

July 29, 2022

Emmanuel Faber, ISSB Chair  
Sue Lloyd, ISSB Vice Chair  
International Sustainability Standards Board  
IFRS Foundation

Submitted via email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

**Response to the ISSB's Exposure Draft IFRS S2 Climate-related Disclosures (Climate exposure draft)**

Dear Chair Faber and Vice-Chair Lloyd,

On behalf of EOS at Federated Hermes (EOS), we strongly support the initiative taken by the IFRS Foundation International Sustainability Standards Board (ISSB) to build on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and incorporate industry-based disclosure requirements derived from Sustainability Accounting Standards Board (SASB) standards.

EOS is a leading stewardship services provider. Our engagement activities enable long-term institutional investors to be more active owners of their assets, through dialogue with companies on environmental, social and governance issues. EOS represents \$1.64tn of assets under advice as of 31 March 2022. EOS is a stewardship services provider and does not carry out regulated activity.

The views expressed in this communication are those of EOS at Federated Hermes and do not necessarily represent the views of all clients. Our response to this consultation is explicitly supported by PNO Media (the Netherlands), London CIV (United Kingdom) and Pensionskassernes Administration (PKA) (Denmark).

We commend the ISSB on its pioneering work to develop the standards. We welcome the opportunity to support reporting advancements that drive reliable disclosure on climate. We have contributed our views to industry responses to the ISSB exposure draft and were pleased to support the SASB Standards Investor Advisory Group's consultation response<sup>1</sup>.

EOS responses on relevant consultation questions in the ISSB exposure draft<sup>2</sup> are provided in the annex. We look forward to the ISSB's finalisation of the climate-related disclosure standards and congratulate the board for its

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<sup>1</sup> [Final-grr-cd-comment-letter-ifrs.pdf](#)

<sup>2</sup> [Exposure Draft IFRS S2 Climate-related Disclosures](#)

leadership on this important area of reporting. We welcome discussion with the board on our responses at any time.

Yours faithfully,

*Jeanne Beatty*

Director - Engagement  
EOS at Federated Hermes

## **Annex: Consultation Response: Climate-related disclosures**

### **Question 1: Objective of the exposure draft (paragraphs 1-2)**

We agree with the stated objectives in paragraph 1-2 of the exposure draft which are based on the TCFD recommendations. We highlight the absence of the just transition and other relevant social issues in the TCFD recommendations. For example, the rights of Indigenous Peoples are relevant to climate change as Indigenous Peoples often reside in areas that are central to energy production and transmission. Potential risk for investors arises from the failure to obtain free, prior, and informed consent (FPIC). For this reason, we recommend the ISSB require disclosure on climate change impacts to communities and workers, and the just transition.

We agree the objectives focus on information that will enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities at the enterprise level.

### **Question 2: Governance (paragraphs 4-6)**

We agree in principle with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. In addition, we would like to see addressed:

- How the board considers and acts on the information it receives
- How the board evaluates its actions on climate risks and opportunities and deals with trade-offs or conflicts
- The skills and competencies of the board, governance committee and senior executives with respect to climate
- Reporting on controversies or other relevant events related to climate in the last reporting period
- More detailed disclosure requirements on remuneration

**Question 3: Identification of climate-related risks and opportunities (paragraph 9)**

The proposed requirements to identify and disclose a description of significant climate-related risks and opportunities is sufficiently clear. We encourage the ISSB to clearly define the term “significant” for the purpose of the standards.

Further clarification is needed as to whether the reported risks are mitigated or unmitigated. Investors would also be interested in the reporting of unmitigated risks as the CDP, for example, requires. We caution against the ISSB allowing entities to self-define planning horizons as this could lead to reporting inconsistencies and some companies opting for shorter-term (5 year) periods than investors would like to see on climate. It is important that the ISSB provides further guidance on how time horizons should be established and require an explanation where time horizons are mismatched with strategic planning and capital allocation.

The disclosure topics in Appendix B provide helpful guidance when identifying and describing risks and opportunities. We note not all these risks and opportunities are climate specific and suggest that additional clarification is provided to enable the user to understand, and or map, the relationship of broader risks and opportunities with climate-related risks and opportunities.

**Question 4: Concentrations of climate-related risks and opportunities in an entity’s value chain (paragraph 12)**

We agree broadly with the proposed disclosure requirements outlined in paragraph 12 which are in line with the TCFD recommendations. We encourage the ISSB to better distinguish between the business model and value chain in paragraph 12 as these are not the same thing and are defined separately in the exposure draft, for example, the paragraph refers to the business model but the subsequent requirements in paragraphs 12(a) and (b) refer to the impact on the value chain.

We are supportive of the concentration of climate-related risks and opportunities being disclosed as qualitative information that provides context for quantitative information that is required in paragraph 14.

**Question 5: Transition plans and carbon offsets (paragraph 13)**

We do not agree with the proposed disclosure requirements for transition plans. Areas where we consider further work is needed include:

- Clearer definition of what constitutes a “transition plan” and “climate-related targets” and how these align with the Paris Agreement. We encourage the ISSB to engage with UK’s Transition Plan Taskforce and the Glasgow Financial Alliance for Net Zero (GFANZ) work on financial transition plans <sup>3 4</sup>
- Whether a sectoral approach to transition plans is needed
- Provision for entities to disclose mitigation and adaptation activities not captured in transition plans
- Incorporation of additional disclosure requirements on transition plans such as interim milestones and quantitative KPIs used, key dependences, agreed near term actions to deliver on the underlying strategy, alignment of engagement activities, information on financing the transition and details on individuals and governance structures responsible for implementation

It is our view that entities should focus on actual emission reductions rather than relying on carbon offsets in their decarbonisation strategies and transitional plans. Entities must demonstrate that they are aligned with a 1.5°C pathway without the need for offsets given the finite planetary carbon budget. The proposed carbon offset requirements do not appear to be aligned with the

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<sup>3</sup> [Transition Plan Taskforce | Setting a robust standard \(transitiontaskforce.net\)](https://transitiontaskforce.net)

<sup>4</sup> [Glasgow Financial Alliance for Net Zero \(gfanzero.com\)](https://gfanzero.com)

Science Based Targets initiative (SBTi) net zero standard or EFRAG's April 2022 European Sustainability Reporting Standards (ESRS) E1 climate change.<sup>5 6</sup>

**Question 6: Current and anticipated effects (paragraph 14)**

We welcome the requirement for entities to disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless it is unable to do so. This paragraph should also require entities to provide an explanation as to why they were not able to disclose quantitative information.

Disclosure of the effects of climate-related risks and opportunities on the line items within the consolidated financial statements, as well as on the financial estimates and assumptions, is helpful and decision-useful information for investors. This requirement would help codify consideration of climate as a financial issue and promote greater integration in financial statements enabling investors to understand and explore the impact of climate risk at the entity level. The standard should also include a requirement to explain any differences between assumptions used for climate impacts and those in the financial statements.

We are supportive of the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium, and long term. Disclosure of the material impacts of climate risk to the business, over the short-, medium- and long-term horizons, empowers investors to make better informed decisions using a more complete perspective. Material climate issues do affect company financial performance both positively and negatively over different time horizons.

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<sup>5</sup> [The Net-Zero Standard - Science Based Targets](#)

<sup>6</sup> [Download \(efrag.org\)](https://efrag.org)

**Question 7: Climate resilience (paragraph 15)**

We agree with the proposed items listed in paragraph 15(a) as being decision useful to primary users regarding an entity's climate resilience strategy.

However, we note that some of these items may not be relevant for all sectors and the development of sector-specific requirements may be more appropriate.

It would be helpful to investors for all entities to be required to undertake a scenario analysis to assess the climate resilience of its strategy. Where an entity is not able to perform a scenario analysis, we agree it should be required to explain why and use an alternative method or technique such as those listed for example qualitative analysis, single-point forecasts, sensitivity analysis and stress tests.

**Question 8: Risk management (paragraphs 16-18)**

We agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess, and manage climate-related risks and opportunities.

**Question 9: Cross industry metric categories and greenhouse gas emissions (paragraphs 19-22)**

We welcome the seven proposed cross-industry metric categories in paragraph 21. We are supportive of the categorisation of cross-industry metrics as it leads to more timely, accurate, comprehensive, comparable, and standardised information disclosed by public and private companies. We also suggest the ISSB provide guidance on what information is material per sector, and require reporting across material categories of Scopes 1, 2, and 3 emissions. We are confident this disclosure will contribute to informed capital allocation and business decisions, resulting in improved value creation and risk mitigation for investors.

In addition, EOS believes that Scope 1, 2 and material Scope 3 disclosures should be disclosed on both absolute and intensity basis. These will help investors understand both the magnitude of company-specific exposures and compare performance across entities. We also support the consideration of energy use as a cross-industry metric given the close relationship with greenhouse gas emissions.

We support the use of the GHG Protocol as the minimum standard for calculating Scope 1, 2 and 3 greenhouse gas emissions as it is a widely recognised and accepted guide and in certain jurisdictions, entrenched in regulations. If the protocol is to be a prescribed requirement, we encourage the ISSB to work with the GHG Protocol setters to ensure the guidance continues to be updated and subject to a rigorous process in keeping with standard setting. Where entities deviate from the GHG Protocol, they should be required to explain the alternative approach taken, for example, compliance with national regulations.

**Question 10: Targets (paragraph 23)**

We welcome the proposed disclosure of “climate-related targets” however we urge the ISSB to further clarify the scope of targets that would fall under this general term. The scope of climate-related targets should be disclosed by entities, including any activities, geographies or emissions excluded which we expect will improve the comparability of disclosures on targets and facilitate their normalisation and input into investor decision-making.

We note overlap between this paragraph and paragraph 13(b) under strategy and decision making. We consider the proposed definition of “latest international agreement on climate change” to be sufficiently clear and evergreen to withstand the evolution of international agreements on climate change over time.



**Question 11: Industry-based requirements (paragraph 24)**

We are supportive of the approach to revise the SASB standards to improve international applicability without reducing the clarity of the guidance or substantively altering its meaning. We note that there are areas of duplication between the main content of the exposure draft and the industry-based requirements which need further review.

**Question 13: Verifiability and enforceability**

We welcome the ISSB's approach to make the proposed standard assurance-ready at the outset as described in paragraphs C21-24 of the exposure draft. We believe that climate-related financial information and greenhouse gas emissions information and data should be subject to the same standards as financial information, requiring assurance by an independent and qualified third party.

The terms verification and assurance have different meanings and approaches and some care should be taken with how these terms are depicted in the standards. In relation to the type and level of assurance, we would advocate for an audit firm to provide limited or reasonable assurance over climate and emissions data and information disclosed by the entity.

**Question 15: Digital reporting**

We are supportive of the digitisation of reporting as part of a digital ecosystem and believe the ISSB can play an important role in driving and facilitating discussions in this regard. We note that the UK has already established digital taxonomies for TCFD and gender pay gap reporting.<sup>7</sup>

**Question 16: Global baseline**

In principle, we are supportive of the ISSB standards providing a global baseline for climate-related reporting.

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<sup>7</sup> [Accountants I Accounting and Reporting Policy I XBRL FRC Taxonomies I Financial Reporting Council](#)