UK FINANCE

A response to the

ISSB's Exposure drafts on Sustainability and Climate- related Disclosures

July 2022

Introduction

1.1. UK Finance[1] is the collective voice for the banking and finance industry. Representing more than 300 firms, we act to enhance competitiveness, support customers, and facilitate innovation.

1.2. We are pleased to respond to the International Sustainability Standards Board (ISSB)'s Exposure Drafts (EDs) IFRS S1 *'General Requirements for Disclosure of Sustainability-related Financial Information'* (hereafter 'S1') and IFRS S2 *'Climate-related Disclosures'* (hereafter 'S2') which aim to develop, in the public interest, a comprehensive global baseline of sustainability disclosures for the financial markets.

1.3. Our response covers both the EDs together, with additional comments relevant to the climate ED. It reflects the views of UK Finance and its members, primarily UK systemic firms and international globally systemically important banks. Given the spectrum of members, their business models, breadth of geographical operations and consequently obligations to meet requirements of multiple regulators and standard setters, there are in some parts varying views and these are generally suggested as options in our response.

Key recommendations

2.1 **Global baseline**: We recommend that the ISSB do all that is necessary to ensure that the ISSB standards become and continue to be the gold standard for relevant, reliable and comparable sustainability disclosures across firms worldwide — thereby ensuring that they meet the information needs of investors and other users of sustainability information.

2.2 **Clear definitions and guidance**: To ensure consistent and comprehensive understanding and implementation, we urge the ISSB to include clear definitions including for materiality, significance, sustainability, risks and opportunities, and to consider providing timely guidance by way of 'Frequently asked questions' (FAQs).

2.3 **Materiality scope**: To be the global baseline for sustainability disclosures, it is essential that the ISSB work with regulators around the world to resolve different definitions of materiality, including potentially revisiting its own definition beyond enterprise value so that the information needs of not just investors but also other stakeholders, including employees, customers and regulators are met. While recognising that some jurisdictions will prefer a lower baseline, we also believe that without a more holistic scope the ISSB standards would struggle to establish primacy over regulatory requirements and other standards being developed around the world, including in the US and Europe. A

[1] Visit our website *here*

consistent building block approach, such as that proposed by the International Federation of Accountants, could be one way of resolving this tension.[2]

2.4 **"Through the eyes of management" and "fair, balanced and understandable (FBU)"**: By adopting the principle of through the eyes of management as it is used in IFRS 8, we consider that the ISSB can meet the objectives of broader materiality requirements indirectly. This principle, along with FBU, would ensure that a firm's market disclosures are consistent in scope and timing with how sustainability risks and opportunities are governed, managed and monitored within a firm and meet the needs of users.

2.5 **Scope, frequency and location**: The entity scope of the ISSB disclosures should be aligned with financial reporting; i.e. where consolidated financial statements are published, sustainability reporting should be at the same level as financial reporting.

2.6 **Implementation and proportionality**: We recommend flexibility in scope and timelines between climate- and sustainability-related disclosures, reflecting the relatively advanced management and monitoring of climate risks, opportunities and transition plans compared with other sustainability risks and opportunities.

2.7 **Estimation uncertainty and restatements**: We recommend that the ISSB align with the IASB on changes to estimates for qualitative and quantitative disclosures and remove the requirement to retrospectively restate disclosures for changes in estimates.

2.8 **Frequent and timely post implementation reviews through FAQs**: The ISSB should continue with its current agile approach in releasing these exposure drafts, and should consider undertaking post implementation reviews (PIRs) on selected aspects on a timely and relevant basis, instead of the deferred PIR approach currently undertaken by IASB.

Detailed comments

Overall approach, objectives and core content
S1 Questions 1, 2, 4, 8, 12, 14; S2 Questions 1, 3, 4, 8, 10, 12, 13

3.1. We welcome the ISSB exposure drafts in working toward a global standard which will provide structure and comparability for sustainability- and climate-related disclosures across jurisdictions and firms worldwide. We agree that a global standard for sustainability- and climate-related disclosure is a fundamental component of the international architecture for measurement and management of sustainability risks and opportunities, and to address the needs of stakeholders for appropriate disclosures on climate change. We encourage all jurisdictions to lend their backing to the ISSB standards and adopt them as a consistent baseline for sustainability disclosure.

3.2. We note from the outset that the ISSB exposure drafts draw heavily on the 2021 guidelines of the Taskforce on Climate-Related Financial Disclosure (TCFD). Many banking and finance firms continue to build their capacity to comply with the TCFD recommendations which became mandatory for all UK premium listed companies in 2021 and for other large UK-registered companies and financial institutions for years beginning from 6 April 2022.

[2] https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/enhancing-corporate-reporting-sustainability-building-blocks

3.3. While we support the ambition of the ISSB's approach, the ISSB guidelines must retain space for iterative improvement from the existing level of implementation. Given the fast-evolving nature of sustainability-related measurement, management, metrics and reporting, compared with accounting concepts and standards, we think that the ISSB should be more agile and responsive in its approach compared with its sister board the IASB by making enhancements to issued standards to ensure they remain current and relevant. We think that the ISSB could also update guidance through FAQs where and when material and relevant. We believe that over time, the ISSB could also consider a formal Q&A mechanism(s), similar to the IASB's IFRS Interpretations Committee process / Implementation Technical Groups (ITG) as a practical guidance mechanism during implementation of the standards, and IFRIC framework as a longer-term (post-implementation) formal arrangement. This will allow stakeholders to submit practical and technical questions to the ISSB for consideration and interpretation and in turn support efficient and ongoing clarification of existing requirements. Additionally, ISSB, could consider a piloting approach along the lines of the Taskforce on Nature-Related Financial Disclosure's Consultation Groups and piloting programmes, which would allow for testing and industry learning.

3.4. The ISSB should consider undertaking post implementation reviews (PIRs) on selected aspects on a timely and relevant basis instead of the deferred PIR approach currently undertaken by IASB. However, it should be noted that a PIR will only be meaningful once adopted through national legislation in all jurisdictions which may be different to the IASB approach.

3.5. While the consultation does not explicitly ask about work to achieve international regulatory coherence, we recognise this as one of the core rationales for the ISSB's work. We welcome the formation of the new ISSB platform to help build coherence in disclosure regimes across jurisdictions which is a top priority for UK Finance and many of its members. However, we are extremely concerned about the continued risk of proliferation of different jurisdictional expectations for sustainability-related disclosures. This is not only burdensome for firms which operate in and therefore report across multiple jurisdictions, but more importantly reduces the power of these disclosure requirements to achieve their sustainability objectives by making it more difficult for users of data to compare and aggregate data across different regimes. This is of particular concern for banks and financial services firms with complex lending, investment and supply chains.

3.6. We call on all jurisdictions – including the UK, US and the EU and its member states – to work in a spirit of collaboration toward the same outcomes. Interoperability and cross-jurisdictional harmonisation should remain core objectives for the ISSB, to avoid further fragmentation. Recognising that there are currently a variety of proposed sustainability reporting standards under development in parallel — the ISSB, the US Securities and Exchange Commission (SEC), the EU Corporate Sustainability Reporting Directive, and the UK Government proposals including the potential UK adoption of the ISSB standards — we would also encourage the development of an equivalence or substituted compliance regime, to limit the need to produce duplicate disclosures.

3.7. We believe that access to data and data quality remain key barriers to the reliability and comparability of disclosures. For firms in the banking sector, particularly but not exclusively those with international operations or lending exposures, a single set of comprehensive disclosure standards — which would apply across all sectors, both financial and non-financial — is critical in building the necessary data sets to facilitate better investment and financing decisions by all stakeholders. Real economy

disclosures need to mature, particularly in less developed sectors, for financial services firms' Scope 3 disclosures to improve fully. The ISSB could consider offering mechanisms for firms to communicate the quality of the data on which their reporting relies. Examples of this could include the "data quality scorecard" used by the Partnership for Carbon Accounting Financials (PCAF)[3], or the valuation quality or 'levelling' disclosures adopted by the IASB on fair valuing financial instruments in IFRS 13 *'Fair value measurement'*.

3.8. The definition of "enterprise value" — the core subject of materiality assessments — needs clarification and enhancement. There is potential for varying interpretations in different jurisdictions which would lead to comparability issues. One option the ISSB could consider is to use the "company value" methodologies adopted by PCAF, which cover "enterprise value including cash" (EVIC) for listed companies and sum of total company equity and debt for private companies.[4] Another option could be the GHG Protocol definition of value chain (Corporate Value Chain (Scope 3) Standard) which is already used for the purposes of carbon calculation and reporting.[5]

3.9. We would request clarification on the extent to which mitigating actions are included/quantified, e.g. when calculating enterprise value and impacts, including whether this be on a static basis, or with effect of planned management actions, similar to some regulatory stress test exercises. Given data quality and international consistency challenges, reporting on a static basis is likely to be more feasible in the immediate term. Furthermore, when assessing the impact of risks and opportunities on enterprise value, such risks and opportunities need to be considered in the context of the company's business model, products and services and broader value chain. The ISSB should consider how disclosures should also contain (or cross-reference to relevant materials disclosed elsewhere) the wider context of the entity, such as a description of the business and of the external environment in which the entity operates.

3.10. TCFD implementation can be interpreted as a spectrum, i.e. a firm can be compliant with the TCFD guidance, and in turn the UK listing requirement, even where it is recognised that a number of areas are works-in-progress. By contrast, we feel that attestation of compliance with the proposed disclosures in the ISSB's EDs risks being more binary. We suggest that the ISSB consider recommending in its guidance that some aspects of its standard may benefit from phased implementation (e.g. allowing for a "comply or explain" provision as used by the UK's Financial Conduct Authority or for some self-attestation of where a firm has, and has not, met the requirements — noting reasons why it has not been possible). This will promote participation, enable progress to be made, maintain internal and market pressure for advancement, whilst recognising initial and ongoing implementation challenges and risks to the organisation.

3.11. Although outside of the scope of these EDs, we believe more clarity is needed on how sustainability reporting will be assured or audited, as well as having clearer and more explicit guidance on the linkage between the IFRS accounting standards and the proposed sustainability standards. Examples include how sustainability considerations could impact impairments, deferred tax assets, segment reporting and financial instruments (IFRS 9) (e.g. whether long-term climate change feeds into the forward economic scenarios impacting expected credit losses).

[3] https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf, pp.72-73
[4] https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf, p.49
[5] https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard_041613_2.pdf

Scope, phasing, proportionality
S1 questions 3, 5-7, 8, 10

4.1. For the reasons set out above, we are keen to see wide adoption of ISSB standards and to avoid local disclosures where requirements can be met through use of the ISSB standards.

4.2. We broadly welcome the proposal to report sustainability-related financial information as part of general-purpose reporting. However, the requirement to incorporate sustainability reporting into general-purpose financial reporting could lead to increasingly long annual or similar reports, which in turn could lead to perverse pressure to reduce disclosure as firms seek to shorten their wider reports. Incorporation in general-purpose financial reports could also create uncertainties and challenges around interpretation for the reader. It will be important for the ISSB, the IASB and reporting firms to continually monitor unintended consequences of enhanced sustainability reporting, to ensure general purpose reports continue to meet the needs of key audiences.

4.3. We think that it should remain for firms to decide whether to include some of this information in the financial report or publish it elsewhere such as in a separate Environmental, Social & Governance (ESG) report or similar.

4.4. Where consolidated financial statements are prepared, we do not believe that there should be a requirement to also present local subsidiary disclosures on a standalone basis. This will minimise the significant burden on firms, and also enable streamlined, consistent reporting for individual firms. For climate-related disclosures, the ISSB should encourage jurisdictions to allow consolidated disclosures to meet local requirements for large/multinational institutions; with incremental local disclosure only required where they support local supervisory objectives and net zero commitments/pledges.

4.5. We encourage the ISSB to reconsider the requirement in S2 for consolidated groups to make additional disclosures for a broader set of entities, i.e. disclosure of greenhouse gas emissions by associates and joint ventures (JVs), separately from those of the consolidated group. For those associates and JVs that are not under the direct control of the consolidated group, there would be a high level of reliance on publicly available information that may not be reliable and/or comparable to satisfy the reporting requirements as laid out in the ED. Access to data remains a key barrier and challenge, particularly for financial institutions that are key consumers of information. However, the ISSB would need to consider guidance to ensure that S2 reporting requirements relating to entities owned by minority shareholders (e.g. 30%, 35%) are covered to meet investor and user group needs.

4.6. It is important that disclosure requirements are proportionate; we have concerns about the amount of data required and associated burden on firms and recommend that disclosure requirements are focused on those areas that are material to a firm's value. This is particularly the case for broader sustainability which is less well developed. The requirement (S1 para 51.c) that an "entity shall consider the most recent pronouncements of other standard-setting bodies" seems to be very broad in nature and is broader than sustainability reporting. We believe that the expectations around this need be clarified and proportionate.

4.7. We would welcome clear definitions of a range of key terms. Interpretation guidance or a fuller glossary accompanying the guidance could helpfully clarify some of these definitions:

4.7.1. Definitions of "material" and "risks/opportunities": poor definitions could create challenges in undertaking analysis across supply chains, second-order impacts, and lead to firms' being forced to demonstrate to auditors why something is not material – which could be a significant burden.

4.7.2. A definition of "sustainability" will also be critical for defining the scope of sustainability reporting and mitigating particular challenges for external validation/audit and confirmation of completeness. Based on the ISSB Terms of Reference, we understand "sustainability" in the EDs to cover environmental, social and governance elements. If this is correct, this should be referenced explicitly in the ED. Reference to other widely accepted initiatives, particularly the UN Sustainable Development Goals or the Taskforce on Nature-Related Financial Disclosures, may also offer clarity and prevent fragmentation between other frameworks or requirements.

4.8. The ISSB should explicitly recognise that some areas of reporting, e.g. scenario planning, will evolve over time from the current baseline. For climate-related disclosures, we would encourage jurisdictions to coordinate to provide consistent safe harbour provisions when adopting these standards — and the ISSB could include a reference to this in its recommendations. For example, the SEC climate-related disclosures provide safe harbour provisions covering Scope 3 emissions, transition plans and scenario analysis disclosures. Noting the current level of disclosure implementation and need to iteratively improve from that baseline, it is critical that any required disclosures of Scope 3 risks, opportunities and impacts are material, with any disclosure beyond material risks, opportunities and impacts being beyond the required baseline.

Fair presentation. significance and materiality
S1 questions 7, 8

5.1. We broadly welcome consideration of materiality, but seek more guidance on definitions of materiality, given that interpretations could differ between users and providers. We do not believe that linkage to IAS 1 without further clarification by the ISSB would address this concern. Alternative approaches that ISSB could consider include:

5.1.1. Focus on the information that could reasonably be expected to influence the decisions of primary users, removing the reference to assessment of enterprise value.

5.1.2. An IFRS 8-style "through the eyes of management"[6] approach could be considered as it could lead to better disclosure of decision-useful, holistic and material risks and opportunities. This principle would ensure that a firm's market disclosures are consistent in scope and timing with how sustainability risks and opportunities are governed, managed and monitored within a firm and also meet users' requirements.

5.1.3. Fair, balanced, and understandable[7] is a particularly useful principle for the strategic report and 'the front half' of the annual report. This UK corporate governance principle could be incorporated by the ISSB into sustainability standards as a means to ensure relevant, balanced and material sustainability risks and opportunities are disclosed, both quantitatively and qualitatively.

[6] IFRS 8 does not prescribe the measurement policies for the information to be disclosed. Instead the amounts disclosed are mainly based on the information presented to management. This is generally known as 'the management approach' or 'through the eyes of management'.

[7] FBU: The requirement by the UK Financial Reporting Council (FRC) for corporate boards to confirm that their annual reports are 'fair, balanced and understandable' (FBU), and for external auditors to report by exception on this confirmation, has been said to have led to improvements innovates in both UK corporate and audit reporting. FBU also specifically reflects the growing importance of narrative corporate reporting and that investors and other users are interested in assurance on the 'front-half' of the annual report.

5.1.4. Another option is to allow firms to apply the same assessment of materiality which is used in connection with its financial statements when assessing risks and opportunities.

5.2. We would support a threshold/practical expedient for disclosure, as there are many specific disclosures (especially those developed and issued by the Sustainability Accounting Standards Board SASB) that are not currently provided to management or stakeholders and not deemed significant to many organisations. Materiality/significance of some issues remains open to debate, e.g. derivative exposure: whether an interest-rate swap on an ESG loan makes it an ESG derivative.

5.3. We do not yet fully support the industry-based disclosure requirements in the various volumes to Appendix B to S2. We believe that these industry-based disclosure requirements are far too prescriptive and have not been adequately field-tested. At this time, we believe that the disclosures in these volumes should not be mandatory and, much like the examples relating to IFRS accounting standards, the disclosures should be guidance only that does not form part of the standard. We also have some specific comments on the following volumes relevant to our members:

5.3.1. **Volume B15 (Asset Management and Custody Activities):** We recommend the removal of all references to “custody activities” or “custody services”, as well as the metric “assets under custody” from the disclosable activity metric. The role of a custodian is very different from the role of an asset manager: custodians act solely on instructions from their clients and do not exercise any discretion over the use or reuse of client assets under custody or use them for proprietary purposes. The custody role is to “safekeep” client assets without having any control in relation to how those assets are invested.

5.3.2. **Volume B16 (Commercial Banks):** We think information about the number of loans issued or the number/amount of underwriting/advisory transactions is not particularly decision useful. We would welcome an IFRS 8-style “through the eyes of management” approach as it could help to avoid a laundry list of requirements. Whereas a description of the approach to the incorporation of ESG factors in credit analysis does not seem unreasonable, it will take considerable time to gather the data for the disclosure of exposures to carbon-related industries and especially the scope 1, 2 & 3 financed emissions. These disclosures are likely to be an evolution as better sources of data become more mature and available.

5.3.3. **Volume 19 (Mortgage Finance):** S2 as drafted requires that all the Scope 3 financed emissions should be calculated for all sectors. The ISSB defines mortgages to include Home Equity Line of Credit (HELOC), but the PCAF standard excludes HELOC from its methodology. Appendix B19 does not mention financed emissions disclosure. We encourage alignment between ED IFRS S2 and the PCAF methodology. We do not believe that information about the number of loans issued is particularly decision useful: we would welcome an IFRS 8-style “through the eyes of management” approach as it could help to avoid a laundry list of requirements. Whilst we think it is reasonable to disclose how climate change and other environmental risks are incorporated into mortgage origination, the disclosures in respect of the value of mortgages in flood zones and losses for mortgage default and delinquency due to weather-related natural catastrophes might require further field-testing including if there might be more suitable alternative disclosures.

5.3.4. **Volume 64 (Rental and Leasing)**: The recommended disclosures do not align to motor finance and fixed-term leasing operations. We propose metrics for leasing would be better aligned to the proportion of total fleet stock which is EV (battery and plug-in hybrid) and the proportion of new in year deliveries which are EV.

5.4. We believe that the overlap or distinction between “significant” and “material” needs to be clarified. Significant risks should be considered material. We would welcome guidance on how to distinguish between “significant” sustainability-related risks/opportunities and the “material” impact on the financial statements — e.g. criteria that convert significant risks/opportunities into material impact.

5.5. For climate-related disclosures, there could be challenges with linking long-term climate-related risks (particularly physical risks) to current financial position, performance and cash flows, since some types of climate risk are longer-term than banks’ current financial positions. This means that the linkage between scenario analysis and current financial impact are often subject to assumptions and estimation. One option could be to allow for disclosure about risks that could lead to changes affecting the firm’s financial plan in the future, rather than requirements to disclose expected changes to the financial plan.

Timelines, frequency, transition periods, costs
S1, Questions 9, 13, 15, 16; S2 Questions 3, 5, 7, 10, 11, 16

6.1. We recommend that the ISSB prioritises climate-related disclosures, by publishing and implementing S2 before S1, given the relatively advanced status of S2 and, at the very least, provide or permit a staggered implementation for both standards. We believe that adopting and implementing both standards in parallel would be extremely challenging for firms. We recommend the ISSB to consider the following:

6.1.1. We encourage the ISSB to consider the current challenges associated with the availability of high-quality data and lack of methodology for certain sectors and asset classes, particularly for scope 3 financed emissions. Therefore, we recommend the introduction of a sector phase-in — aligned to PCAF’s standard, the Net Zero Banking Alliance timeline and a materiality-based approach for the disclosure of Scope 3 financed emissions. Asset class and value chain emissions that are material or influence an institution’s long-term net zero strategy should be prioritised for disclosure. Institutions should justify their approach and retain the flexibility to determine the prioritisation. However, the ISSB should note that this prioritisation approach could mean that material Scope 3 emissions are not fully captured in the initial phase, which could lead to incomplete overall reporting of Scope 3 emissions and thereby make a ‘material’ difference in firms’ disclosures.

6.1.2. Notwithstanding these points, we recommend that the ISSB should only consider introducing disclosure requirements for asset classes where there is existing industry guidance in place, for example through PCAF.

6.2. We recognise that timing of implementation will primarily be a question for regulators. In its communications to regulators, we recommend that ISSB clarify that adequate timing should be provided to give preparers the opportunity to provide a meaningful report, over and above any existing TCFD disclosures. We believe it would be very challenging for firms to make the proposed disclosures in 2023 reports, and especially so given that many firms including those in the banking sector need to gather extensive data from clients and others. We believe adequate flexibility in scope and timelines should be provided to ensure as thorough and effective an implementation as possible.

6.3. There are mixed views on reporting at the same time as the annual report. Overall, we recognise the advantages of publishing sustainability-related financial information at the same time as general-purpose financial reports so that the data can be considered together, highlighting the inter-relationships and connections across the risks and opportunities. As a consequence, publishing sustainability-related financial disclosures

at the same time as the financial statements would be beneficial to investors and there would be no risk of failing to disclose material non-public information at the same time as financial statements. However, certain disclosures could be provided with a time-lag, and labelled as such (e.g. emissions data). This could be operationalised, for example, as a reporting lag for data sources from the fiscal reporting year, in effect meaning that the sustainability-related disclosure would be done at the same time as the financial statements while the data sources used as a basis for the sustainability-related disclosure would be from a previous period. Preparers should use the most recent data available to them that is both reliable and usable.

6.4. Overall, whilst we note that the ISSB intends for sustainability disclosures to be made at the same time as the general-purpose financial statements, sustainability-related data (especially more complex data like Scope 3 emissions) may not be ready in time and this could risk delaying the publication of the financial statements.

6.5. There should be a transition period for less mature elements of sustainability reporting, during which reporting can be provided on a “best effort” or “comply or explain” basis — e.g. Scope 3/financed emissions — while the data and methodologies for those disclosures are improved. Such a transition period would avoid confusion for users of disclosures and reduce liability risk for preparers, and more broadly would allow for maturing capability to be transparently articulated, recognising compliance will be a journey. A target date could be set for all preparers to plan around and to drive synchronised implementation. Even where data is available, significant development is needed in data capture and reporting capabilities/controls.

6.6. We welcome the ability to use qualitative impact assessments where quantitative data is incomplete or unavailable. We encourage the ISSB to consider an incremental approach to sustainability-related metrics generally, whereby those at a mature stage of development are implemented first. In contrast, those metrics that are at an earlier stage of development should be introduced later as data availability improves in the market. An example of this would be internal carbon prices: while some financial institutions use them as a variable within internal climate scenario analysis exercises, some firms do not feel able to publish them due to low confidence in data quality. As stated above, we would also support inclusion of an instrument on the model of the “data quality scorecard” used by PCAF’s greenhouse gas accounting standard.[8] This would allow firms to disclose transparently even where data sources are imperfect, rather than waiting for data issues to be fully resolved.

6.7. We believe that it is important to encourage digital reporting but this should be phased in once data and reporting has started to mature.

6.8. Costs cannot yet be quantified but our members expect that overall compliance costs would increase significantly as would the costs for external assurance.

Comparative information, sources of estimation, outcome uncertainty and errors S1 Question 11; S2 Question 9

7.1. We support the S1 proposal that a company would not have to provide comparative information the first time it applies the standards. However, we seek clarification on the requirement as proposed for the restatement of comparatives. Paragraph 84 of S1 contains a requirement for entities to correct material prior-period errors by restating the

[8] https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

comparative amounts for the prior period(s) disclosed unless impracticable to do so, while paragraph 64 of the same draft advises that when providing sustainability-related financial disclosures the entity has to disclose comparative information that reflects updated estimates. While paragraph 84 refers to materiality, paragraph 64 refers only to updating estimates with no reference to a materiality assessment. We would welcome clarification of this point.

7.2. We have significant concerns with the requirement to retrospectively restate changes in estimates. This deviates from IAS 8, where estimates usually change due to improved information and changes are only made prospectively. Making retrospective changes in estimates would imply that previous disclosures were the product of errors by the organisation rather than data quality of estimates. As this is a fast-moving area with industry science developing at a rapid rate and information evolving quickly, it would be arduous to continuously restate prior period information for changes in estimates used. Updates to estimates should be permitted without the constraint of restating comparatives. This will encourage firms to adopt the new science, use the data as it becomes available and refresh disclosures to remain relevant and in step with industry progress. We recommend that updates to estimates should only be required for the prior year in line with accounting estimates in IAS 8; this will encourage firms to adopt the latest science and refresh disclosures to remain relevant (however this should not limit voluntary flexibility in restatements over longer time horizons, and any useful explanation of how processes, methodologies and data have improved). Separately, there are also concerns around restatements for organisations listed or registered in the US where restatements have significant legal considerations and implications.

7.3. In S1, the ISSB acknowledges in paragraph 79 that "[when] metrics cannot be measured directly and can only be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of preparing sustainability-related metrics…". The same holds true for certain climate-related information and yet this is not acknowledged in S2.

7.4. For climate disclosure, integration of cross-industry metric categories is likely to provide a consistent framework. The requirement to use absolute or intensity measures for emissions should follow firms' internal business models of measurement. We suggest that carbon pricing and directors' remuneration are included as examples rather than being prescriptive.

7.5. We encourage the ISSB to consider the current challenges associated with the availability of high-quality data and lack of methodology for certain sectors and asset types and, in particular, those for Scope 3 financed emissions. We recommend the introduction of a sector phase-in that is aligned to PCAF's standard and the Net Zero Banking Alliance timeline and that a materiality-based approach is applied for the disclosure of Scope 3 financed emissions.

7.6. We also encourage the ISSB to consider including guidance to address known areas of divergence or inconsistency in non-financial disclosures. Particularly on metrics, estimations, and underlying assumptions. Guidance on preferred metrics and applying assumptions to common data quality challenges would drive greater consistency and comparability across industries.

7.7. We agree with the proposal that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3, expressed in CO2 equivalent and not disaggregated by constituent greenhouse gas. Disclosure of

disaggregated emissions would pose an unnecessary compliance burden. In addition, we are supportive of the integration of the TCFD's cross-industry metrics categories, which provide a consistent framework.

7.8. Finally, to reduce the risk of misinterpretation and facilitate meaningful disclosure we see benefit from having a comprehensive set of illustrative examples setting out methodologies and calculations, e.g. for the calculation of financed emissions where the allocation of the emissions data is required at the subsidiary level, but where data may only exist at the consolidated level rather than the legal entity level of a counterparty.

Future engagement

In conclusion, we welcome the ISSB's work on this very important topic and are happy to engage further to help create this key global baseline, reflecting a pragmatic and workable approach.

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