would also be useful.

Second, in relation to reporting on the management and decommissioning of the most-at-risk assets in paragraph 13(a)(i)(1), it would be beneficial to require additional, more specific information on these assets, such as their location, nature of the climate-related impact, estimated costs to transition, and potential changes to carrying values and remaining useful lives. In order to achieve global climate goals there is a risk of significant asset write-downs and so loss of capital, as Carbon Tracker has shown with its research over the last decade.[20] Accordingly, it is important for investors to have as granular information as possible on these types of assets.

Third, we believe that IFRS S2 should require more detail about how companies plan to resource/fund their transition plans (paragraph 13(a)(ii)). For example, companies should disclose the details of their plans to finance their targets as part of achieving key milestones to their transition plans; and a breakdown of plans by segments, business activities or decarbonisation lever. This level of financial information would help investors gauge the suitability of company resourcing and the likely success or viability of transition plans.

(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?

We support including detailed reporting requirements around how companies plan to use carbon offsets, particularly given the number, range and varying degrees of credibility of offset proposals we have seen in our research. However, we have concerns about the extent to which companies are relying on the use of offsets to meet their emissions requirements, when many companies, especially in the energy industry, should be focusing on reducing absolute emissions now and in the lead up to 2050. We think that, rather than increasing validity of using offsets, providing more transparency about the company's plans to use offsets will help investors challenge the net targets and put pressure on these companies to start reducing now.

Accordingly, we recommend that paragraph 13(b)(iii) include a requirement for companies to explain why they believe that carbon offsets or similar mechanisms are appropriate to their industry (and so operations) and how their planned offsets will help achieve their emissions or

[20] *See, for example, Carbon Tracker, "Unburnable Carbon: Are the World's Financial Markets Carrying a Carbon Bubble?", July 2011: https://carbontracker.org/reports/carbon-bubble/; and Carbon Tracker, "Unburnable Carbon: Ten Years On", June 2022: https://carbontracker.org/reports/unburnable-carbon-ten-years-on/.*

other targets. This should include discussion of how the companies are first reducing absolute emissions, and, if they are not, an explanation as to why they are not able to do so. This contextual information should assist investors and other users in assessing the suitability of the company's strategy as well as its targets. The final IFRS S2 Standard should ensure that companies disclose gross emissions (before the impact of any offsets or equivalent) and their targets for reducing absolute gross emissions, separately from the effect of any offsets or equivalent. This will ensure that IFRS S2 is aligned with requirements such as the SBTi Net Zero Standard[21] as well as "the most recent pronouncements of other standard-setting bodies" (as noted in IFRS S1 paragraph 51(c)), as relevant, thus reducing the potential for greenwashing and assisting companies and users by ensuring alignment between different standard setting frameworks. For further information, we have excerpted the credibility criteria that Carbon Tracker developed in *Absolute Impact 2022: Why Oil and Gas Companies Need Credible Plans to Meet Climate Targets* (Absolute Impact 2022). We have also suggested an edit to criterion 1 enable the use of these criteria more broadly for companies across various industries.

Credibility Criteria for Corporate Climate Goals[22]

For approaches to be credible, emissions goals should:

1. *Not be achieved through asset divestments which "create space" for continued investment into new oil and gas developments* [alternatively: new GHG-emitting business activities].
2. *Not rely unduly on emissions mitigations technologies (EMTs), e.g. carbon capture, utilisation and/or storage technologies (CCUS), negative emissions technologies (NETs) or nature based solutions (NBS) that are either undemonstrated at the required scale, or require vast areas of as-yet-unidentified land, and;*
3. *Not be reliant on the purchase of 3rd-party offsets which may just be avoided emissions.*

To this end, we propose a series of questions for investors to ask to actively companies' plans:

- *Does the company seek to achieve absolute reductions via asset divestments?*
- *If company plans involve CCUS or NBS, then:*
  - *Has the company quantified the emissions they intend to mitigate?*
  - *What proportion of future (2030/2050) full life cycle emissions will this be?*
  - *What type of projects are planned and is the technology deployable now?*
  - *Does the company have prior experience with similar projects?*
  - *Has the company outlined capex plans to support investment?*
- *Do company plans involve the purchase of third party offsets?*
  - *Do these offsets actually result in negative emissions that would not have happened had the offset not been purchased? (Or are they merely "avoided" emissions?)*

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?

Yes, we strongly support the proposal for companies to disclose quantitative information on the current or anticipated effects of climate-related risks and opportunities. Reporting quantitative information about these impacts will provide management, investors, regulators,

[21] https://sciencebasedtargets.org/net-zero .
[22] *Excerpted from: https://carbontracker.org/reports/absolute-impact-2022/, p. 7.*

and other market actors with the information required to act efficiently and effectively in response to addressing climate change/achieving the goals of the Paris Agreement.

We appreciate that there are uncertainties around the financial impacts of climate change and the energy transition (and that these uncertainties may be greater for certain industries than others). As part of helping investors assess the extent of these uncertainties, we suggest that the ISSB require disclosure of the key assumptions and estimates that companies used in calculating the financial impacts (and the connectivity of such inputs to those used in the financial statements).

(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?

While we agree with the proposed requirements to report the financial effects on financial performance, financial position and cash flows, as noted in response to Question 6(a), we believe that investors also need to understand the key assumptions and estimates that the company used in calculating the financial effects. In addition:

1. preparers would benefit from additional implementation guidance on how to apply this section. We also suggest that the Board provide more illustrative guidance, including examples of what companies are expected to provide related to how significant risks/opportunities have affected recent their financial position, performance and/or cash flows (paragraph 14(a));
2. when providing disclosures about changes in their financial position over time, companies should also include information about potential asset impairments/asset stranding and changes to estimated remaining useful economic lives of assets (paragraph 14(c)); and
3. we welcome the reference to the "latest international agreement on climate change" in paragraph 14(d). In addition, we suggest that the Board require companies to indicate the emissions scenario and temperature pathway that they are using, as there may be different emissions scenarios and temperature pathways that can be followed or aspired to under the same agreement. The ISSB should also require companies to identify the credible climate scenarios that they are using in determining the assumptions and estimates, sensitivities, and scenarios. This will facilitate comparability and an understanding of inputs used.

(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?

Yes, we support the proposed disclosure to report the anticipated financial effects over the short, medium and long term. To accompany this, we believe that it would be beneficial for companies to explain the choice of these assumptions/estimates and how they align with or diverge from the scenarios used in their scenario analysis.

We further note that IFRS S2 (and S1) include various requirements (such as in paragraphs 8, 9 and 14) to provide the anticipated impacts of information over the short, medium and long term. Further, Paragraph 9(b) requires an entity to explain how it defines short, medium and long term, and the links to its strategic planning and capital allocation planning. It is important that entities not only explain how these time frames relate to the forecasted time periods that they use in preparing their financial statements, but particularly the reasons for any differences between these time frames. Investors need to understand these differences as part of determining the consistency of consideration and connectivity of information across a company's reporting, as well as when assessing the impacts on the entity's enterprise value and making investment decisions.

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?

We believe that paragraph 15(a) should also require the company to disclose the quantitative impacts on its expected financial performance, financial position and cash flows under the different scenarios. It would also be useful if the ISSB were to require companies to disaggregate these financial impacts at a level which provides information about impacts on the company's rereporting segments and business activities. This will help investors gauge the resilience of a company's current business to the uncertainties of climate change and the energy transition, assess the company's strategy and planned investments and further understand how climate change and the energy transition may impact the current carrying amounts of the more carbon-intensive elements of a company's business and operations. This quantitative information complements any qualitative discussions. We note also that the TCFD Recommendations, which introduced climate-related scenario analysis, included such a disclosure item in its guidance.[23]

Further to this suggested additional disclosure item, we recommend that the ISSB amends paragraph 15(a)(iii)(2) to include not just existing assets but those planned as well. Considering planned assets will offer users a fuller account of the resilience of a company's strategy. Carbon Tracker's work analysing the reporting of the world's biggest emitting public companies has shown that many companies are planning to continue to invest in carbon-intensive and long-lived assets.[24] These assets could be at risk of being stranded or requiring significant retrofitting investments because of the effects of the energy transition and the requirements of meeting the goals of the Paris Agreement. This is important financial information and highly relevant to investors.

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

We support the inclusion of disclosure requirements about climate-related scenario analysis, including how the company has conducted the analysis and the implications for its strategy and outlook. We would also encourage the ISSB to build on the proposed requirements to enhance the comparability of reporting between companies and consistency of reporting by each as follows:

1. The requirements do not proscribe a minimum of number of scenarios against which companies are expected to analyse their businesses and strategies, nor do they make any stipulations as to the types of scenarios to be used. This contrasts with the TCFD Recommendations, which requires the analysis of more than one scenario, including a 2°C or lower scenario. Analysing a single scenario does not address the uncertainties or multifaceted impacts of climate change and the energy transition. In order for information to be useful for companies and investors, we believe that companies should assess against

[23] *Task Force on Climate-related Financial Disclosures, "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures", p.19, October 2021:* https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf .

[24] *Carbon Tracker, "Unburnable Carbon: Ten Years On", June 2022:* https://carbontracker.org/reports/unburnable-carbon-ten-years-on/ .

at least two climate-related scenarios. One of these should be equivalent to a net zero by 2050/1.5°C warming scenario (to address investor requests for this information). The second should be directionally consistent with the information that the company uses in its planning and investment decisions (and so connected to the information used to prepare the financial statements). It would also be useful to require companies to show the connection between the inputs that are used for this scenario and the relevant, climate-related assumptions and estimates that were used in the financial statements. If a company provides sensitivities instead of a scenario, we again suggest that at least one sensitivity assesses the company's resilience to achieving net zero by 2050 and no more than 1.5°C warming (currently equivalent to the IEA Net Zero Emissions by 2050 Scenario (NZE)) as this information has been specifically requested by numerous investors, especially as part of the CA100+ Climate Accounting and Audit Alignment Assessment.

2. In terms of reporting on the specificities of how the scenario analysis or other methods were conducted, it would be beneficial to require that companies comment on how the assumptions and estimates used for the scenarios relate to those used in their business and/or transition plans and for the preparation of their financial statements. This would enable an understanding as to how and whether the resilience discussed in the company's strategic or other reporting is reflected in its financial statements. Further, we think that it would be useful to require companies to indicate whether and how they had modified any of the underlying assumptions from the external climate scenarios that they used, in order for investors to understand the extent to which companies' scenarios are comparable.

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

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

Yes, we support the seven suggested cross-industry requirements proposed. We particularly welcome the emphasis on reporting on internal carbon price and financial information relating to the companies' identified risks, opportunities, and strategy. Both of these items should allow for a better understanding of the impacts on companies' financial statements, such as in relation to their impairment testing and sensitivity analysis.

We note, however, that the use of 'vulnerable' in paragraphs 21(b) and 21(c) appears to provide yet another layer of materiality to the proposed requirements. This may lead to a lack of comparability as well as potential inconsistencies in a company's reporting. We also note that no definition is provided for 'vulnerable'. However, as the concept of vulnerability is highly subjective, we would not recommend defining it. Instead, the requirement could ask companies to state the value of assets to which identified risks apply, and the nature of those assets (e.g., location, segment, activity), thus building on the proposed requirements set out in paragraph 12(b) in IFRS S2. This additional information should assist users in understanding any potential limitations to reporting.

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2))?

We believe that companies cases should separately disclose Scope 1, 2 and 3 emissions but aggregate such GHGs (and express them in CO_2 equivalent for each measure). However, if companies' GHG emissions include significant contributions from gases other than CO_2, it would be useful for them to provide additional breakdown in their emissions reporting for the different GHGs. We would encourage that the measure of significance here is not only in terms of volume or mass but in terms of warming potential. This is particularly important for methane emissions, which, given the increasing focus on the need to cut these quickly, potentially expose companies to additional risks in relation to the energy transition and its decarbonisation plans.

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

Yes, we support the requirement to report Scope 1 and Scope 2 emissions for both the consolidated entity and the various associates, joint ventures, unconsolidated subsidiaries and affiliates. Disclosing the emissions of entities beyond the consolidated entity will allow investors and other market actors to understand the potential exposure of these entities and the group itself to transition-related risks, particularly when used alongside the financial reporting of the value of these holdings and any write-downs or impairments. Without this information, it will also be hard to compare companies which are doing functionally the same things but through consolidated versus non-consolidated subsidiaries. They may face the same risks, but without disclosing the unconsolidated Scope 1 and 2 emissions, those risks will appear different.

Further to this suggested disaggregation, we would also encourage the ISSB to require companies to disclose a breakdown of emissions according to the reporting segments used in its financial statements. This will again assist investors in connecting the information disclosed on climate change by companies in their strategic reports or similar with that in the financial statements and identifying the values of assets most at risk. Demonstrating that a company's GHG emissions are concentrated in the segment with a slim profit margin, for example, would be beneficial for investors in understanding the potential financial implications of declining cash flows or the introduction of additional costs, such as due to a carbon tax.

(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?

Yes, we strongly support the inclusion of absolute gross Scope 3 emissions as a cross-industry metric disclosure for all entities. As noted above, Scope 3 emissions for many of these entities are the most significant of their emissions. Investors and other market actors need information about the extent of all three sets of GHG emissions to understand the magnitude of potential risks, the suitability of targets and the aptness of strategies. As noted above in relation to Scope 1 and 2 emissions, we also believe that the requirement would be strengthened by requiring reporting companies to disaggregate its Scope 3 emissions for its reporting segments, so as to enhance the connectivity between narrative and financial reporting.

In its most recent status report, the TCFD found that 37% of the 1,651 companies it analysed reported Scope 1, 2 and 3 emissions (a 10-point increase in two years) with this reaching 50% for companies with market capitalisations of over $12.2bn.[25] We believe that this illustrates that reporting on Scope 3 emissions is not beyond the possibilities for most companies that will be using ISSB Standards.

[25] *https://www.fsb.org/wp-content/uploads/P141021-1.pdf , pp.30, 37.*

Question 11—Industry-based requirements

Overall approach -parts (a)-(c)

We agree that industry-based requirements are necessary and believe that without them the relevance and comparability of information is reduced. We also agree with the approach taken by the ISSB to improve international applicability of the industry-based requirements. It is clear that differences will remain between jurisdictions and sectors and that the climate-related risks and responses will differ by sector. Many investors will use different parameters when assessing industries or regions and will take into consideration relevant laws and requirements as part of making investment and engagement decisions. Including an industry/regional overlay ensures that the ISSB's global set of standards are still relevant at a local level. Additionally, enabling the use of the same or similar existing industry requirements will reduce the costs of implementing these standards (as many companies have already been reporting against their own industry standards) while maintaining their relevance; investors can continue to reference previous information and use such information in developing their forecasts and trends going forward.

Proposed industry-based requirements (j)-(l)

Carbon Tracker's main area of expertise is the use of fossil fuels in the energy industry (oil, gas, mining, and utilities). The use of oil, gas and other fossil fuels continues to be the largest sources of global GHG emissions.[26] It follows that relevant and reliable reporting by this industry is an important part of ensuring that capital is allocated to businesses and activities that can help achieve global decarbonisation goals. Accordingly, we have chosen to comment on the draft disclosure requirements for Oil & Gas – Exploration & Production ("[Draft] IFRS S2 Climate-related Disclosures, Appendix B Industry-based disclosure requirements, Volume B11—Oil & Gas–Exploration & Production"). Our suggestions for this industry may also apply to other carbon-intensive industries noted in Appendix B (for example, Coal Operations, Iron & Steel Producers, Electric Utilities & Power Generators, Chemicals, and Automobiles) and so can be replicated when drafting those disclosure requirements as relevant.

We would also like to note that Carbon Tracker is expanding its research to other sectors and now has company analysts looking at automobiles and clean technology. Its Accounting, Audit and Disclosure team reviews the financial statements and other reporting of all CA100+ focus companies[27]. And as noted in our cover letter Carbon Tracker and Planet Tracker are now operating under the same umbrella organisation. As such, we would be happy to provide further input on other draft industry requirements for climate reporting and/or participate in relevant ISSB outreach meetings at a later date.

Comments on the *[Draft] IFRS S2 Climate-related Disclosures, Appendix B Industry-based disclosure requirements, Volume B11—Oil & Gas–Exploration & Production* (Volume B11)

Topic: Greenhouse Gas Emissions

We strongly believe that the additional industry-specific metrics should include Scope 3 emissions as well as Scope 1, given the former are typically the majority of emissions for an exploration and production (E&P) company. Requiring further disaggregation of Scope 3 emissions in a similar fashion to the proposed requirements for Scope 1 would also be useful. More importantly, though, this would be equivalent to the reporting metric EM-EP-110a.3 but

---

[26] *In 2010 and 2019, 65% and 64% of global net anthropogenic GHG emissions, respectively, were CO_2 from fossil fuel and industry. See IPCC, "Summary for Policymakers" in "Climate Change 2022: Mitigation of Climate Change", 2022: https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SPM.pdf .*

[27] *Additional sectors include, but are not limited to, airlines, cement, chemicals diversified mining and steel. For a full list of CA100+ focus companies and sectors see: https://www.climateaction100.org/whos-involved/companies/ .*

for Scope 3 emissions; this is crucial disclosure for this industry (including decarbonising economies as part of achieving global emissions goals).

We are seeing an increasing number of oil and gas companies with net zero or similar targets across all their emissions. However, there is a lack detail in terms of how these companies plan to achieve these targets, particularly in terms of addressing Scope 3 emissions (e.g., from the end use of oil and gas products). Requiring an equivalent set of industry-specific disclosures for Scope 3 emissions as EM-EP-110a.3 currently proposes for Scope 1 emissions would better ensure that investors and other market actors are provided with the necessary depth and granularity to understand oil and gas companies' actions (or lack thereof) towards decarbonisation. There are two additional pieces of disclosure that we believe are necessary:

1. **Interim reduction targets:** Investors need detailed information about whether and how companies are planning to achieve interim absolute emissions reductions as part of reaching net zero targets. Some companies appear to rely on providing future net zero targets without plans to reduce interim production or emissions; if they do not have interim reduction targets, they need to explain why. Not only does a lack of interim absolute reductions reduce our ability to achieve global temperature goals in line with the Paris Agreement and instead appear to be "kicking the can down the road", it also means that many of these companies are increasing production in the short- to mid-term. This enables them to maintain long remaining useful lives and inflated carrying values for carbon intensive assets and postpone accelerating the relevant decommissioning obligations.
2. **Detail about the mechanisms being used:** As part of the proposed requirement to disclose the "mechanism(s) for achieving the target" (paragraph 2.5), it is important for investors to understand the intentions that E&P companies have of using mechanisms to net their Scope 3 emissions (versus reducing gross emissions). E&P companies often reference carbon capture, utilisation, and storage (CCUS), or nature-based solutions, as the means by which they will achieve their net 2050 targets. Investors need to better understand the extent to which this is affordable (e.g., could it lead to more stranded assets and are the estimated costs included in impairment testing today) as well as achievable by these companies, particularly since there is no evidence that we will achieve CCUS at the industrial scale required. In fact, "planned CCUS capacity is only a fraction of the industry's total emissions"[28]. Additionally, nature-based solutions may not work the way in which they are intended. Finally, this information helps investors understand whether E&P companies intend to continue to increase production and emit before attempting to net their emissions closer to 2050, which will provide insight into the strength and reality into such emissions targets and the true temperature pathway to which companies are contributing. See the credibility criteria that Carbon Tracker developed in Absolute Impact 2022 as excerpted in response to Question 5(c) for IFRS S2 above.

Further, for completeness we believe that Scope 2 emissions should be similarly disclosed in more detail, particularly for integrated oil and gas companies.

Topic: Reserves Valuation & Capital Expenditures

We welcome the overall ambition of these requirements for the industry but have comments on various parts of each metric as detailed below.

[28] https://carbontracker.org/a-magical-ccus-unicorn-will-not-save-the-oil-industry/ .

EM-EP-420a.1. Sensitivity of hydrocarbon reserve levels to future price projection scenarios that account for a price on carbon emissions

Overall, we believe that the proposed requirement would be extremely helpful for investors to assess risks for E&P companies, and in particular the viability of their proven and probable reserves. In addition to providing sensitivities to the short, medium and long term milestones as defined by the company (paragraph 6.3), it may be useful to require sensitivities according to the **timeframes** of the price trajectories included in the IEA's scenarios. We are finding that even when companies provide the quantitative projected oil and gas prices that they used in impairment testing, some omit the prices used for certain periods (e.g., they may provide prices for 2021 and 2050 but not 2030). We assume this is because a sizeable portion of relevant assets' useful lives may be ending in that timeframe and so total property, plant and equipment carrying amounts are more sensitive to the prices used in that particular period. If true, this further supports the need for greater transparency, at the least in a form of a range of prices, for all relevant time periods. This would also facilitate comparability of reporting across E&P companies and independent assessment of the projected prices used. Further, we would encourage the Board to include a requirement for companies to explain any differences between the assumptions that they use in their sensitivity analyses and those provided in the IEA scenarios.

Additionally, the scenarios and price trajectories discussed in paragraph 2 of this metric are not up to date or entirely accurate. For example, the New Policies Scenario was replaced by the Sustainable Development Scenario (SDS). The SDS is more commonly associated with a 1.65 °C warming pathway. The IEA came out with additional scenarios in October 2021 that should be also considered, particularly IEA NZE, which is "consistent with limiting the global temperature rise to 1.5 °C without a temperature overshoot (with a 50% probability)". There are also the exploratory scenarios: Announced Pledges Scenario (APS) and the Stated Policies Scenario (STEPS).[29] While the proposed paragraph 2.4 of this metric notes that any updates to the WEO scenarios are considered updates to the guidance, we suggest that the Board consider including latest WEO scenarios when publishing the final guidance.

The Board may also want to consider how to indicate the relationship of these sensitivity reporting requirements with the proposed requirements in paragraphs 14 and 15 of IFRS S2 on financial impacts and scenario analysis, as well as connectivity with the financial statements. For example, it appears appropriate, both in terms of usefulness and to avoid duplication, for companies in the oil and gas sector to make use of the scenarios proposed in EM-EP-420a.1 in conducting their scenario analysis as per paragraph 15 given the expertise of the IEA and the relevance to the sector.

EM-EP-420a.2. Estimated carbon dioxide emissions embedded in proved hydrocarbon reserves

We note that the proposed metric would only require disclosures related to "proved"[30] hydrocarbon reserves whilst metric EM-EP-420a.1requires information for both "proven" [31] and probable reserves. The reason for this difference is not clear; omitting information about probable reserves would not provide investors with a full set of requisite information and

[29] *https://www.iea.org/reports/world-energy-outlook-2021, pp. 94-95.*
[30] *The ISSB uses the terms 'proven' and 'proved' interchangeably. While not incorrect, this appears to reflect a difference in regional terminology which could confuse preparers. We suggest choosing one of the two words and indicating that it applies to both terms throughout the Standards and guidance.*
[31] *Ibid.*

could also result in incomplete reporting of potential climate impacts. In its own work Carbon Tracker has also seen energy agencies forecast production beyond current proven reserves.[32]

Accordingly, we strongly recommend that the Board better aligns the requirements of EM-EP-420a.2 with EM-EP-420a.1 by requiring companies to report the estimated embedded carbon dioxide emissions in probable as well as proven reserves. This would also provide further connectively with the financial statements where companies often include probable reserves in the calculation of future cash flows for impairment testing. It is also important for companies to report the definitions of 'proven' and 'probable' used for their reporting given the potential differences between jurisdictions or similar. Finally, a less crucial suggestion is that from a logical standpoint it may make sense for the EM-EP-420a.2 requirements to precede the EM-EP-420a.1 requirements.

EM-EP-420a.3. Amount invested in renewable energy, revenue generated by renewable energy sales

Paragraph 1 of this proposed metric requires disclosures for 'renewable or alternative energy sources'. However, the proposed requirement only defines, and the rest of the subsection only refers to, renewable energy. This may lead to confusion amongst preparers and reduce the comparability of information reported under this requirement. As such, if the Board keeps this metric, we suggest that it either define alternative energy sources (and refer to them in the requirements as well) or remove the reference to 'alternative energy sources' in paragraph 1.

More broadly, we question whether a metric requiring disclosures about investments in and revenues from renewable energy for E&P companies is appropriate. Having a specific prescriptive disclosure for this information may appear to imply that investments in renewable energy production/becoming renewable energy producers should be the focus for E&P companies in responding to the energy transition, and so feed into the industry narrative that they need to continue oil and gas operations to fund this transition. **First**, E&P (and other) companies must work to reduce **absolute** emissions (for example, via a managed phaseout of high emitting assets). They must also stop investing in new oil, gas (and coal) development[33]. Aside from this, there is no one size-fits-all strategy. Some companies may become specialists in different areas. Others may return cash to shareholders and wind up their businesses. Overall, we are concerned that disclosures about investments in renewable energies may distract or detract from the main issue that these companies face. Accordingly, the Board may want to clarify this, propose a broader, less specific metric (e.g., such as disclosures about amounts invested in the transition and revenue generated from transition-related activities, if applicable) or remove this requirement altogether.

EM-EP-420a.4. Discussion of how price and demand for hydrocarbons and/or climate regulation influence the capital expenditure strategy for exploration, acquisition, and development of assets

In addition to the proposed requirements, we believe that the Board should require oil and gas companies to report both current and projected production, and the associated CAPEX metrics. The timeframe of projections should be the same as the company's use of short, medium, and long term for the other disclosures (and for its planning periods) as relevant. The company should also disclose the connection between the projected production metrics (and other proposed requirements such as in paragraph 1.1 a) and the assumptions and estimates

---

[32] *See carbontracker.org/new-global-registry-of-fossil-fuels-to-enable-reserves-transparency and https://campaign.fossilfueltreaty.org/updates/registry*

[33] *In its October 2021 World Energy Outlook, the International Energy Agency (IEA) indicated that if we are to achieve net zero emissions by 2050 or sooner, and limit temperature rise to 1.5°C, there can be no new oil or gas production. https://www.iea.org/reports/world-energy-outlook-2021 .*

used in its impairment tests in the financial statements (and the reasons for any significant differences). The company should disaggregate the disclosures for projected CAPEX according to spending on existing (developed/brownfield) and new (undeveloped/greenfield) projects. We believe that these metrics are essential to understanding a company's strategy and efforts towards decarbonisation as well as its potential exposure to new regulation and shifts in price and demand.

In addition, we suggest that the proposed text of paragraph 2 is amended to require companies to discuss how different scenarios will impact their decisions to utilise and develop existing assets as well as plans around new reserves. Otherwise, reporting may present a limited picture of potential impacts of the energy transition the company, its assets, and plans.

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?

As noted in Carbon Tracker's response to the IFRS Foundation's Consultation Paper on Sustainability Reporting[34], and in our response to Question 16 above for IFRS S1, we see significant benefit in establishing an internationally comparable baseline of company reporting on climate change and the energy transition for investors (and other interested parties). Greater quality, comparability, and consistency in the reporting of the relevant the risks, targets, strategies, and their financial impacts in the 'narrative' sections of the annual report or equivalent filing will allow users to better understand how companies are positioned with respect to transitioning to a decarbonised economy (as well as the inevitable physical implications of climate change). This information should assist investors, regulators, and other market actors to better price in and act on achieving the goals of the Paris Agreement.

As has been set out in this response, it is critical that future ISSB Standards also ensure that disclosures are well connected with financial reporting, such as through aligning how companies disaggregate information and the assumptions and estimates that are employed. This will allow investors to be able to develop a more comprehensive understanding of the potential implications of climate change and the energy transition, or the relevant issue, when estimating enterprise values and engaging with companies. We believe that the suggestions made elsewhere in this consultation response will assist the ISSB in this work.

In terms of likely costs, the development of a global baseline of climate-related reporting, including through consolidating the prior fragmented and largely voluntary reporting frameworks, may in fact help reduce costs for many companies (especially global consolidated entities), and so lessen what many have called the reporting burden. As noted in our response to Question16 for IFRS S1, we have heard from investors that the benefit of such disclosures far outweighs the cost of not receiving such information. Moreover, while the proposals may require some companies to make additional disclosures, the number and range of companies that have already been providing CDP disclosures, which are highly granular and generally reported on an annual basis, demonstrates that applying the proposed requirements in IFRS S2 is feasible for most large international companies, particularly for carbon-intensive companies most important to the energy transition.

[34] http://eifrs.ifrs.org/eifrs/comment_letters//570/570_27635_BarbaraDavidsonCarbonTrackerInitiative_0_CarbonTrackerInitiatveIFRSFoundationSSBconsultationresponse29Dec20.pdf .

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?

Investors urgently need reliable, relevant, and comparable sustainability and climate-related information. We also note that much of the information proposed in the EDs, particularly for oil and gas companies, is already being provided in varying forms by different companies (but most often in a separate sustainability report). Accordingly, we believe that the effective dates should be the same for both EDs due to the following reasons:

1. The connectivity requirements in IFRS S1 are key to the relevance of climate-related disclosures. They will help provide a through line from a company's narrative reporting to the financial statements today (and as a side effect possibly help improve the equality of financial statement disclosures that companies are providing).
2. The TCFD recommendations, which form part of the background to the IFRS S1 proposals, were published in 2017. Many companies are already providing at least some of the recommended information. In addition, regulators in various jurisdictions are starting to require this information[35]. Accordingly, companies are familiar with and will already be reporting some of the proposed requirements in many ways in the near future.
3. With respect to reporting climate-related opportunities, we are already seeing companies provide more information about opportunities than risks. Indeed, it may be more difficult for companies to provide disclosures about climate-related risks. However, due to the urgency of this subject matter, we do not believe there should be any delay in requiring both sets of information as soon as possible.

Having said this, if having the same effective date means delaying the provision of IFRS S2 disclosures, then we would support an earlier effective date for IFRS S2.

[35] *For example, the UK Financial Conduct Authority (see https://www.fca.org.uk/firms/climate-change-sustainable-finance/reporting-requirements).*