

BRIEFING NOTE

ISSB EXPOSURE DRAFTS ON CLIMATE AND GENERAL SUSTAINABILITY DISCLOSURES

10 May 2022

INTRODUCTION

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has now over 4,900 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles with approximately US\$121 trillion in AUM.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

ABOUT THIS BRIEFING NOTE

On 3 November 2021, the IFRS Foundation Trustees announced the creation of the International Sustainability Standards Board ([ISSB](#)) at COP26. The Board aims to deliver a global baseline of sustainability-related financial disclosure standards to provide global financial markets with information on companies' sustainability-related risks and opportunities, building on established sustainability reporting initiatives.

On March 31st the ISSB launched consultations on two exposure draft sustainability reporting standards:

- [\[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) ('**General Requirements Exposure Draft**') – disclosures would apply to reporting on sustainability-related financial risks/opportunities for all sustainability issues, particularly those for which the IFRS has not yet published an issue-specific standard.
- [\[Draft\] IFRS S2 Climate-related Disclosures](#) ('**Climate Exposure Draft**') – disclosures would apply to reporting on climate-related financial risks/opportunities.

The consultations are open for comments until 29 July 2022. The ISSB aims to issue the first 'IFRS Sustainability Disclosure Standards' (finalised versions of the two exposure drafts) by end-2022.

This briefing note summarises suggested disclosures within the exposure drafts, notes key changes to the preceding November 2021 [Climate](#) and [General Requirements](#) Prototypes developed by the IFRS Foundation's Technical Readiness Working Group (TRWG), and references additional explanatory materials published by the ISSB in the '[Additional resources](#)' section. References in this document indicate the source paragraph in exposure drafts.

The PRI has previously provided views and recommendations on international sustainability reporting standard setting through [consultation responses](#) and [public statements](#), and has issued a [draft position paper](#) containing initial recommendations on the TRWG Prototypes.

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SCOPE AND STRUCTURE OF EXPOSURE DRAFTS

This section explains the type of information that final versions of the General Requirements and Climate Exposure Drafts (IFRS 'Sustainability Disclosure Standards') would aim to provide to primary users of general purpose financial reporting, these being existing and potential investors, lenders and other creditors. It then explains the exposure drafts' conception of materiality.

Finally, it sets out the structure of the exposure drafts – their alignment with TCFD recommendations and the nature of disclosures that would be covered under each exposure draft, including interactions between the two drafts. Subsequent sections summarise disclosures under each exposure draft.

Note several sections in the General Requirements Exposure Draft would also be applicable to reporting under the Climate Exposure Draft – this is implied but not explicitly stated. These include:

- the definition of sustainability-related financial information, outlining the type of information to be reported under exposure drafts – covered in the 'Scope of exposure drafts' section below; and
- the 'General features' section on how to report sustainability-related financial information, and specifications on materiality – covered in the 'Structure of exposure drafts' section below.

SCOPE OF EXPOSURE DRAFTS

SUSTAINABILITY INFORMATION COVERED

The General Requirements and Climate Exposure Drafts focus on the provision of information on a reporting entity's sustainability-related risks and opportunities to users, allowing them to assess the implications of these risks/opportunities on an entity's enterprise value.

This would include sustainability-related financial information as defined in the General Requirements Exposure Draft (also applicable to the Climate Exposure Draft), consisting of information about an entity's:

- governance of sustainability-related risks and opportunities, and strategy for addressing these [General Requirements Exposure Draft, 6-a];
- decisions that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements [General Requirements Exposure Draft, 6-b];
- reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them [General Requirements Exposure Draft, 6-c] – this is an addition to the TRWG General Requirements Prototype definition and allows for increased flexibility on the part of entities to disclose sustainability impacts they deem to be material; and
- the entity's development of knowledge-based assets [General Requirements Exposure Draft, 6-d]

MATERIALITY

As noted above, disclosures under these exposure drafts would focus on sustainability-related risks and opportunities that could affect an entity's enterprise value. Such risks/opportunities could arise from an entity's dependencies and impacts on resources, and relationships the entity maintains that may be positively or negatively affected by those impacts and dependencies [General Requirements Exposure Draft, page 5]. In short, sustainability-related impacts would need to be reported if they have (or could have in the future) a material effect on enterprise value.

Note that entities could be in compliance with an IFRS Sustainability Disclosure Standard even if they choose not to disclose against certain provisions. This would apply if they have deemed information

resulting from these provisions to be non-material [General Requirements Exposure Draft, 60], in that it could not reasonably be expected to influence primary users' assessments of their enterprise value [General Requirements Exposure Draft, 60], or if local laws or regulations prevent the entity from disclosing that information. **As such, this briefing note refers to 'suggested' disclosures under exposure drafts as opposed to disclosure 'requirements'.**

STRUCTURE OF EXPOSURE DRAFTS

TCFD ALIGNMENT

The General Requirements and Climate Exposure Drafts are both strongly aligned with TCFD recommendations, reflecting the four pillars: governance, strategy, risk management and metrics & targets.

All suggested disclosures on 'governance' and 'risk management' are identical across the exposure drafts, and most suggested disclosures on 'strategy' are identical. The only difference in these areas is that the General Requirements Exposure Draft refers to 'sustainability-related risks/opportunities' while the Climate Exposure Draft refers to 'climate-related risks/opportunities'. The main variations in suggested disclosures apply to resilience analysis (under the 'strategy' pillar), metrics and targets sections. These similarities and differences are outlined in further detail within the summary.

CONTENT OF EXPOSURE DRAFTS

The General Requirements Exposure Draft applies to reporting on all sustainability issues, particularly where a final IFRS Sustainability Disclosure Standard has not been released for a particular issue. Where a final disclosure standard has been published for a sustainability issue, reporting on risks/opportunities related to the issue would be expected to follow this issue-specific standard.

The General Requirements Exposure Draft also contains a 'General features' section specifying how to report sustainability-related financial information. This section would apply to reporting on all sustainability issues, including climate, and all future issue-specific IFRS Sustainability Disclosure Standards. The 'General features' section covers the following areas:

- Reporting entity (reporting boundaries) [General Requirements Exposure Draft, 37-41]
- Connected information (connectivity) [General Requirements Exposure Draft, 42-44]
- Fair presentation [General Requirements Exposure Draft, 45-49]
- Comparative information [General Requirements Exposure Draft, 63-65]
- Frequency of reporting [General Requirements Exposure Draft, 66-71]
- Location of information [General Requirements Exposure Draft, 72-78]
- Errors and sources of estimation and outcome uncertainty [General Requirements Exposure Draft, 79-90]
- Qualitative characteristics of useful sustainability-related financial information [General Requirements Exposure Draft, Appendix C]

The Climate Exposure Draft, in turn, contains climate-related suggested disclosures, as well as cross-sector and industry-based metrics. Future issue specific standards will contain respective issue-related disclosure suggestions.

GENERAL REQUIREMENTS EXPOSURE DRAFT

GOVERNANCE

Governance-related disclosures suggested under the General Requirements Exposure Draft are set out in [Figure 1](#). These capture the responsibilities of the body or individual responsible for overseeing sustainability-related risks and opportunities, and those of management in assessing/managing these.

Figure 1: Governance disclosures

| Body or individual responsible for oversight of sustainability-related risks/ opportunities [13a-f] |
|--|
| Identity of the body or individual within a body responsible for oversight of sustainability-related risks/opportunities |
| How these responsibilities are reflected in the entity's terms of reference, board mandates and other related policies |
| How appropriate skills and competencies are ensured |
| How and how often they are informed about sustainability-related risks/opportunities |
| How the body and its committees consider sustainability-related risks/opportunities when overseeing strategy, decisions on major transactions, and risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty |
| How the body and its committees oversee the setting of targets related to significant sustainability-related risks/opportunities, and monitor progress towards them |
| Role of management [13-g] |
| Description of management's role in assessing and managing sustainability-related risks/opportunities |
| Whether that role is delegated to a specific management-level position or committee and, if so, how oversight is exercised over that position or committee |

STRATEGY

SIGNIFICANT RISKS AND OPPORTUNITIES

The General Requirements Exposure Draft suggests that entities:

- Describe their significant sustainability-related risks/opportunities [16-a].
 - 'Significant' risks/opportunities refer to those companies' management deem important.
 - 'Material' risks/opportunities refer to those necessary for disclosure to users.
- Report the time horizons (short, medium or long-term) over which significant sustainability-related risks/opportunities could reasonably be expected to affect their business models, strategy, cash flows, access to finance and cost of capital [16-a].
- Explain how each time horizon is defined, and how these definitions reflect strategic planning horizons and capital allocation plans [16-b].
- Disclose the current and anticipated effects of significant sustainability-related risks / opportunities on their value chain [20-a], and where in the value chain these risks / opportunities are concentrated [20-b].

The General Requirements Exposure Draft also contains a list of guiding materials entities could consider when identifying material information to disclose about sustainability-related risks and opportunities, particularly when these risks/opportunities are not yet covered by an 'IFRS Sustainability Disclosure Standard' [page 6]. These include industry-based SASB standards, the ISSB's non-mandatory guidance (e.g. CDSB Framework application guidance), most recent materials from other standard-setting bodies and disclosures of comparable companies [51].

In addition, the General Requirements Exposure Draft's 'Reporting entity' section suggests entities report sustainability-related risks and opportunities related to their activities, interactions and relationships and use of resources along the value chain [40].

Examples of these are provided [40], including but not limited to potential risks/opportunities arising from:

- employment practices of an entity's suppliers or events that could disrupt its supply chain;
- assets an entity controls, such as a production facility that relies on scarce resources; and
- investments an entity controls, including investments in associates and joint ventures, such as financing a greenhouse gas-emitting activity through a joint venture.

Note that controlled assets and investments are exemplified as above, but not attributed set definitions within the Exposure Draft.

RESPONSE AND FINANCIAL EFFECTS

The General Requirements Exposure Draft suggests that entities report on the financial effects of significant sustainability-related risks/opportunities, including:

- how these risks/opportunities have affected their most recently reported financial position, financial performance and cash flows [22-a];
- information on those significant risks/opportunities that could be expected to affect carrying amounts of assets and liabilities within the next financial year [22-b]; and
- how financial position and financial performance are expected to change over time, given their strategy to address significant sustainability-related risks/opportunities [22c, d].

Furthermore, the General Requirements Exposure Draft suggests entities disclose how they are responding to significant sustainability-related risks/opportunities [21-a], progress against previously disclosed plans to do so [21-b], and trade-offs between sustainability-related risks/opportunities considered by the entity [21-c].

RESILIENCE ANALYSIS

The General Requirements Exposure Draft suggests entities report a qualitative and, when applicable, quantitative analysis of the resilience of their strategy and cash flows to significant sustainability-related risks, including how the analysis was undertaken and its time horizon [23]. The Exposure Draft notes that other IFRS Sustainability Disclosure Standards will specify the type of information an entity is suggested to disclose about its resilience to issue-specific sustainability-related risks, such as when scenario analysis will be used [24]. This can be seen in [suggested disclosures](#) on resilience analysis within the Climate Exposure Draft.

RISK MANAGEMENT

Suggested disclosures on risk management under the General Requirements Exposure Draft include:

- reporting on process(es) to identify sustainability-related risks [26-a];
- reporting on process(es) used to identify sustainability-related risks for risk management purposes, including how likelihood and effects of these risks are assessed, how they are

prioritised relative to other types of risks, and input parameters used – such as data sources, assumptions and scope of operations covered [26-b];

- processes to monitor and manage sustainability-related risks [26-d]; and
- how processes to identify, assess and management risks are integrated in the entities overall risk management process [26-e].

An addition to the TRWG General Requirements Prototype is the inclusion of equivalent suggested disclosures for sustainability-related opportunities [26c, f]. These are less granular on opportunity identification than on risk identification, as this process tends to be associated with strategy-setting and varies more across entities.

METRICS

The General Requirements Exposure Draft does not contain specific metrics for disclosure. It suggests entities disclose metrics used to manage and monitor sustainability-related risks/opportunities, and metrics used to measure performance including progress against relevant targets [30]. It also suggests entities disclose how metrics are defined, whether their measurement is validated by an external body and calculation methods [31].

TARGETS

The General Requirements Exposure Draft contains suggested parameters for disclosure on sustainability-related targets set by an entity. These are summarised in [Figure 3](#) below.

Figure 2: Disclosures on targets

| | |
|---|--|
| General Requirements Exposure Draft [32-34] | <ul style="list-style-type: none">■ Metric used to assess progress■ Period over which the target applies■ Base period from which progress is measured■ Any milestones or interim targets■ Performance against disclosed targets and an analysis of trends or significant changes in its performance■ Revisions to targets and explanations for those revisions■ Where applicable, explanations of changes to metrics used to set and monitor targets, and restated comparative figures unless it is impractical to do so |
|---|--|

CLIMATE EXPOSURE DRAFT

GOVERNANCE

Governance-related disclosures suggested under the Climate Exposure Draft are identical to those within the General Requirements Exposure Draft. These disclosures are set out in [Figure 3](#).

Figure 3: Climate Exposure Draft governance disclosures

| Body or individual responsible for oversight of climate-related risks/ opportunities [5a-f] |
|---|
| Identity of the body or individual within a body responsible for oversight of climate-related risks/opportunities |
| How these responsibilities are reflected in the entity's terms of reference, board mandates and other related policies |
| How appropriate skills and competencies are ensured |
| How and how often they are informed about climate-related risks/opportunities |
| How the body and its committees consider climate-related risks/opportunities when overseeing strategy, decisions on major transactions, and risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty |
| How the body and its committees oversee the setting of targets related to significant climate-related risks/opportunities, and monitor progress towards them |
| Role of management [GRED 13-g, CED 5-g] |
| Description of management's role in assessing and managing climate-related risks/opportunities |
| Whether that role is delegated to a specific management-level position or committee and, if so, how oversight is exercised over that position or committee |

STRATEGY

SIGNIFICANT RISKS AND OPPORTUNITIES

Suggested disclosures on significant climate-related risks and opportunities are identical to the equivalent suggestions under the General Requirements Exposure Draft. These are listed below.

- A description of the entity's significant climate-related risks/opportunities [9-a].
 - As under the General Requirements Exposure Draft, 'significant' risks/opportunities refer to those companies' management deem important. 'Material' risks/opportunities refer to those necessary for disclosure to users.
- Reporting on the time horizons (short, medium or long-term) over which significant climate-related risks/opportunities could reasonably be expected to affect their business models, strategy, cash flows, access to finance and cost of capital [9-a].
- An explanation of how each time horizon is defined, and how these definitions reflect strategic planning horizons and capital allocation plans [9-b].
- Reporting on current and anticipated effects of significant climate-related risks / opportunities on the entity's value chain [12-a], and where in the value chain these risks / opportunities are concentrated [20-b].

In addition, the Climate Exposure Draft suggests entities specify whether significant climate-related risks disclosed are physical or transition risks [CED 9-c].

RESPONSE AND FINANCIAL EFFECTS

The Climate Exposure Draft suggests that entities report on the financial effects of significant climate-related risks/opportunities. Here too, suggested disclosures are identical to equivalent suggestions under the General Requirements Exposure Draft. These disclosures include:

- how significant climate-related risks/opportunities have affected entities' most recently reported financial position, financial performance and cash flows [14-a];
- information on those significant climate-related risks/opportunities that could be expected to affect carrying amounts of assets and liabilities within the next financial year [14-b]; and
- how financial position and financial performance is expected to change over time, given their strategy to address significant climate-related risks/opportunities [14c, d].

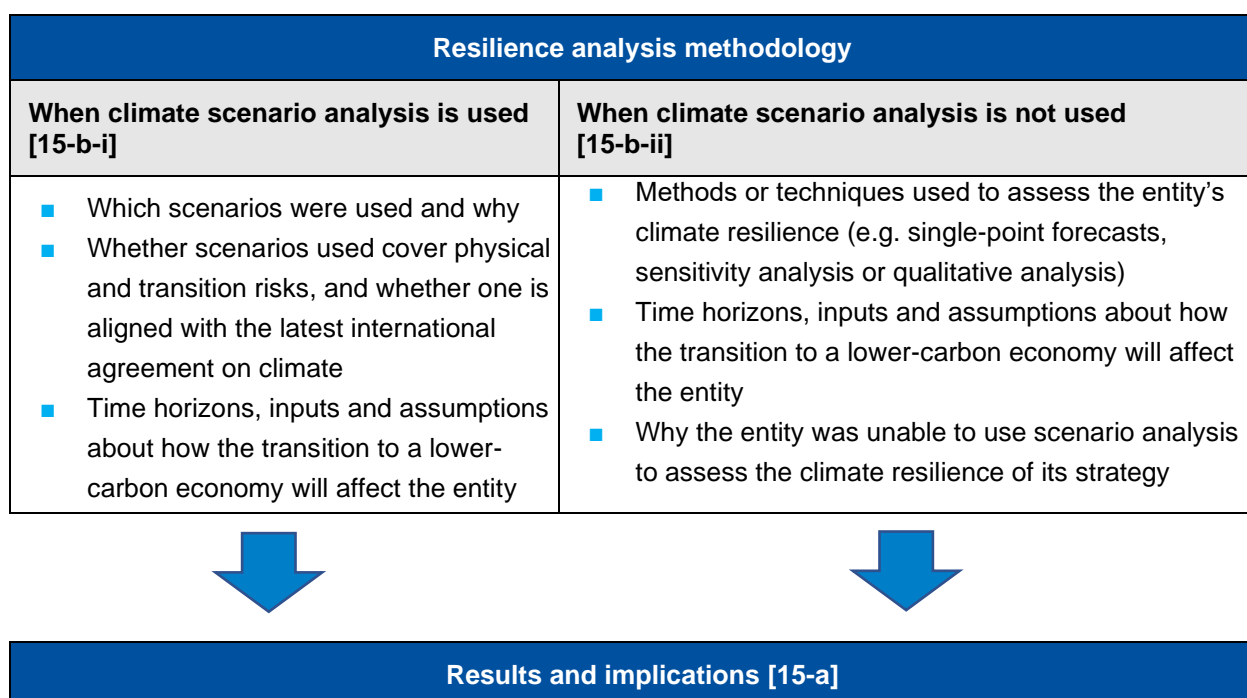
Similar to the General Requirements Exposure Draft, the Climate Exposure Draft suggests entities report on how they are responding to significant climate-related risks/opportunities [13-a] and progress against previously disclosed plans to do so [13-b]. In addition, the Climate Exposure Draft in particular suggests entities disclose how these plans will be resourced [13-a-ii] and information about climate-related targets underpinning these plans (see the [Targets](#) section).

RESILIENCE ANALYSIS

Suggested disclosures on climate-specific resilience analysis stemming from the Climate Exposure Draft are summarised in [Figure 4](#) below.

A notable addition compared to the TRWG Climate Prototype is the inclusion of suggested disclosures applicable when climate resilience analysis has been conducted but scenario analysis was not used. Where this is done, suggested disclosures on resilience analysis methodology would be similar and those on results and implications would be identical, but entities would be recommended to explain why scenario analysis was not used.

Figure 4: Climate Exposure Draft resilience analysis disclosures



- Implications of findings for the entity's strategy
- Significant areas of uncertainty considered in the analysis
- Availability of (and flexibility in) existing financial resources to address climate-related risks/opportunities
- Ability to redeploy, repurpose, upgrade or decommission existing assets
- Effect of current or planned investments in climate-related mitigation, adaptation or opportunities for climate resilience

RISK MANAGEMENT

Suggested disclosures on risk management under the Climate Exposure Draft are identical to those under the General Requirements Exposure Draft. These disclosures would include:

- reporting on process(es) to identify climate-related risks [17-a];
- reporting on process(es) used to identify climate-related risks for risk management purposes, including how likelihood and effects of these risks are assessed, how they are prioritised relative to other types of risks, and input parameters used – such as data sources, assumptions and scope of operations covered [17-b];
- processes to monitor and manage climate-related risks [17-d]; and
- how processes to identify, assess and management risks are integrated in the entities overall risk management process [17-e].

An addition to the TRWG Climate Prototype is the inclusion of equivalent suggested disclosures for climate-related opportunities [17c, f]. Similar to the General Requirements Exposure Draft, these disclosures would be less granular on opportunity identification than on risk identification.

METRICS

The Climate Exposure Draft suggests that entities disclose two categories of metrics where these are deemed material, which are outlined in the below sub-sections. These are:

- cross-industry metrics to be disclosed by entities in all industries; and
- industry-based metrics lifted from industry-based SASB standards.

CROSS-INDUSTRY METRICS

The Climate Exposure Draft suggests that entities disclose the following cross-industry metrics:

- Scope 1 and Scope 2 GHG emissions¹ [21-a-i] and emissions intensity [21-a-ii]
 - These would be disclosed separately for: (a) the consolidated accounting group (parent and subsidiaries); and (b) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in (a) [21-a-iii]
- Scope 3 GHG emissions [21-a-i], as well as:
 - Scope 3 categories included in measurement of Scope 3 emissions [21-a-iv]; and
 - whether this measure includes information provided by entities in its value chain, and if not then why not [21-a-iv]
- Amount and percentage of assets or business activities vulnerable to transition risks [21-b]
- Amount and percentage of assets or business activities vulnerable to physical risks [21-c]

¹ GHG emissions would need to be measured in accordance with the Greenhouse Gas Protocol Corporate Standard

- Amount and percentage of assets or business activities aligned with climate-related opportunities [21-d]
- Amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities [21-e]
- Internal carbon price, including price per mtCO₂e and how this is applied in decision-making, such as investment decisions, transfer pricing and scenario analysis [21-f]
- Percentage of executive management remuneration linked to climate-related considerations and how these considerations are factored into executive remuneration [21-g]

Furthermore, entities would be expected to consider whether certain suggested industry-based disclosures would meet suggested disclosures related to cross-industry metric categories. To illustrate this, examples are provided on how suggested cross-sector metrics could be complemented or fulfilled using industry-based metrics [B15].

INDUSTRY-BASED METRICS

Industry-based metrics have been informed by SASB Standards and include industry classifications, disclosure topics, metrics and technical protocols and activity metrics for each sector. These metrics cover ESG issues including but not limited to climate change.

The metrics contain a few additions relative to SASB Standards:

- some metrics previously referred to jurisdiction-specific regulations, and have since been ‘internationalised’; and
- metrics on ‘financed emissions’ have been added to the set of industry-based metrics for Asset Management & Custody Activities, Commercial Banks and Insurance, while metrics on ‘facilitated emissions’ have been added to those for Investment Banking & Brokerage.

TARGETS

The Climate Exposure Draft contains suggested parameters for disclosure on climate-related targets set by an entity, as summarised in [Figure 5](#) below. Note that the first four suggested disclosures listed are also included within the GRED.

Figure 5: Climate Exposure Draft disclosures on targets

| | |
|-----------------------------|--|
| Climate Exposure Draft [23] | <ul style="list-style-type: none"> ■ Metric used to assess progress ■ Period over which the target applies ■ Base period from which progress is measured ■ Any milestones or interim targets ■ Climate-related objective of the target (e.g. mitigation / adaptation) ■ Whether the target is an absolute or intensity target ■ How the target compares with those created in the latest international agreement on climate change ■ Whether it has been validated by a third party ■ Whether the target was derived using a sectoral decarbonisation approach ■ Under the Response and financial effects section, for climate-related targets underpinning plans to address significant climate-related risks/opportunities, suggested disclosures include information on the use of offsets [CED 13-b-iii] and |
|-----------------------------|--|

emissions reductions to be achieved within the entity's value chain [CED 13-b-ii].

ADDITIONAL RESOURCES

We will work with our signatories to engage and provide feedback on the exposure drafts. Our initiatives in this area can be found on our Driving Meaningful Data [webpage](#) on engaging the ISSB. We aim to provide signatories with draft responses to the ISSB's consultations for feedback by the end of May and welcome any reflections on the exposure drafts in advance.

On May 19th, the PRI is hosting a [webinar](#) with representatives of the ISSB to elaborate on the exposure drafts as well as a Q+A session. Registrations for this event are now open.

In addition to engaging with PRI materials, signatories may wish to review some of the resources ISSB has published to supplement their understanding of its exposure drafts, including:

- a high-level [summary](#) of exposure drafts;
- a [document](#) comparing Climate Exposure Draft with TCFD Recommendations;
- a [document](#) comparing the exposure drafts to previously published TRWG Prototypes;
- illustrative guidance on the [General Requirements](#) / [Climate](#) Exposure Drafts; and
- basis for conclusions documents on the [General Requirements](#) / [Climate](#) Exposure Drafts.