IFRS Sustainability

ISSB's proposed IFRS® Sustainability Disclosure Standards S2-Climate-related Disclosures

22 July 2022

pwc

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IFRS S2 –Climate-related Disclosures- Exposure Draft

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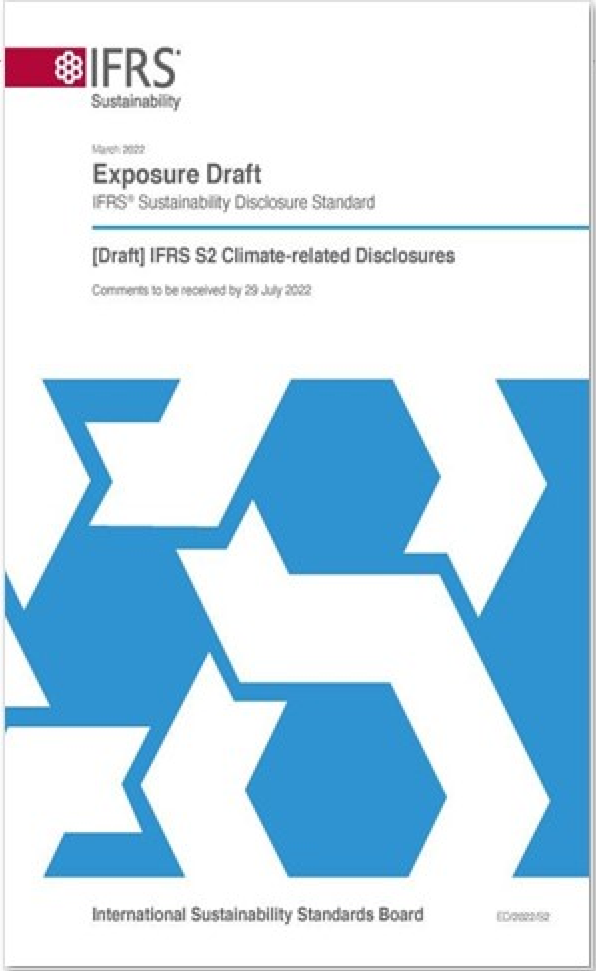
Climate-related Disclosures - Exposure Draft

Requirements for disclosure of material information about significant climate-related risks and opportunities

- Incorporates TCFD recommendations
- Includes SASB's climate-related industry-based requirements
- Requires disclosure of information about;
  - physical risks (eg flood risk)
  - transition risks (eg regulatory change)
  - climate-related opportunities (eg new technology)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March 2022

Exposure Draft

IFRS® Sustainability Disclosure Standard

[Draft] IFRS S2 Climate-related Disclosures

Comments to be received by 29 July 2022

International Sustainability Standards Board

Requires information that enables investors to...

- determine the effects of climate-related risks and opportunities on the company's **enterprise value**

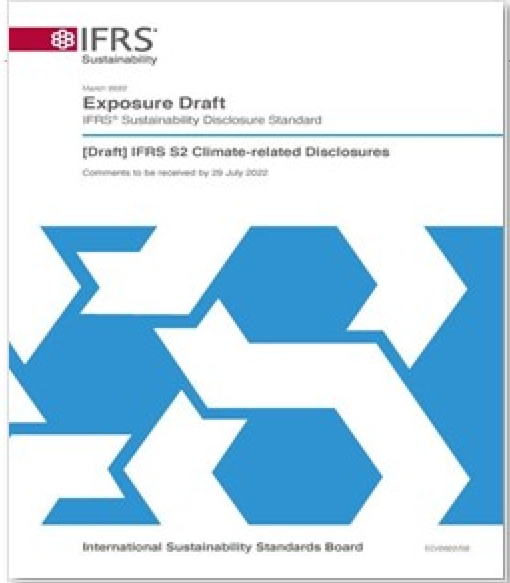
- understand the company's response to and strategy for managing its climate-related risks and opportunities

- evaluate the ability of the company to adapt its planning, business model and operations to climate-related risks and opportunities

Consistent with the General Requirements Exposure Draft
- focus is on significant climate-related risks and opportunities
- information provided must be material for assessment of enterprise value

Relation to TCFD recommendations and SASB Standards


Final Report
Recommendations of the Task Force on Climate-related Financial Disclosures
TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES
June 2017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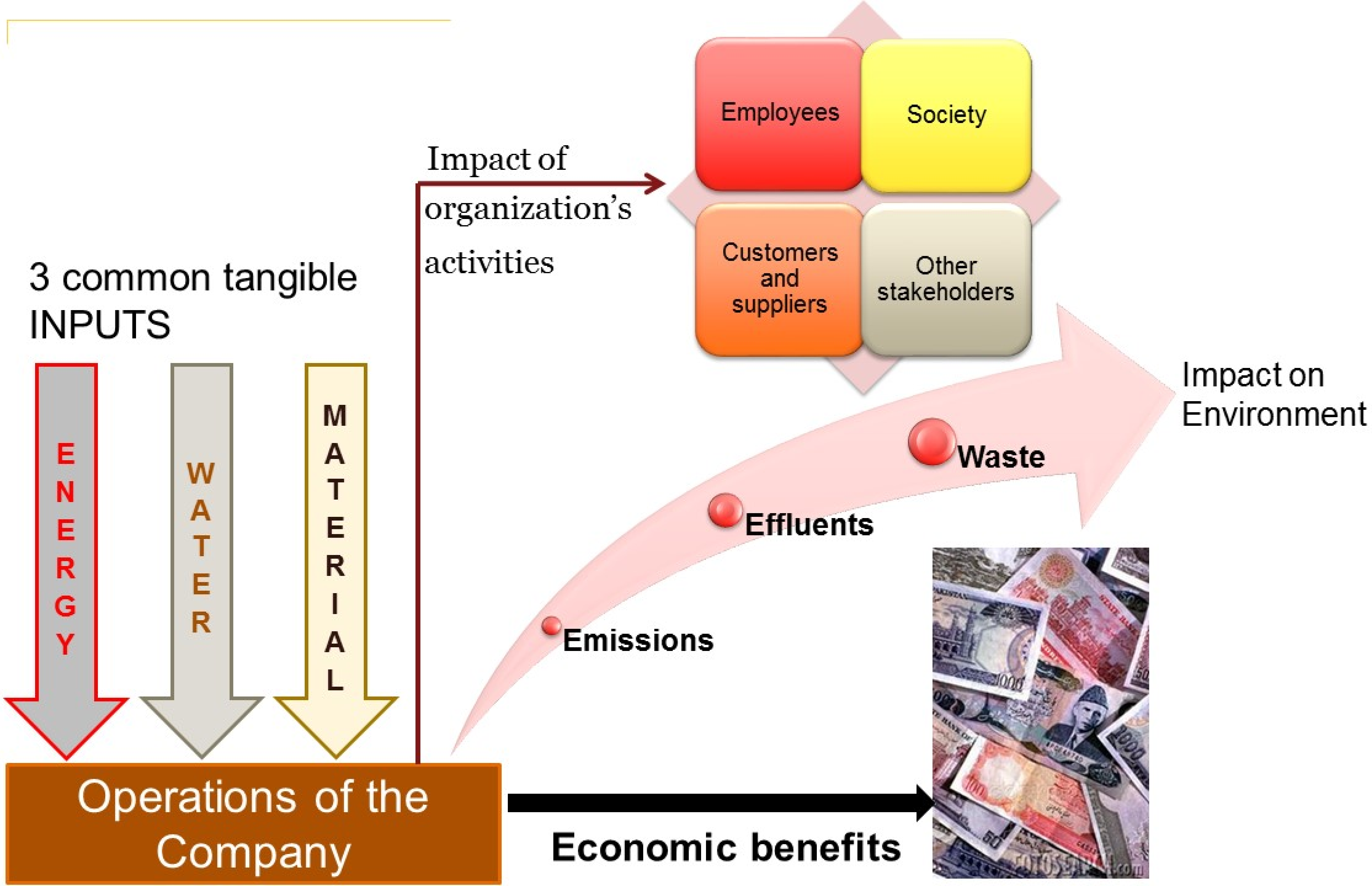
SASB
FINANCIALS SECTOR
COMMERCIAL BANKS
Sustainability Accounting Standard
October 2018
INDUSTRY STANDARD | VERSION 2018-10

Consistent with TCFD

- Governance
- Strategy
- Risk management
- Cross-industry metrics and targets
- Illustrative guidance

Builds on SASB Standards

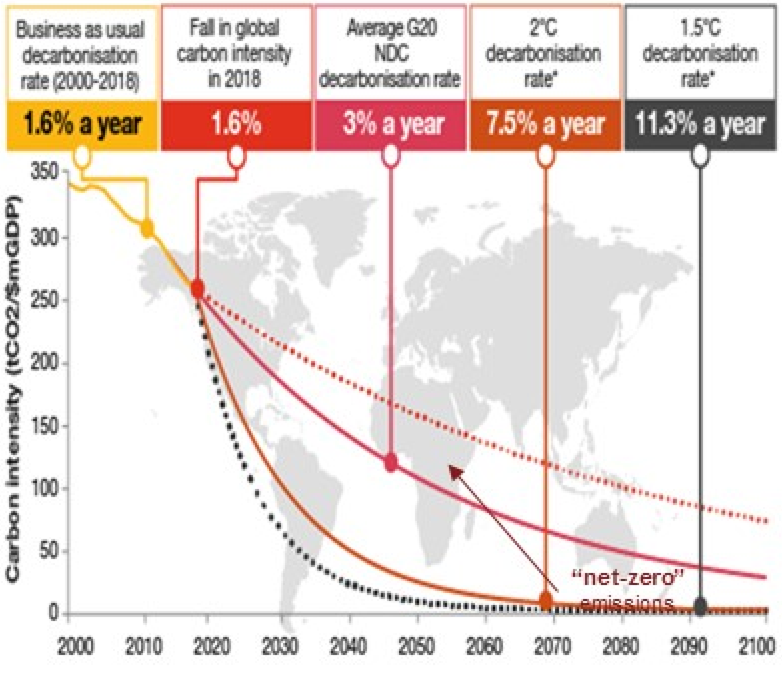
- Industry-based disclosures in Appendix B derived from SASB Standards
- Proposed changes to:
  - Internationalise metrics
  - Add financed emissions disclosures


Employees
Society
Customers and suppliers
Other stakeholders
Impact of organization's activities
3 common tangible INPUTS
ENERGY
WATER
MATERIAL
Impact on Environment
Waste
Effluents
Emissions
Operations of the Company
Economic benefits

Emissions-Net zero has emerged as the global narrative for action on climate change

Net zero - explained

- To avoid dangerous climate change **global warming must be limited to 1.5°C.** This means **reaching "net-zero"** emissions no later than 2050.
- Net zero is the point at which **GHG emissions are reduced as close to zero** as possible with remaining 'hard to reduce emissions' removed by carbon sinks, e.g. forests
- **Global rate of decarbonisation must rapidly accelerate** to achieve net zero by 2050**,** from 1.6% a year (now) to 11.3% a year:



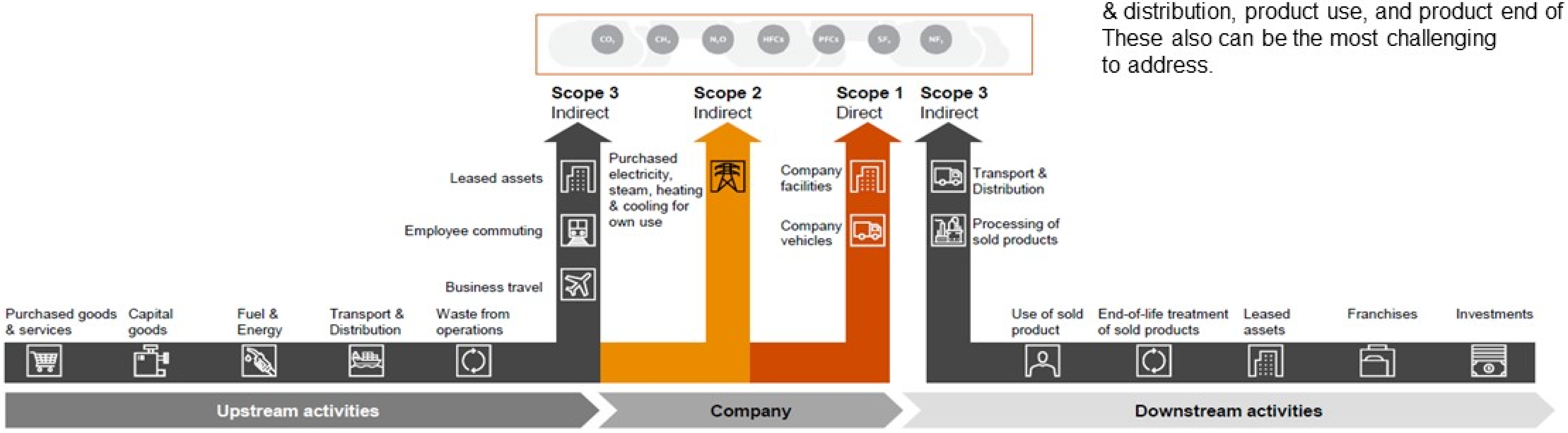
Countries and companies have set ambitions

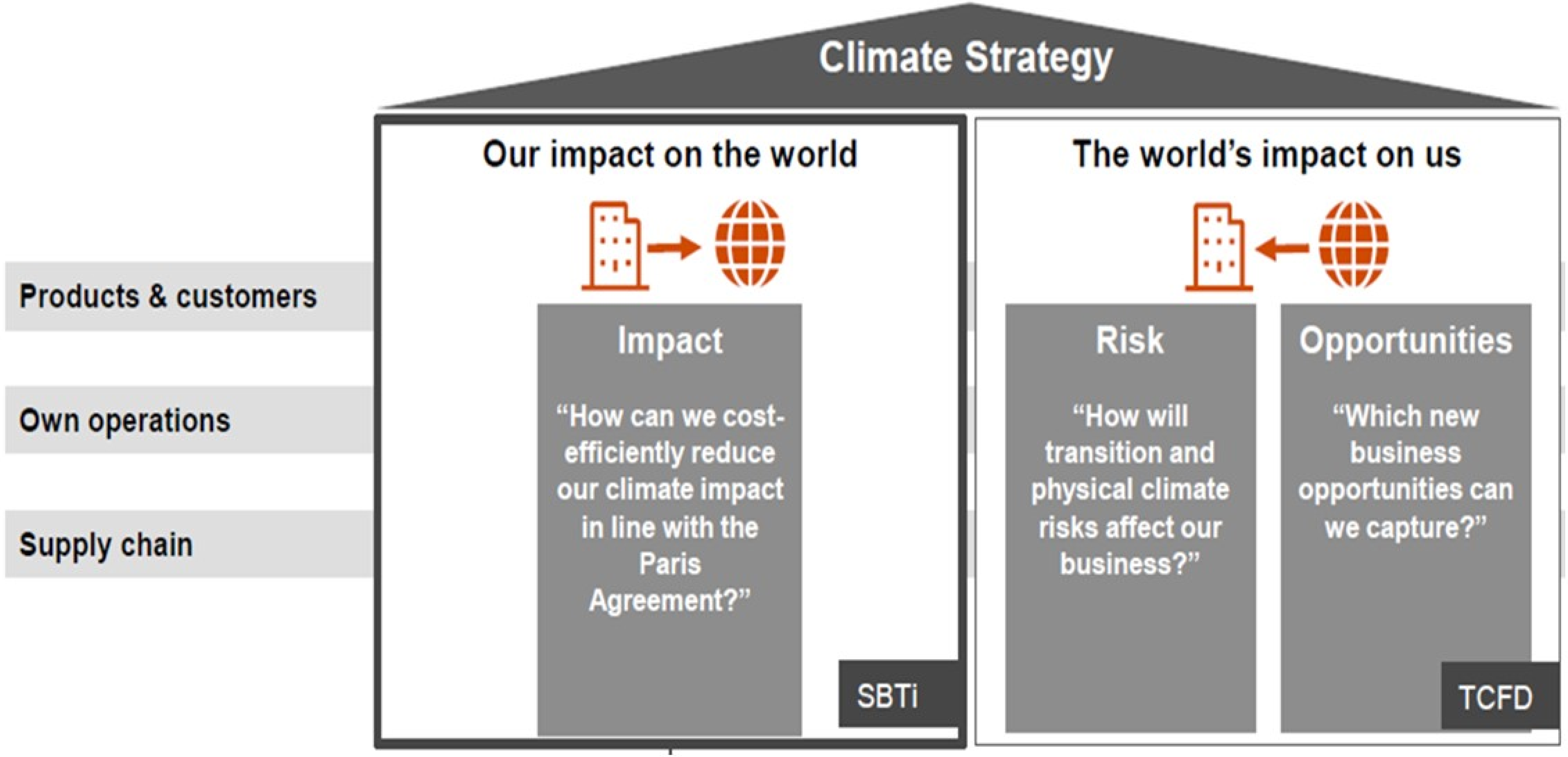
- **Action needs to happen over the next 2-3 business cycles** to have any chance of achieving net zero by 2050
- Around 120 countries have committed to "net zero", including the UK, the EU & other major economies
- **Over 200 global companies committed to achieve "net-zero"**, a movement that has more than doubled in size since it began in September 2019.
- Achieving these pledges will need **radical enterprise and supply chain transformation**, including identifying and scaling nascent technologies and disruptive business models.

Emissions
GHG Protocol – Scopes

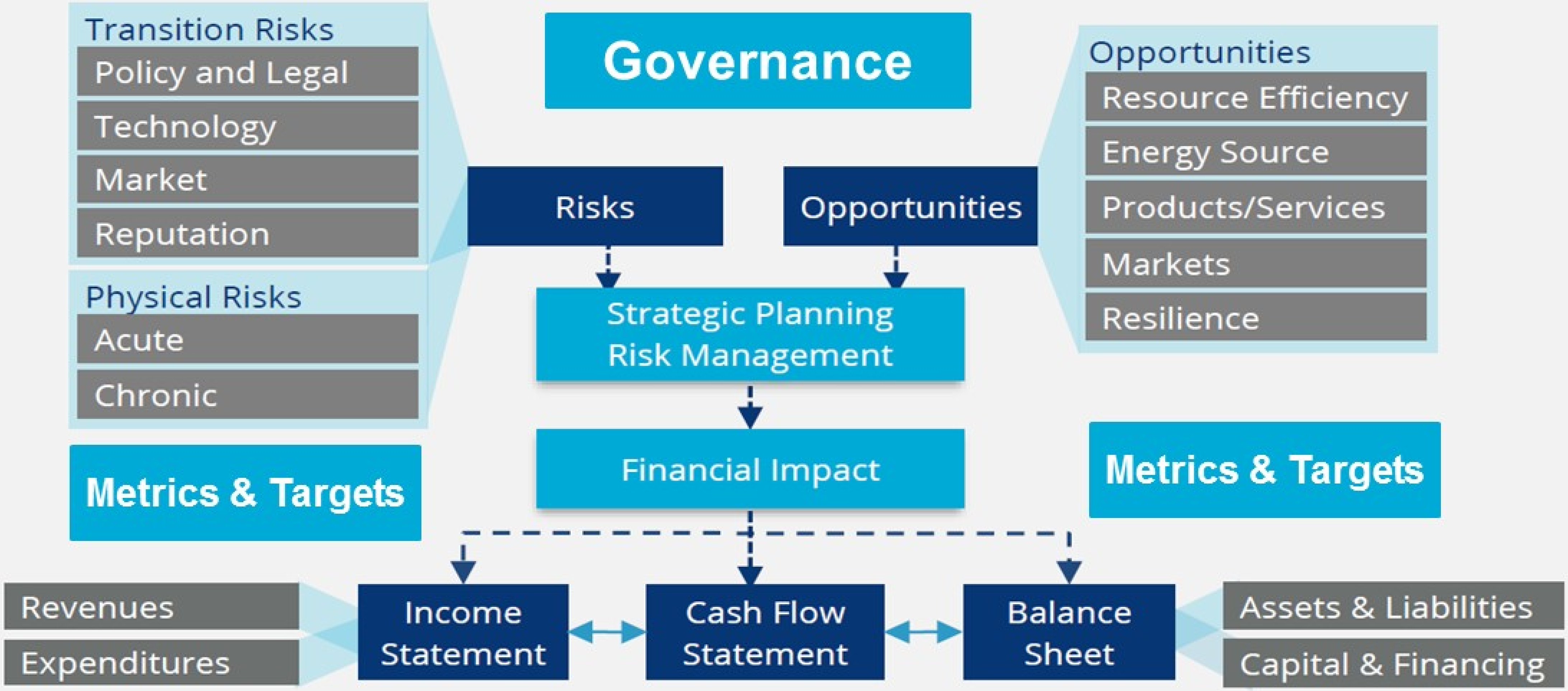
The GHG protocol differentiates between three scopes of emission:

Scope 1	Scope 2	Scope 3
All direct emissions from the activities of an organization or under their control. Including fuel combustion on site such as gas boilers, fleet vehicles, and air-conditioning leaks.	**Indirect emissions** from electricity purchased and used by the organization. Emissions are created during the production of the energy and eventually used by the organization.	**All other indirect emissions** from activities of an organization, occurring from sources that they do not own or control. These are usually the **greatest share of the carbon footprint**, covering emissions associated with procurement, transport & distribution, product use, and product end of life. These also can be the most challenging to address.




Climate Strategy
Products & customers
Own operations
Supply chain
Our impact on the world
Impact
"How can we cost-efficiently reduce our climate impact in line with the Paris Agreement?"
SBTi
The world's impact on us
Risk
"How will transition and physical climate risks affect our business?"
Opportunities
"Which new business opportunities can we capture?"
TCFD

Climate-Related Risks, Opportunities, and Financial Impact



Road Map towards Sustainability Reporting

IFRS Standards S1 & S2

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Theme of the standard

Four pillars

- Encompasses enterprise value
- Disclosures only
- Majorly descriptive
- Inquiring tone – How
- Process and control oriented
- Tell your story-No one size fits all
- Higher focus on governance and strategy
- Quantitative disclosures – allowed alternative qualitative disclosure with reasons
- Cross industry comparable metrics

Key features

Transition planning

Emissions targets and use of carbon offsets

Climate resilience

Resilience of business strategy in multiple scenarios

Scope 1-3 emissions

Requirement to disclose GHG emissions

Governance

Proposed
Climate Disclosure
Requirements

"The objective of climate-related financial disclosures on governance is to enable users of general-purpose financial reporting to understand **the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities**."

Governance

Entity shall disclose:

Proposed
Climate Disclosure Requirements

- Identity of the body
- Responsibilities reflected in TOR, Board mandate and other related policies
- Skills and competencies
- process and frequency of reporting to the body
- Climate risk part of Corporate strategy, decisions on major transactions and risk management policies
- Target setting, monitoring performance including remuneration linkage
- Management role

Strategy

Proposed Climate Disclosure Requirements

"The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand **an entity's strategy for addressing significant climate-related risks and opportunities**."

1	Climate-related risks and opportunities
2	Strategy and decision-making
3	Financial position, financial performance and cash flows
4	Climate Resilience-Scenario Analysis

Strategy – Climate-related risks and opportunities

Proposed
Climate Disclosure Requirements

How climate change could reasonably be expected to affect an entity's business model, strategy and cash flows, their access to finance and their cost of capital over the short, medium or long term.

Climate-related risks

Physical risks

- Acute – event driven (eg floods, cyclones, hurricanes)
- Chronic – longer-term shifts (eg sea level rise, choric heatwaves)

Transition risks

e.g., policy/legal/regulatory, technology, reputation, market

Climate-related opportunities

Use of industry topics and related industry metrics

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Strategy – Climate-related risks and opportunities

Proposed
Climate Disclosure Requirements

Current and anticipated effects of significant climate-related risks and opportunities on an entity's business model

Specifically, a description of:

- Current and anticipated effects of significant climate-related risks and opportunities on an **entity's value chain**
- **Where** in its value chain significant climate-related risks and opportunities are concentrated (eg geographic areas, infrastructure, distribution channels etc)

Strategy – Strategy and Decision Making

Proposed Climate Disclosure Requirements

The effects of significant climate-related risks and opportunities on its strategy and decision-making, including its ***transition plans***

How the entity plans to achieve any climate-related targets

- Current and anticipated changes to the entity's business model (to manage carbon-energy- and water-intensive operations and decommission assets, direct and indirect adaptation and mitigation)
- How these plans will be resourced

Information regarding climate-related targets for these plans

- The processes in place for review of the targets
- The amount of the entity's emission target to be achieved through emission reductions within the entity's value chain
- The intended use of **carbon offsets** in achieving emissions targets

Quantitative and qualitative information about the progress of plans disclosed in prior reporting periods

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Strategy – Strategy and Decision Making: Carbon Offsets

Proposed Climate Disclosure Requirements

Information regarding climate-related targets for these plans

- The intended use of **carbon offsets** in achieving emissions targets

In explaining the intended use of carbon offsets, the entity shall disclose:

- the **extent** to which the targets rely on the use of carbon offsets;
- whether the offsets will be subject to a **third-party offset verification or certification scheme**, and if so, which scheme, or schemes
- the **type** of carbon offset, including:
  - whether the offset will be **nature-based or based on technological** carbon removals; and
  - whether the amount intended to be achieved is through **carbon removal or emission avoidance**
- **any other significant factors** necessary for users to understand the credibility and integrity of offsets intended to be used by the entity

Strategy – Financial position, financial performance and cash flows

Proposed Climate Disclosure Requirements

The effects of significant climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term including how these risks are included in financial planning:

- How significant climate-related risks and opportunities have affected the entity's **most recently reported** financial position, financial performance and cash flows
- Risk and opportunities expected to result in material adjustment in assets and liabilities values reported in the **next year's** financial statements
- How the entity expects its **financial position to change over time,** given its strategy to address significant climate-related risks and opportunities including planned sources of funding
- How the entity expects its **financial performance to change over time,** given its strategy to address significant climate-related risks and opportunities
- **If the entity is *unable* to disclose quantitative information for the above, an explanation of why that is the case.**

*When providing quantitative information, an entity can disclose **single amounts or a range**

Strategy – Climate Resilience

Proposed
Climate Disclosure
Requirements

To disclose information to enable users to understand the resilience of the entity's strategy to climate-related changes, developments or uncertainties—taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties.

The entity shall use **climate-related scenario analysis** to assess its climate resilience unless it is *unable* to do so. If unable to do so, an entity shall explain why and use an alternative method or technique to assess its climate resilience.

An entity's analysis of climate resilience must enable users to understand:

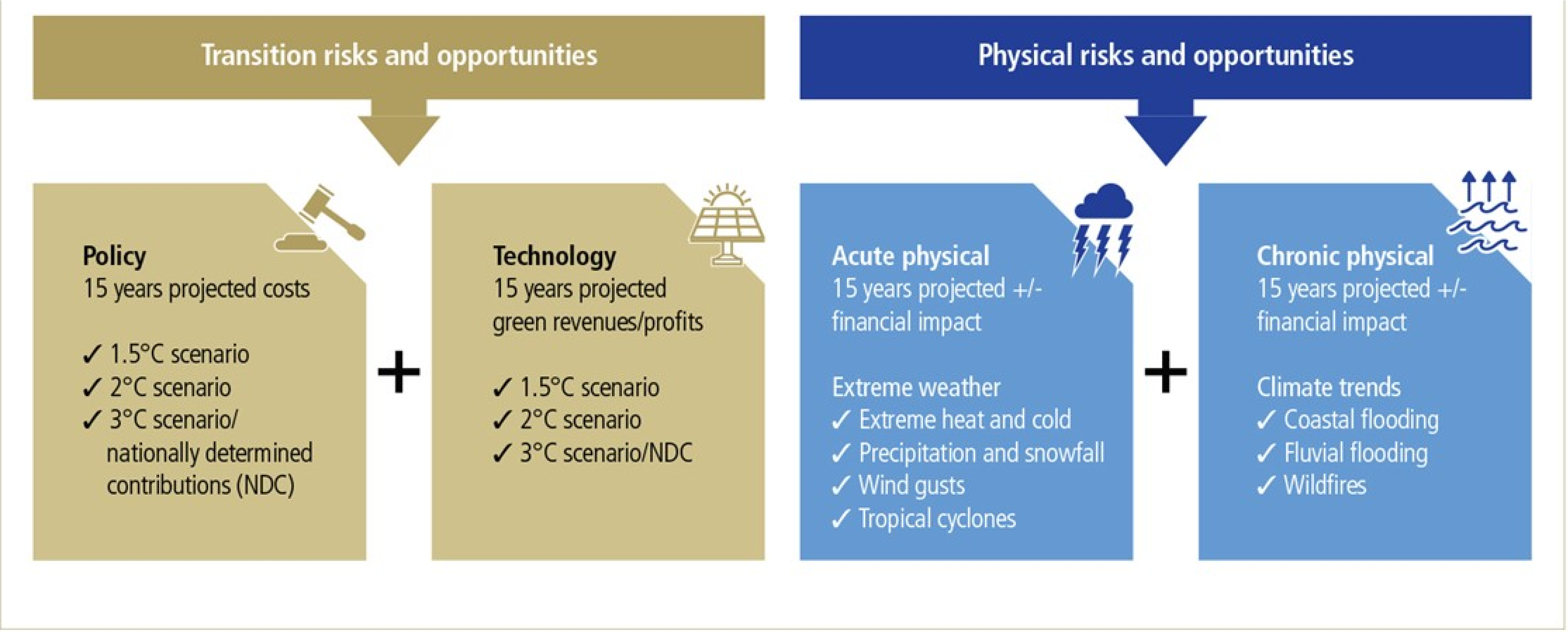
1. the implications, if any, for its strategy
2. the significant areas of uncertainty covered in the analysis
3. the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments in terms of availability and flexibility to redeploy capital, redeploy, upgrade or decommission assets and the effect of current or planned investments

Strategy – Climate resilience

Proposed
Climate Disclosure Requirements

Climate-related scenario analysis	Alternative method or technique
Which scenarios were used and their sources	Explanation of the methods or techniques used (e.g., sensitivity analysis)
Whether the analysis compared a diverse range of climate-related scenarios	Climate-related assumptions used including whether those include a range of hypothetical outcomes
Whether the scenarios are associated with transition risks or increased physical risks	
Whether the entity has used a scenario aligned with latest international agreement on climate change	
Why the chosen scenarios are relevant to the assessment	Why the chosen climate-related assumptions are relevant to assessing climate resilience
Time horizons used in the analysis	
Inputs used in the analysis (e.g., scope of operations covered)	
Assumptions about the way the transition to a lower-carbon economy will affect the entity	

Climate-Related Risk and Opportunities-An Illustration



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Risk management

Proposed
Climate Disclosure
Requirements

"The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reporting to **understand the process or processes, by which climate-related risks and opportunities are identified, assessed and managed.**"

Risk Management: Assessment of Climate-related Financial Risks Management

Proposed Climate Disclosure Requirements

When disclosing information about the **process or processes, by which climate-related risks and opportunities are identified, assessed and managed,** an entity shall disclose:

i. how it **assesses** the likelihood and effects associated with such **risks** (such as the qualitative factors, quantitative thresholds and other criteria used);
ii. how it **prioritises** climate-related risks relative to other types of risks, including its use of risk-assessment tools (for example, science-based risk-assessment tools);
iii. the **input parameters** it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and
iv. whether it has **changed** the processes used compared to the prior reporting period;

- the process, or processes, it uses to **identify, assess** and **prioritise** climate-related **opportunities**;
- the process, or processes, it uses to **monitor** and **manage** the climate related: (i) risks, including related policies; and (ii) opportunities, including related policies;
- the extent to which and how the climate-related **risk identification, assessment and management** process, or processes, are integrated into the entity's overall risk management process; and
- the extent to which and how the climate-related **opportunity identification, assessment and management** process, or processes, are integrated into the entity's overall management process.

Risk Management-Climate Related Risks and Opportunities

Transition risks

Policy & legal risk: Compliance costs; stranded assets; asset impairment; restrictions & limitations on carbon intensive assets; and asset depreciation.

Market & economic risk: Company or securities valuations; asset impairment; viability of certain business models; and credit rating implications.

Technology risk: Write-offs for investments in disrupted technologies; required investment in new technologies; and process change costs to accommodate new technologies.

Reputation risk: Damage to brand value or reputation resulting in lost revenue and additional expenditures e.g. corporate affairs, litigation etc.

Physical risks

Acute physical risk: Short lived extreme weather impacts, e.g. flood, wildfire, cyclones, heatwaves, drought

Chronic physical risk: Impacts due to slow insidious change, e.g. rising mean temperatures, long-term water stress

Opportunities

Resource efficiency: Use of more efficient modes of transport; efficient buildings; reduced water usage; use of recycling.

Energy source: Use of lower-emission sources of energy; use of supportive policy incentives; use of new technologies; participation in carbon market.

Products & services: Development of low emission goods and services; climate adaptation and risk solutions; R&D and innovation.

Market opportunity: Exploring new markets or types of assets in order to diversify activities.

Metrics and targets

"The objective of climate-related financial disclosures on metrics and targets is to enable users of general-purpose financial reporting to understand **how an entity measures, monitors and manages its significant climate-related risks and opportunities**. These disclosures shall enable users to understand how **the entity assesses its performance, including progress towards the targets it has set**"

Proposed Climate Disclosure Requirements

Cross-industry metric categories

- Greenhouse gas emissions
- Transition risks
- Physical risks
- Climate-related opportunities
- Capital deployment
- Internal carbon prices
- Remuneration

Industry-based requirements

In preparing these disclosures, an entity shall consider whether **industry-based metrics** associated with disclosure topics could be used in whole or part to meet the requirements

Metrics and targets – GHG Emissions

Greenhouse gas emissions
Absolute gross Scope 1-3 emissions* and emission intensity for each scope

Proposed Climate Disclosure Requirements

For **Scope 1-2** emissions disclosed

- Disclose emissions separately for:
  - the consolidated accounting group (the parent and its subsidiaries);
  - associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group
- The approach used to include emissions for the entities includes as associates, joint ventures, unconsolidated subsidiaries or affiliates (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard)
- The reason for the choice of approach and how that relates to the disclosure objective for metrics and targets

For **Scope 3** emissions disclosed

- Entity shall include upstream and downstream emissions
- The categories included to enable users to understand which Scope 3 emissions are included, or excluded
- When the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement
- If the entity excludes those GHG emissions, it shall state the reason for omitting them

* measured in accordance with the Greenhouse Gas Protocol Corporate Standard

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Metrics and targets

An entity shall disclose its climate-related **targets**.

For each climate-related target, an entity shall disclose:

(a) metrics used to assess progress towards reaching the target and achieving its strategic goals;

(b) the specific target the entity has set for addressing climate-related risks and opportunities;

(c) whether this target is an absolute target or an intensity target;

(d) the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives);

(e) how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party;

(f) whether the target was derived using a sectoral decarbonisation approach;

(g) the period over which the target applies;

(h) the base period from which progress is measured; and

(i) any milestones or interim targets

Proposed Climate Disclosure Requirements

Thank you

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