THE 100 GROUP

Stakeholder Communications and Reporting Committee

Emmanuel Faber (ISSB Chair) and Sue Lloyd (ISSB Vice-Chair)
International Sustainability Standards Board (ISSB)
Columbus Building
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Dear Emmanuel Faber, Sue Lloyd and fellow Board Members,

Please find enclosed our response to your Exposure Draft: IFRS S2 Climate-related Disclosures.

This response has been prepared by the 100 Group Stakeholder Communications and Reporting Committee. The 100 Group membership represents around 90% of the FTSE100 market cap as well as a number of equally significant sized unlisted businesses. While this response is intended to speak on behalf of the Group as a whole, the views expressed are not necessarily those of individual members nor their respective employers.

We thank you for the opportunity to comment on your proposal and would invite any further dialogue which you would deem of value.

Overall, we welcome the proposal. We are acutely aware of the significant appetite for much of this information among all our stakeholders and believe very firmly that the ISSB is best placed to set a suitable basis for a globally consistent model. This is of particular importance to us because our size and international scale mean that we compete on a global level for capital, but also for customers, consumers and employees. With that in mind we are very pleased to see that existing internationally recognised frameworks have been leveraged for the foundations of the proposal, including SASB and TCFD. We do however note that the disclosures in excess of those already required are extensive and will create a significant, if not unmanageable, burden on some businesses, for example those not previously in scope for TCFD reporting. While the intention may be to create uniformity, leveraging a significant number of mandatory guidance documents does pose a risk of divergence as other bodies move faster or alter their course, as well as the potential for conflicting guidance and impact assessments when amendments are issued close to reporting deadlines.

We are supportive of the guiding nature of the proposals, which will allow businesses to determine their own preference for their reporting, within the framework parameters, as opposed to the very prescriptive requirements proposed by some other bodies. We believe this will allow the markets to develop the most suitable structure as businesses each report in their own way and build on it year on year by incorporating best practice methodologies developed by others. Notwithstanding this, we would see significant benefit in the inclusion of Illustrative examples, in particular when applying the more complex elements of proposed new standards.

While we are supportive of the proposal and have no particular objections to any requirements in isolation, we do note that current TCFD reporting typically extends to a dozen pages in annual reports/climate reports and given S2 is broader, and would therefore be reasonably expected to be longer, and further standards are yet to be released, additional reporting will add significantly to current reporting volumes. In order to attempt to constrain the inevitable expansion of the reporting even a little, we would recommend that IFRS Sustainability Disclosure Standards align with the current proposed approach to IFRS Accounting Standards, where the exposure draft 'Disclosure Requirements in IFRS Standards – A Pilot Approach' introduces both mandatory and non-mandatory disclosures to enable a reporting entity to meet the disclosure objective. We consider that such a basis for IFRS Sustainability Disclosure Standards would enable reporting entities to meet the evolving needs of users seeking to better understand the operations of the business, whilst avoiding the need to report immaterial information. Finally, while we have heard the calls encouraging businesses to focus on significant risks and opportunities as they see them, we would welcome more reference to material inputs and/or critical judgements and estimates to make clearer the message that immaterial matters need not be reported on.

Some further, more specific comments are included below. We have sought to be clear and constructive in our feedback, providing where possible, practical solutions and alternatives to the issues and requirements identified. We hope you find that they provide helpful insight as you move to the next stage of the project.

Please do contact our secretariat Cat Hoad at secretariat@the100group.co.uk should you wish to discuss any of our comments in further detail and she will be very happy to put you in touch with us.

Yours sincerely,

Iain Mackay,
Chair of the 100 Group Stakeholder Communications and Reporting Committee

APPENDIX – Detailed comments

Scope of the requirement

We are pleased that the proposal has been built on the foundations of the TCFD reporting framework but note that there is some significant additional disclosure required, in particular over Scope 3 and the value chain, where the control and the measurement of the carbon is further from, if not outside of, our control.

While we understand the importance of recognising the direct link between company supply chains and the emissions created by the components of it, there is a practical point that means that this level of detail may be very difficult if not impossible to achieve.

This will be particularly difficult for large and geographically diverse businesses but perhaps unachievable for the smaller businesses with broad supply chains. We expect that these businesses may not have the time and capacity to really understand their supply chain in the detail needed. Further, they will likely have less ability to influence and compel change within the supply chain, thereby being forced to report year on year numbers that may not move in the way that they would hope but that they have little control or influence over.

We also note that there is a lot more requirement for forward looking information and data forecast. Again, we feel that many businesses will struggle to deliver on these requirements in any meaningful way for a great many apparent, interconnected and potentially complex reasons.

Fundamentally on scope, we recognise that as the leaders in this field we are the most advanced on the journey to compliant climate reporting – but of those companies in scope for a number of years now, and typically with significant resource and ability to leverage and scale, only around 30% would consider themselves to be compliant. The exponential impact on effort of the additional scope and broader applicability here in S2, versus what can be achieved with all of the available resource and skill set, is not to be underestimated in our view.

Further, notwithstanding a lack of any clear perspective on what is to come from future IFRS Sustainability Disclosure Standards, we would expect this situation will likely be compounded for later standards (i.e. those beyond climate, TCFD and S2).

A potential solution might be to allow for the implementation of the IFRS Sustainability Disclosure Standards to be tiered on a comply or explain basis. While this may be more a matter for local consideration, if we are targeting a global framework then having a built-in mechanism that recognises these hurdles and complexities, and allows for them, may make that fundamentally more achievable in the near term.

Timeline

While we understand that a scope of work plan will be announced in the summer which will outline the expectations for planned upcoming exposure drafts, we believe that very specific plans around proposed implementation must be considered alongside this in order for companies to be well enough prepared to deliver on the requirements. Given the head start, it is to be expected that most companies would be able to move quicker on climate than on anything else – either because they have already begun or at a minimum because they can leverage what has been done by others. But understanding the overall structure and ambition of the requirements to come would help in building out their processes in the most optimal way – ensuring that their systems and processes will continue to be fit for purpose.

This is compounded by the requirement as described in S1 to leverage other frameworks for topics where the ISSB does not have a standard. In practice this could mean developing a solution for one way of reporting then subsequently, a short time later, needing to reshuffle this for the newer ISSB standard. Having clear visibility of what is to come and when will help to alleviate the difficulties associated with this risk.

For those businesses with reporting requirements outside of their primary Group status, for example overseas listings, foreign debt issuance and significant foreign subsidiaries, this will be compounded by other reporting requirements as and when they are released. The SEC Rule and the EFRAG proposals are well advanced and without a clear roadmap of what is to come from the ISSB, businesses risk being distracted, and hence guided and informed, by other proposals ahead of their obligation to meet the ISSB framework.

Linked to these comments on the timeline, while we appreciate assurance is not part of the remit of the ISSB proposal, we do see it as a critical component of the ultimate implementation. We therefore believe that a proposal might usefully be put forward alongside the roll out plan scheduled for announcement in the summer.

We would propose a framework which requires all reporters to disclose what type of assurance they are receiving, if any, in lieu of requiring assurance. We would expect that all companies would receive some form of assurance on Scope 1 and 2 emissions data for example, but this would not necessarily be from their statutory auditors. In our view, any mandatory assurance should be proposed for no earlier than 12 months after first implementation to allow for initial benchmarks and peer practices to be established.

Forecasting and presenting transition plans

As mentioned in our cover letter, we welcome the principle of building on the existing SASB and TCFD requirements and would like to see the requirements build on other well-established frameworks particularly the Science-Based Targets Initiative (SBTi) and their Net Zero standard, which are generally well regarded by some of our members because of the specific and quantitative nature of the targets that they set for some sectors.

We note that the proposed forecasting requirements go beyond already established frameworks (e.g. SBTi), and into new disclosure areas. Given there are a lot of active groups within this space we see some significant risks of divergence as transition plan and carbon offset models and disclosures are developed. We would urge the ISSB to continue to do all you can to ensure that these proposals are suitable as a framework to drive or work alongside those of other bodies.

While we appreciate that we are encouraged to disclose as much and as transparently as possible with regard to quantitative disclosures on the anticipated effects of climate-related risks and opportunities over the short, medium and long term, some members are concerned about their ability and willingness to do this without some level of clarity about what is expected as a minimum / sufficient level of disclosure.

Binary view around judgements and disclosures

As a general reflection, we find that much of the disclosure language is quite binary which may drive an impression of companies 'failing' based on relatively small aspects of their reporting. We would encourage the incorporation of a basis of preparation in the disclosures accompanied by a comply or explain approach to the reporting requirements which we feel would allow for companies to press ahead with confidence where there was a clear path and explain the hurdles and complexities that they encounter where there was not.

We believe the most value is to be achieved from a framework that encourages year on year improvements; where specific targets are considered as a marker for what we think is achievable in the context of the upcoming reporting period.

External guidance

While we appreciate the effort to leverage already established frameworks, such as the SASB, and we understand the relative flexibility afforded by referencing the 'latest international agreement on climate change' as opposed to regularly needing to redefine the measure, referencing external measures and frameworks does create some risk that could prohibit smooth reporting processes. If for example the Paris Agreement were to be replaced or updated just as a company were finalising their reporting, then it would be impracticable, if not impossible for them to update all of the reporting in response to the change and still keep to their timetable.

We would propose to use, either a timeframe within which changes must be considered, for example, anything enacted prior to the reporting period end, or, that the language be updated to reflect more optionality – such as 'entities should report against x', as opposed to must, which would allow for an explanation where recent changes had been impracticable to be reflected.

Furthermore, while leveraging external guidance and reporting requirements is proposed to be mandatory, but possible sources are not defined nor a hierarchy applied, there risks being divergence of approach between businesses and industries, and even conflicting requirements for individual businesses. We would propose that a hierarchy of sources be given, and it be made clear that the use of external guidance should be based on a determination of the most suitable framework to follow.

Industry-based disclosure requirements (Appendix B) and cross-industry metric categories

Notwithstanding our previous assertion from 2020 that we would be keen to see industry specific guidance, we find the mandatory nature of Appendix B to be inappropriate. Fundamentally, we believe that industry guidance should be optional rather than mandatory – even within one industry, businesses may face different risks, and may determine themselves to be very differently protected from or exposed to the same risks. If the requirements must be mandatory, then we would suggest that an element of materiality be applied in order to ensure that businesses are only required to report on those topics associated with their core or primary industry.

Further, it is our position that while potentially useful for consideration, the industry-based topics would not in themselves drive any particularly strong uniformity of approach, but rather would detract from Management's core responsibility for determining the risks and opportunities faced by its business. There is also a risk of divergence over time between the ISSB and other frameworks which would drive duplicative reporting requirements if there were not some optionality in the requirement to provide the information as set out in the Appendix B requirements.

With respect to the content of Appendix B, there appears to be a heavy weighting towards the more globally significant risks and some significant regional risks may have been omitted. We believe that regardless of the mandatory or advisory nature of the appendix in the final standard, the content requires some attention to ensure it is as refined, accurate and appropriate. Specifically, with regard to cross-industry requirements, some members challenge whether the thinking in relation to these metrics is sufficiently mature in relation to mandatory disclosure – for example the use of internal carbon prices – and this could lead to inconsistent messaging.

External factors and drivers outside of our control

We are of the view that the proposal lacks some consideration of the level of power and control in the hands of the reporting business.

Many of our members have complex plans and targets around their goals to reach net zero and many if not all plan to rely heavily on expected and planned initiatives by government and other businesses. Paragraph 14 for example, is silent on the level to which the outcomes are considered to be in the control of the company. We believe that to talk about company goals, ambition and targets without clearly identifying the external elements outside of their direct control, could be misleading and might even allow for retrospective greenwashing. Therefore, some guidance on the most appropriate way to describe and present those external factors would be welcome.

Similarly, while we acknowledge the appetite for understanding the current and anticipated effects of significant climate-related risks and opportunities in the value chain, we are of the view that qualitative disclosure should be permitted. The lack of commercial entitlement to all the required data; the difficulty of making estimates in this area; and the difficulties of collating full year data in line with our normal reporting requirements, mean that in our view providing quantitative information would typically be impracticable.

Language and definitions

Baseline – We are not clear on how to measure the baseline, and therefore consider that it may be open to manipulation. For example: Is the baseline the existing model? And if so, those businesses who have already taken steps to improve their carbon footprint may appear behind the curve in terms of their progression? Or is the baseline what would have been done in the future if we weren't making decisions based on the climate impact? In which case businesses might be able to build significant baselines based on hypothetical decisions which were never explicitly made. We would welcome further guidance regarding setting definition of the baseline.

Vulnerable – Paragraphs 21(b) and 21(c) refer to assets or business activities being vulnerable to risks. We are not clear on the meaning of this term and would welcome some clarity or additional guidance.

Carbon offsets – As defined in appendix A these are uniquely serialised, issued, tracked and cancelled by means of an electronic registry. Some members report that this should also cover schemes we expect to be certified as current schemes often do not offer the possibility of reaching 1.5C.