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July 29, 2022

Re: Exposure Draft IFRS S2 Climate-related Disclosures

The Responsible Investment Association (RIA) welcomes the opportunity to respond to the International Sustainability Standards Board (ISSB) invitation to comment on Exposure Draft IFRS S2 *Climate-related Disclosures*.

About the RIA

The RIA is a Canadian investment industry association composed of more than 160 institutional members and over 400 individual members who practice and support responsible investing (“RI”) – defined as investments that incorporate environmental, social and governance (“ESG”) issues. Our institutional members include asset managers and asset owners who collectively represent more than C\$40 trillion in assets under management. A list of our members is available online at www.riacanada.ca.

The RIA aims to drive the growth and development of RI in Canada’s retail and institutional markets, with a vision to align capital with sustainable and inclusive development as codified in the Paris Agreement and the UN Sustainable Development Goals. Among our priorities as an organization is the promotion of market integrity, to enhance trust and transparency in Canada’s RI industry. In general, we support the development and adoption of sustainability disclosure standards that improve the quality, consistency, reliability, and comparability of sustainability data that responsible investors require in their investment and stewardship activities.

Context of this Submission

To prepare our responses in this submission, the RIA has gathered information and insights through consultation with several of our institutional members as well as other industry stakeholders. It is important to note that our members utilize a broad range of investment philosophies, strategies, and processes across numerous asset classes. This submission does not necessarily reflect a consensus view among our members or the RIA Board of Directors, nor does it represent the views of any particular RIA member. We have not provided responses to every question. Rather, our objective with this submission is to amplify feedback we received on specific aspects of the Exposure Drafts and indicate where there was a spectrum of views discussed.

Responses

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?

The RIA supports the objective established for this Exposure Draft. Responsible investors desire access to high-quality, consistent, and comparable climate-related data from issuers to incorporate into their investment and stewardship decisions. A global baseline for reporting on climate-related risks and opportunities would allow responsible investors to better consider these risks and opportunities in their own decision-making.

We note two observations.

- First, the use of the term “significant” in this objective (and in other areas of the Exposure Draft) is confusing as it is not a defined term in the Exposure Draft. It is not clear the extent to which “significant” is similar to or different from the term “material”, which is a defined term in the Exposure Draft. Investors we spoke to generally preferred the term “material” be used. Therefore, we recommend that the usage of the term “significant” be reconsidered or clarified.
- Second, some investors we consulted expressed the view that the Exposure Draft’s focus on enterprise value is incomplete, as it does not meet their additional needs for understanding how a company’s climate-related risks and opportunities may be material to the environment and people. This concept of “double materiality” is present in the oncoming mandatory sustainability disclosures in Europe through the Corporate Sustainability Reporting Directive. Double materiality has become increasingly important to those investors who are concerned about incorporating the broader impact of sustainability (including climate) issues in their investment and stewardship decisions.

2. GOVERNANCE

a. 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?

The RIA supports the ISSB’s intended alignment of General Requirement and climate-related standards with the Taskforce for Climate-related Financial Disclosures (TCFD) framework. We note that since it was published in 2017, the international TCFD framework has become well-established among responsible investors to help them assess issuers’ climate-related risks and opportunities. The framework has continued to evolve and is supported by an increasing number of companies globally.

Many jurisdictions have proposed or have implemented mandatory TCFD-aligned disclosures - for example, the UK and New Zealand. We note that in Canada, the federal government has made a commitment to require financial institutions to publish climate disclosures starting in 2024, and the Office of the Superintendent of Financial Institutions (OSFI) recently published draft guidelines for mandatory climate-related financial disclosures aligned with the TCFD framework. Given the increasing global application of the TCFD framework, we are pleased to see this is also consistently reflected in the ISSB's Exposure Draft.

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 noted previously in Question 1, we recommend that the use of the term "significant" be clarified relative to the use of the term "material".

Some additional comments we heard from investors are as follows:

- **Materiality assessment:** We received feedback from some investors that they would like to see additional disclosures about the process a company follows in making its materiality assessments. Improved disclosures about how a company makes materiality assessments would provide greater insight for investors and help them better assess whether the process was robust enough to capture the necessary issues.
- **Time horizons:** The Exposure Draft requires issuers to define their short-, medium- and long-term horizons over which they assess their climate-related risks and opportunities. We note that this provides flexibility for investors to define their time horizons in the context of their business. However, some investors we spoke with noted they would like to see additional guidance from the ISSB on time horizon definitions, which would lead to greater consistency in how issuers are defining these time horizons and therefore improved comparability in climate disclosures across issuers.

5. TRANSITION PLANS AND CARBON OFFSETS

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

The RIA supports requiring an entity to disclose its transition plans. Investors we spoke to generally consider this information to be critical to understand how the entity will adjust their strategies and the actions they will take as they transition to a low-carbon economy. We are

increasingly seeing transition plans expressed in terms of achieving net-zero GHG emissions, or alignment to a global temperature goal (e.g., 1.5°C) by 2050 or sooner. Some investors would like to see greater transparency around target-setting and reporting on how the entity is progressing towards achieving those targets; in this case, disclosure about the entity's interim, science-based targets should also be required.

(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.

The RIA strongly recommends that the ISSB require entities to disclose their strategies related to achieving a “just transition” that does not leave workers or communities behind. We note that the Paris Agreement, in its preamble, states that the Parties to it take into account “the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities...”. The transition to a net-zero economy will involve a major transformation of sectors, industries, companies, their workforces, and the communities in which they operate. The social aspects of transition can affect a company's reputation and social licence to operate, which could in turn be material to enterprise value.

Responsible investors require appropriate disclosures to better consider these “just transition” risks and opportunities in their decision-making. To ensure a just transition away from GHG emissions, we encourage the ISSB to work in consultation and cooperation with Indigenous peoples by ensuring that Indigenous reporting is implemented simultaneously with GHG emission reporting. In addition, considerations such as transitional provisions for Indigenous businesses and businesses operating in geographically remote and underserved areas would help to enable a just transition.

7. CLIMATE RESILIENCE

b. The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

i. Do you agree with this proposal? Why or why not?

We believe it is important to note that investors we spoke with expressed differing views on whether all entities should be required to conduct climate-related scenario analysis.

On the one hand, some investors expressed concerns that climate-related scenario analysis is complex, still evolving, and requires specialized expertise that may be beyond the capacity of many companies. In this case, other alternative methods or techniques may be used to assess the climate resilience of a strategy. There is support for a comply or explain model; if climate-related scenario analysis is not being performed, then the company should be required to explain why.

Another viewpoint we heard is that the ISSB should mandate the use of climate-related scenario analysis in company reporting in accordance with the TCFD recommendations. This requirement would provide transparency, promote standardization, and improve comparability. In this case, investors were generally open to allowing some relief from this requirement over a short time period (e.g., 2-3 years) for issuers to build their capacity and expertise, in particular for SMEs. It would be up to the ISSB to define both which companies this would apply to and for how long this relief would be provided.

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?

The RIA notes there is general support for the disclosure of Scope 1 and Scope 2 emissions, and Scope 3 emissions where they are material to an entity's overall emissions profile. Where Scope 3 emissions are deemed not material, some investors suggested that a comply and explain approach to Scope 3 emissions disclosure would be helpful, to demonstrate the process the company followed to determine and assess materiality.

While the calculations for Scope 3 emissions are challenging, investors require this information in their assessment of transition risks. Generally, there is support for a phased-in approach for this requirement, to allow time for issuers (particularly SMEs) to build their capacity and expertise in their assessment and disclosure of their Scope 3 emissions.

11. INDUSTRY-BASED REQUIREMENTS

a. Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

Generally, the RIA supports the ISSB's alignment with the industry-based standards of the Sustainability Accounting Standards Board (SASB). The SASB Standards are well-established, recognized and referenced by many responsible investors. We further support the intention to "internationalize" the SASB Standards.

17. OTHER COMMENTS

a. Do you have any other comments on the proposals set out in the Exposure Draft?

The RIA strongly encourages the ISSB to consider requiring that reporting entities assess and disclose the impact of their climate-related strategies, risks and performance on Indigenous Peoples.

This recommendation was noted in the joint submission(s) from Canada's Auditing and Assurance Standards Oversight Council (AASOC) and Accounting Standards Oversight Council (AcSOC), in their response to Question 17:

“When finalizing IFRS S2, we encourage the ISSB to consider the following additional points:

*• **Reference to Indigenous Peoples’ rights.** For Indigenous Peoples, environmental and human health are deeply intertwined, with community cohesion, spiritual and cultural practices, language, traditions and food security all depending on a healthy natural environment. Accordingly, risks related to Indigenous rights are often inseparable from sustainability-related matters, including climate change. The Intergovernmental Panel on Climate Change has noted that Indigenous Peoples are key in forest conservation and climate stability. Further studies show that ancestral lands, and land under title by Indigenous Peoples, are the most biodiverse and best conserved on the planet.*

Given this context, an assessment of impacts on and perspectives of Indigenous Peoples should drive reporting entities to ensure free, prior and informed consent if there are infringements on Indigenous rights. If free, prior and informed consent is not achieved, project costs may escalate due to factors such as delays in obtaining permits or uncertainty about site access. Other risks may arise from the impact on the entity’s reputation with key sources of capital or insurers. Local Indigenous businesses may refuse to be part of a project’s supply chain, resulting in extra costs as supplies must be transported to the site from farther away. In some cases, a project may be unable to proceed at all.

We also feel it essential to underscore that sustainability considerations are forward-looking, and that Indigenous Peoples are often at the forefront of flagging negative impacts of corporate behaviour that need to be addressed. There are numerous examples where Indigenous Peoples’ traditional territory has been negatively impacted, for example, by contamination with hazardous waste, clearcutting to create agricultural land, accidental or intentional flooding, or atmospheric pollution. In addition to their considerable societal, cultural and environmental toll, these activities can negatively impact enterprise value through their effects on an entity’s reputation – and its cash flow, if legal proceedings result. Therefore, when preparing disclosures, entities should be required to assess the impacts on Indigenous Peoples, as many live in areas affected by industrial activity (including mining, agriculture and hydropower).

RECOMMENDATION: *We recommend that reporting entities be required to assess and disclose the impact of their climate-related strategies, risks and performance on Indigenous Peoples.”*

Conclusion

We appreciate the opportunity to respond to the ISSB Exposure Draft IFRS S2 *Climate-related Disclosures*. The RIA supports the ISSB's mission to deliver a high-quality global baseline of sustainability-related financial disclosures. We welcome further opportunities to collaborate with the IFRS and the ISSB and look forward to reviewing the next iteration of the Exposure Drafts.

Should you have any questions regarding our submission, please do not hesitate to contact Patricia Fletcher, Chief Executive Officer (patricia@riacanada.ca) and Mary Robinson, Director of Research & Membership (mary@riacanada.ca).

Yours sincerely,



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