July 28, 2022

Emmanuel Faber, ISSB Chair
International Sustainability Standards Board
IFRS Foundation

Comment Letter on the ISSB Exposure Draft IFRS S2 Climate-related Disclosures

Dear Emmanuel Faber,

The World Benchmarking Alliance (WBA) appreciates the opportunity to provide comments on the International Sustainability Standards Board (ISSB) Exposure Draft on Climate-related Disclosures. As expressed in our previous comment letter, WBA supports the work of the IFRS Foundation to create international sustainability standards as a fundamental step towards reaching global alignment in disclosure standards on sustainability information. WBA also commends the willingness of the IFRS Trustees to move towards global convergence, expecting the coverage of impact on society and the planet.

Sustainability disclosures enable stakeholders to drive change

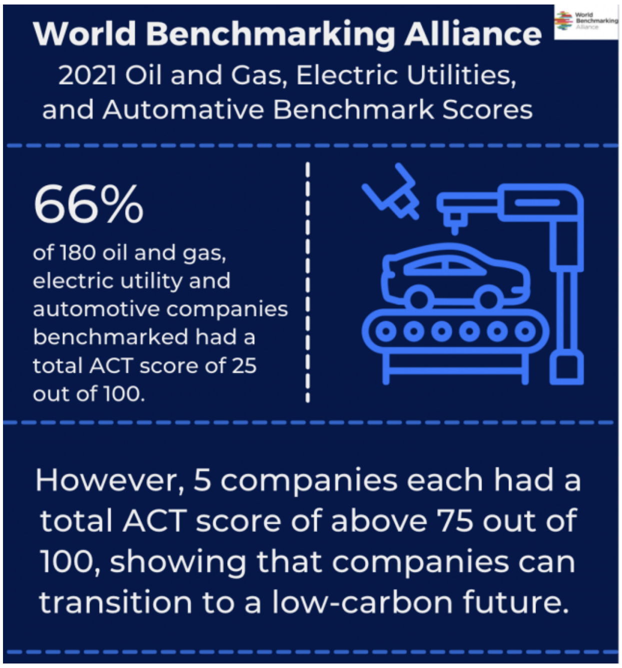
WBA is an independent, global organisation that assesses, measures, and ranks 2,000 of the world's most influential companies on their contributions to the UN Sustainable Development Goals (SDGs), Paris Agreement and other international norms for sustainable development through free, publicly available benchmarks. Comparable, reliable, and consistent sustainability reporting is critical for WBA's work, as it forms the basis of our assessments of the 2,000 companies, making WBA a user of sustainability disclosures.

Through benchmarking, sustainability disclosures enable different stakeholder groups, including investors, governments, civil society and businesses themselves, to understand and compare company performance and drive the necessary change in the private sector to achieve a more sustainable future and resilient global economy. As our benchmarks follow a two-year cycle, they provide an important feedback loop to policy makers across the globe on both the state of reporting and performance, which can inform policy reviews and measures to improve implementation by regulators. WBA stands ready to support the work of the ISSB in the most constructive way, providing this feedback loop and tailored insights based on our benchmarks, which are free and publicly available. We believe that such insights will also be of value for the forthcoming request for information on the forward-looking agenda priorities.

Decision-useful sustainability disclosure on climate is possible, but fragmentation needs to be addressed

While companies and investors across the globe have been taking action on climate change in recent years, individual company efforts on disclosure remain often fragmented and the exception rather than the rule. This response demonstrates the overall lack of reporting and the fragmentation of the 180 companies that

WBA has assessed to date in its Climate and Energy Benchmarks. It also shows that it is far from impossible for companies to get a good rating on this assessment: our Oil and Gas Benchmark shows that the best observed performance across each assessment indicator - achieved by a different company in a different geography in each case - would result in a total performance score of 16.8/20. However, the evidence of good practice is sporadic at both company and benchmark level. Out of the 100 oil and gas companies, just three have set comprehensive emissions reduction targets, five have robust climate change expertise at board level and less than a third are disclosing the proportion of capital expenditure they invest in low-carbon and mitigation technologies.



Shifting to a globally coherent reporting regime is critical, especially to create a level playing field for all companies, and to provide decision-useful information to all stakeholders. The need for this shift has been echoed by IOSCO[1], the G20[2], G7[3] and the United Nations[4] respectively. To achieve such a regime and facilitate global alignment, it is of utmost importance that the ISSB continues to coordinate its work with EFRAG, the SEC and other jurisdictional bodies. WBA warmly welcomes the cooperation with the Global Reporting Initiative and incorporation of the Climate Disclosure Standards Board and Value Reporting Foundation, as this will also help facilitate coherence and comparability for all users of sustainability information. All three organisations have been Allies to WBA's 320+ strong multistakeholder Alliance.

Decision-useful disclosures for investors and other stakeholders are increasingly aligned

While information needs from different stakeholders may vary, WBA advocates for **consistent, comparable disclosure frameworks that cater to all users of sustainability information**, as these information needs are becoming increasingly aligned.

Companies do not work in isolation but are part of a broader ecosystem of societal actors. Their sustainability performance is influenced by different stakeholders, including investors, but also civil society, employees, communities, regulatory bodies, etc. These stakeholders need to be equipped with insights on company performance, such as those provided by our benchmarks, but also empowered to engage meaningfully with

[1] https://www.iosco.org/news/pdf/IOSCONEWS608.pdf

[2] https://www.consilium.europa.eu/media/52730/g20-leaders-declaration-final.pdf

[3] https://www.bundesfinanzministerium.de/Content/DE/Downloads/Internationales-Finanzmarkt/G7/g7-meeting-bonn-koenigswinter-communique-en.pdf?__blob=publicationFile&v=11

[4] https://www.un.org/development/desa/financing/sites/www.un.org.development.desa.financing/files/2022-05/E-FFDF-2022-L1.pdf

companies and hold them to account on their long term impacts on people and planet, and a resilient economy. Examples of investors asking for data on sustainability outcomes include the Net Zero Asset Managers Initiative, with 236 asset managers representing $57.5 trillion now having set net zero targets, and the Investor Alliance for Human Rights, which issued a letter signed by 176 investors, representing USD 4.5 trillion, calling for companies to institute human rights due diligence based on the results of the 2019 WBA Corporate Human Rights Benchmark. In addition, as part of a WBA multi-stakeholder Collective Impact Coalition, investors sent a letter to 100 oil and gas companies urging them act on creating a just low-carbon transition, and to identify, prepare for and mitigate the social impacts of their low-carbon strategies.[5]

By separating the interests of investors, interpreted as enterprise value relevant information, and the interests other stakeholders in reporting requirements, we risk that disclosure requirements for companies still end up fragmented, while information needs from different stakeholders are becoming increasingly aligned, needing information on entities' impacts. WBA recommends that the ISSB standards takes steps to clearly define disclosure requirements on the environmental and social impacts of companies, as well as company plans and progress to address such impacts.

Thematic standards should enable a holistic approach to sustainability, including social aspects

While we understand the decision to take a climate-first approach, WBA stresses that this choice should not in any way result in a siloed approach to sustainability topics. For example, without respecting and ensuring a low carbon transition that takes into account workforce and social aspects, transition plans of companies are likely to be unsuccessful, as was highlighted in our 2021 Just Transition Assessment of 180 high-emitting companies.[6] That is why we advocate for the inclusion of just transition elements in the climate draft already, in the form of meaningful reporting requirements and signposting throughout.

Our contributions to this consultation highlight important areas of improvement that we believe would improve the effectiveness of the Exposure Draft in addressing the information needs of investors and other relevant stakeholders. These contributions are based on the Assessing Low-Carbon Transition (ACT) methodologies, and the WBA Climate and Energy Benchmarks, which use these methodologies to assess 450 of the world's most influential companies in high-emitting sectors like automotive, electric utilities and oil and gas.

[5] www.worldbenchmarkingalliance.org/news/investors-write-to-100-oil-and-gas-companies-urging-them-to-put-people-at-the-heart-of-decarbonisation-plans

[6] https://www.worldbenchmarkingalliance.org/research/2021-just-transition-assessment/

Thank you for the opportunity to provide comments and we look forward to continuing the dialogue and contributing to this critical effort.

Yours faithfully

Pauliina Murphy
Engagement Director
World Benchmarking Alliance

Annex 1 - Consultation Questions and WBA Responses

Question 5 – Transition plans and carbon offsets

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

WBA strongly supports the mandatory disclosure of a company's transition plan, including meaningful metrics and targets. The Exposure Draft includes important disclosure requirements on the impact of climate-related risks on the company's strategy and transition plans, including information on many of the elements of a low carbon transition plan considered under the ACT methodology, such as impacts of the transition plan on the current business, the plan's time horizon, targets or commitments contained by the plan, quantitative measures of success for the plan, financial projections included within the plan and the carbon price used in the plan.

Standardized disclosure of detailed, consistent, quantitative and qualitative information on transition plans is essential to provide comparable and decision-useful information, and a level playing field for companies, investors and other stakeholders alike. WBA's Climate and Energy Benchmark data shows that disclosure on transition plans is highly fragmented globally, resulting in an un-level playing field.

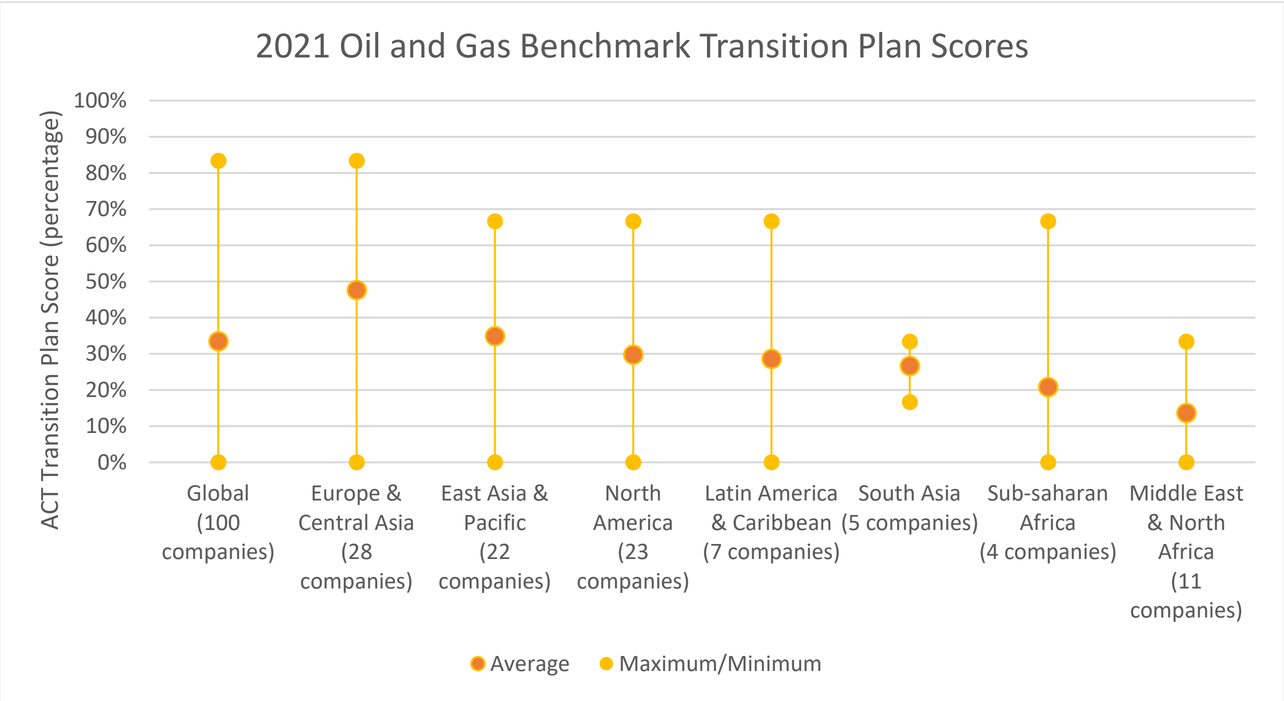


Figure 1

Figure 1 shows data from WBA's 2021 Oil and Gas Benchmark of the 100 most influential oil and gas companies, which included an indicator evaluating their low-carbon transition plans. This indicator specifically looks at impacts of the transition plan on the current business, targets in the plan and quantitative measures of success for the plan, which are also included in the exposure draft. While the majority of companies (80%) scored 50% or below on the indicator, company scores on transition plans also varied significantly, both globally and per region. That being said, high scoring companies (with 66% or higher) on transition plans were found in 5 of the 7 regions covered, demonstrating that the enabling conditions for disclosure on transition plans by companies are not region-specific. **The high level of variance in scores evidences the need for improved consistency and detail of disclosure globally, so that all companies have a level playing field for disclosure and investors and other stakeholders can access consistent and comparable disclosures globally.**

While the disclosure requirements as they are now provide useful information on many data points, they do not encompass all of the information needed to assess a company's low carbon transition plan (see question 5b).

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.

WBA supports the requirement for the comparison of company targets with the latest international agreement on climate change. To maximize clarity and usefulness of the transition plan disclosures, a specific disclosure requirement on plans to reduce emissions, ideally in line with a 1.5 °C pathway, is needed, aligned with the latest international agreement on climate change. Such disclosure would allow for both a company's targets and its transition plans to be evaluated in their alignment with global policy goals. In specifying how the company's transition plan will align with a 1.5 °C pathway, the information disclosed will become more decision-useful for investors and other stakeholders.

Additionally, within the transition plan disclosure requirements, more specific requirements on emissions reduction plans, direct mitigation efforts and decarbonization levers, including the adoption of low-carbon technologies, would ensure greater clarity and consistency of company disclosure. More specific disclosures on emissions reduction plans will provide investors and other stakeholders with substantial and decision-useful information on company preparedness for the low carbon transition and the impacts of their plans to achieve emissions reduction targets. With such specificity, the transition plan requirements will also become more meaningful overall.

c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

WBA recognises that disclosure on the use of carbon offsets is imperative for the clarity of disclosure on plans and progress towards emission reduction targets. The Assessing low-Carbon Transition (ACT) methodology used in WBA's Climate and Energy Benchmarks does not consider carbon offsetting as a quantitative emissions reduction lever, as the emissions accounting methods considered under the ACT methodology exclude offsetting activities.[7] WBA stresses the need for clarity within the Exposure Draft on the exclusion of carbon offsets from GHG emissions accounting. For such clarity, WBA advocates for the inclusion of a requirement that preparers should quantify any use of offsets from Scope 1, Scope 2 and Scope 3 emissions disclosures. The disclosure of emissions data with full clarity on the use of offsets is essential for such data to be decision-useful for investors and other stakeholders, and essential for such data to be usable for benchmarking companies on their progress towards a 1.5 °C goal.

Question 7 – Climate resilience

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

See question 5.

(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?

(ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

WBA supports a requirement for climate-related scenario analysis disclosure by all reporting entities. The availability of alternative options for assessing climate resilience may disincentivise companies to take steps to conduct scenario analyses, which is essential for decision-useful disclosure on low carbon transition. Furthermore, optional quantitative disclosures create an un-level playing field, where some companies are assessed on their scenario analysis while others are not, and comparable information is not made available by all companies (see figure 2).

[7] According to international standards such as ISO 14064-1, ISO 14067, European Product Environmental Footprint and Organization Environmental Footprint, WRI/WBCSD's GHG Protocol, carbon offsets shall not be included in GHG quantification studies, but may be reported separately as "Additional Environmental Information". Said differently, carbon credits shall not be subtracted from the GHG inventory to minimize the amount of GHG emissions. Therefore, carbon offsets are excluded from the calculation of quantitative ACT indicators related to targets, material investments and sold product performance. For more information, please see the ACT Frequently Asked Questions (ACT methodologies principles - Question #4).

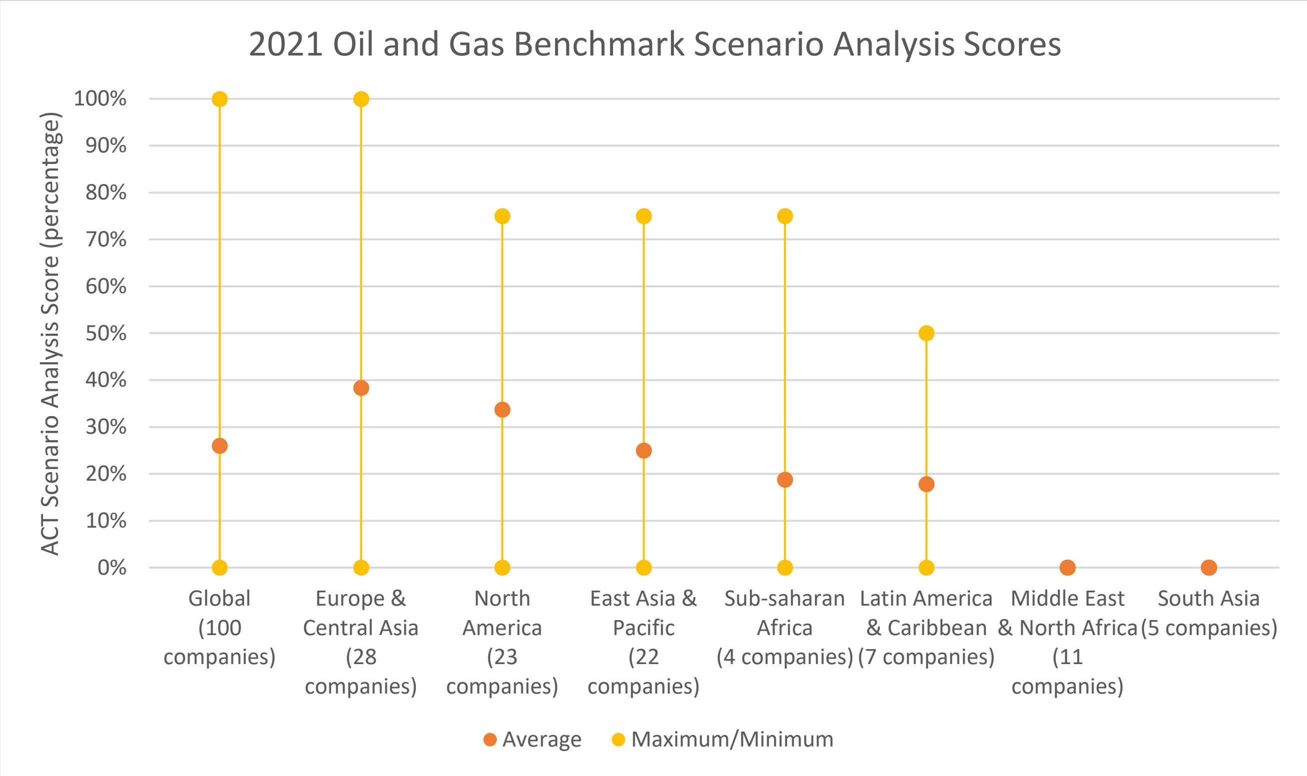


Figure 2

In WBA's 2021 Oil and Gas Benchmark, significant variation was seen in the performance of the 100 oil and gas companies assessed on their scenario analysis. Fifty-one of the 100 companies scored 0 on the indicator, indicating limited disclosure on scenario analysis across the majority of the oil and gas companies assessed. That being said, high performers are found across various regions. Furthermore, only three companies scored 100% on the indicator. As nearly all companies assessed could improve their performance on scenario analysis, there is a strong need for greater and more consistent disclosure on this topic. To increase disclosure and ensure comparability of disclosures, it is important that scenario analysis be conducted consistently across reporting entities.

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

Yes, WBA agrees. The disclosure of which scenarios were used in the analysis, the time horizons used, the inputs used, and assumptions made regarding policy, macroeconomic trends, energy usage and technology, are all elements that correspond with data required in order to assess scenario analysis under the ACT methodology. As such, WBA supports the standardised disclosure of these elements, to enable the assessment of scenario analysis against established standards and to enable the comparability of scenario analysis disclosure. The detailed and specific disclosure requirements will provide investors and other stakeholders with substantial data to understand a company's resilience under climate change scenarios.

Furthermore, WBA is supportive of the scenario analysis disclosure requirements including information on whether the entity has used a scenario aligned with the latest international agreement on climate change. WBA is supportive of scenario analysis disclosure to specifically include at least 1.5°C and 2°C scenario models. For the WBA 2021 Oil and Gas, Electric Utilities, and Automotive Benchmark ACT assessments, the IEA's Net Zero Emissions by 2050 Scenario was used to build the companies' 1.5°C pathways and carbon budgets against which they were assessed. The inclusion of 1.5°C and 2°C scenarios in company scenario analysis disclosures would help enable the assessment of company alignment with a low carbon pathway. Moreover, the inclusion of these scenarios would allow investors to evaluate the future position of a company within scenarios that align with global policy goals.

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

See question 7b.

Question 9—Cross-industry metric categories and greenhouse gas emissions

(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?

WBA strongly agrees with the inclusion of a disclosure requirement for Scope 3 emissions for all preparers in all cases. Scope 3 emissions disclosure is essential for investors and other stakeholders to understand a company's contribution to global emissions throughout its value chain, and hence always relevant for enterprise value. Scope 3 disclosures are a necessary data point within the Assessing low-Carbon Transition (ACT) methodology, used by WBA's Climate and Energy Benchmark to assess a company's progress towards the Paris Agreement goal of limiting global warming to 1.5°C. However, accurate and complete Scope 3 emissions data disclosure is currently lacking. Without emissions disclosure on Scope 3 emissions, disclosures will provide insufficient information for investors and other stakeholders alike.

Question 10 – Targets

a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?

WBA supports specific disclosures regarding climate-related targets. In particular, elements of disclosure regarding whether the target is an absolute or intensity target, the timeframe of the target, the base period from which progress is measured and interim targets would provide information relevant to the Assessing low-Carbon Transition (ACT) indicators on emission reduction targets, used by WBA's Climate and Energy Benchmark. Furthermore, WBA supports the inclusion of a disclosure requirement on how the target compares with those created in the latest international agreement on climate change. As the ACT methodology assesses a company's progress towards the Paris Agreement goal of limiting global warming to 1.5°C, a comparison of targets against a 1.5°C goal is important information for the ACT assessment, as well as salient information for investors and other stakeholders.

WBA appreciates that the Exposure Draft covers many types of climate-related targets, including adaptation targets. That being said, within disclosure on mitigation, effective disclosure must include specific information on GHG emission reduction targets. To offer maximum clarity for preparers and consistency of disclosures for data users, WBA suggests that in addition to overall disclosure requirements for climate-related targets, the Climate-Related Disclosures standard defines specific disclosure requirements for GHG emission reduction targets. Such specifications for disclosure of GHG emission reduction targets and plans to achieve such targets would improve the decision-usefulness of mitigation target disclosures.

(b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

Yes, see 10a.

Question 17 – Other comments

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

WBA recommends the inclusion of requirements on disclosure of workforce and community impacts of decarbonisation.

We are seeing a significant increase in investor demand on social information relating to decarbonisation, as the risks of employment dislocation and community impacts caused by the transition can quickly translate into financial risks. Regulation on the disclosure of such risks will provide consistent and comprehensive information. Investor action guidance has highlighted that a siloed approach to addressing the social impacts of the low carbon transition (on the one hand) and the environmental impacts (on the other) are 'unlikely to generate a full picture of long-term [company] performance.'[8]

While this information is increasingly required by investors, reporting remains behind. WBA's 2021 Just Transition Assessment evaluated 180 companies globally on their social impacts, while transitioning to a low-carbon future, including green and decent job creation, reskilling of workers, social protection and just transition planning. The assessment found that companies' performance against WBA's just transition indicators was weak overall, with an average (mean) score for all companies of 17%. Globally, only 2 out of the 180 companies met all four elements WBA assessed on just transition planning by disclosing how their

[8] Robins, N., Brunsting, V., and Wood, D., "Climate change and a just transition: A guide for investor action", Grantham Research Institute on Climate Change and the Environment and the Initiative on Responsible Investment, 2018. Available at: www.lse.ac.uk/granthaminstitute/wp-content/uploads/2018/12/Climate-change-and-the-justtransition_Guide-for-investor-action.pdf.

low carbon transition planning will mitigate the social impacts of the just transition on workers, affected stakeholders and business relationships, and demonstrating social dialogue and stakeholder engagement in the development of their just transition planning. These companies were among the 6 companies (3%) to score 75% or above on the just transition assessment.

Given the limited disclosure and low performance of companies globally on just transition, there is an urgent need for disclosure standards on these topics, as this component is highly likely to affect enterprise value. The inclusion of just transition elements in the Climate-Related Disclosures standard requirements is instrumental for investors and other stakeholders to meaningfully evaluate a company's risks, opportunities and impacts. This will also highly benefit the coherence of the overall ISSB standards architecture, ensuring that sustainability topics are not addressed in siloes.