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The Co-Chairs, IFRS Foundation,
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Email via customerservices@ifrs.org **Date:** 29 July 2022

Dear Co-Chairs,

Re: Railpen's response to the International Sustainability Standards Board (ISSB) survey on climate-related disclosure standards

Executive Summary

Railpen is the trading name of Railway Pension Investments Limited, authorised and regulated by the Financial Conduct Authority (FCA), acting as the investment manager for the railways pension schemes and responsible for the management of c. £37 billion of assets on behalf of over 350,000 members.

Railpen welcomes the efforts of the International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline for climate-related disclosures. We invest, on behalf of our members, in companies across economic sectors and geographical regions, and need access to transparent, comparable and science-based reporting to manage climate-related risks and opportunities and assess the alignment potential of their holdings.
We are strongly supportive of the measures proposed, in particular,

- Incorporation of SASB standards into ISSB standards,
- Incorporation of standardized sector specific disclosure to improve decision-usefulness of information and reduce reporting burden for corporates, and
- Alignment of the proposal with the TCFD framework, which is well understood by users and preparers of reporting, and is foundational to climate-related disclosures.

However, we are concerned that the proposed disclosure requirements do not provide investors with the granular, consistent reporting that is needed to: a) channel capital towards companies that are credibly aligning with a 1.5c world and b) to accelerate targeted engagement with companies that are not aligned. To be truly decision-useful, the standards must build on the current high-level TCFD framework and supplement this foundational work with detailed, objective and comparable disclosures. ISSB has the potential to progress climate disclosure, from the generic form of governance, strategy, risk management and metrics and targets, to specific granular and objective disclosure covering reporting entities' physical and transition risk profile and actions. We strongly encourage the inclusion of the entity or entity group's systemic impact on climate and overall sustainability (sometimes called 'double-materiality' or 'inside-out' considerations). ISSB can also ensure this is done in an objective manner than can be absorbed and interpreted by users for assessment of the reporting entity's resilience and contribution to a 1.5c world.

On climate, Railpen's recommendations references recent research on [the effectiveness of climate initiatives] from ETH Zurich and Universität Erlangen Nürnberg, (Webersinke, 2022) which applies a deep learning approach to climate disclosures of 14,584 companies. The research and results suggest that major climate initiatives SBTi, TCFD, and CA100+ are credible channels for signaling and credibility. Establishing these channels is a necessary first step but needs to be followed by actions and disclosure over time. Active institutional ownership with targeted engagement strategies through CA100+ shows lagged yet robust results over time again suggesting that companies and investors need time to establish these channels and follow through. However, the combination can serve to significantly improve the quality of companies' climate-related disclosures, particularly the decision relevance and accuracy of reported climate commitments and actions. The research also suggests that guidance and standardisation should apply across sectors, not just prioritising those with the highest direct emissions. This is because assessment of climate risks appropriately even across high emissions sectors requires the incorporation of corporates' emissions across the whole value chain. Hence standards and guidance especially for basic disclosure, namely Scope 1 and 2 emissions and intensity across all sectors, versus a select few, is crucial
.

Railpen is cognisant of the competitive pressures and liability risks faced by reporting entities on forward-looking disclosures, and of the need for ISSB reporting to be objective and unbiased. Railpen's recommendations attempt to balance these considerations against the need for disclosure that is standardised and decision-useful for users, in particular for users seeking to make assessments of corporate alignment.

Railpen requests the ISSB consider the following recommendations to ensure the climate-related disclosure requirements are optimal for report users:

- **Guidance from ISSB on how to conduct materiality assessment and disclosure from entities on the results of materiality assessments.** This will provide users with a standard reference framework to assess and challenge materiality assessments disclosure and improve the completeness, consistency and verifiability of data. We recommend the ISSB leverage and integrated the existing SASB framework by sector.

- **Inclusion of companies impacts on systemic risks (sometimes called 'double-materiality' or 'inside-out' considerations)** in the ISSB design standards, so users can assess both idiosyncratic climate risk on the entity and the entity's outwards impact on systemic risks. ISSB would be in good company: the current work being done on transition planning frameworks (Transition Plan Taskforce, Climate Financial Risk Forum, Glasgow Financial Alliance for Net Zero) are all discussing the broader systemic impact of the climate transition actions from the company on the environment. More specifically, these will likely include social impact on workers and communities due to loss of jobs, its direct and indirect effects and the need for reskilling, environmental impact due to harm caused to nature and biodiversity, certain unintended systemic effects including asset price volatility, in the transition to a low-carbon economy. In a phased 'building blocks' approach, the ISSB can propose the inclusion of these 'inside-out' elements, in their draft for an aggregated systemic view.

- **Ensuring interoperability of the standards with national and regional reporting frameworks to allow for comparability across jurisdictions.** The standards should uphold the 'building blocks' approach to interoperability, providing a common global baseline for climate-related disclosures on which regional reporting frameworks can build where they wish to go further (for example, where they apply a double materiality lens). The ISSB should continue to engage closely with key standard-setters (in the EU, UK and the US) to minimise divergence and provide investors with a basis for comparison across jurisdictions they invest in.

- **Prioritising mandatory basic disclosures first, namely basic quantitative disclosure and standardised qualitative disclosure from corporates,** followed by investors, due to the interdependencies of the latter, on corporate disclosure, in implementing their own transition plans. ISSB's priority also needs to be to incorporate and balance user inputs from financial corporates and investors, into climate and transition plan disclosures from corporate preparers.

- **Building on TCFD disclosure with more granular detail,** the following bullet points cover specific upgrades to existing TCFD disclosure which we believe could improve the depth, quality and decision-usefulness of reporting;
  - To more granularly disclose how transition and physical climate risks are identified and managed (rather than general references to climate-related risks and opportunities).These include disclosure on technology, policy and market risks arising from the transition and vulnerabilities from the physical risks of climate change, for the reporting entity.
  - Along with the choice of metrics for emissions data and targets as per TCFD, to also mandate the need for the targets to be science-based and with third-party verification.
  - The disclosure around the vulnerability to the physical risks of climate change faced by a company should be added and cross-referenced between the 'Risk Factors' section of the ISSB disclosure and the 'Risk Management' section of TCFD both of which can include standardised qualitative detail on the same along with the metrics section of the TCFD report which can include physical risk metrics.
  - In disclosing transition risks, to incorporate the disclosure indicators established by the Climate Action 100+ Net Zero Company Benchmark, the Investor Agenda's Investor Climate Action Plans expectations and/or the IIGCC Net Zero Stewardship Toolkit criteria, which support user assessments of a reporting entity's capacity to align with a 1.5c world,
  - To more specifically disclose opportunities and actions that can substantively describe a reporting entity's current and future potential to adapt to a low carbon economy.
  - Incorporate an objective overview from the preparer on engagement and stewardship as a key part of the disclosure around risk management. This can include the entity's engagement channel(s) including memberships with climate initiatives, engagement with policy makers and lobbyists and annual progress and challenges on the same. Building on the ongoing research and outputs from The Effectiveness of Climate Initiatives, ISSB's efforts to standardise climate-related disclosures can serve to accelerate adoption of such effective channels while fully preserving the objectivity of financial reporting. This can be an additional benefit that can significantly improve the quality, decision-relevance and accuracy of disclosures, commitments and actions. This is all instrumental for users for

alignment assessment, in their own transition planning, and ultimately in clearly assessing the impact on enterprise value of the reporting entity.

- **Adherence to best practice principles on offsets** and their intended use to address residual emissions versus reaching emissions reductions targets as highlighted in the Exposure Draft.

We welcome your consideration of these recommendations. Through our work with our portfolio companies, members, peers, policy makers, regulators, the government and industry climate initiatives, Railpen has developed a deep understanding of investor needs and the quality and depth of data required to credibly assess corporate progress on climate action. We are eager to engage with the ISSB to ensure that the standards establish a robust, decision-useful, internationally consistent and comparable baseline for climate-related disclosures.

<u>About Railpen</u>

Railpen is the trading name of Railway Pension Investments Limited, which is authorised and regulated by the Financial Conduct Authority (FCA). Railpen acts as the investment manager for the railways pension schemes and is responsible for the management of around c. £37 billion of assets on behalf of over 350,000 members. We also operate as an authorised master trust in respect of our Industry-Wide Defined Contribution arrangement that operates for the benefit of members with c. £1.7bn of DC funds included in our total assets under management.

'Sustainable Ownership' is Railpen's approach to incorporating sustainability considerations into the investments it manages on behalf of members. Railpen's work is enabled by the Trustee's related investment belief: "Incorporating and acting upon climate risk and other environmental, social and governance factors are significant drivers of investment outcomes and part of our fiduciary duty".

As one of the largest UK pension funds, and one of the few remaining occupational pension schemes with open, immature, Defined Benefit (DB) sections, we recognise the impact of climate change on our long-term investments and contribute positively to the kind of world into which our members retire. As well as encouraging our portfolio companies to report against the TCFD framework, we recently supported the Railways Pension Scheme (RPS) with the production of its first full 2021 TCFD report. Railpen is a contributor to the Transition Plan Taskforce (TPT) and the Climate Financial Risk Forum (CFRF).

We have supported the UK government's work to encourage companies to i) incorporate climate change risks and opportunities in their investments and ii) act as robust stewards. We recognise that companies are required to produce significant levels of disclosure on their climate transition activities and therefore welcome the ISSB's survey on climate-disclosure that seeks to standardise reporting and aid investor and member understanding and assessment of complex topics. You can find out more about our work, including our 2021 Net Zero Plan, 2020 Stewardship Report and 2020 Sustainable Ownership Member Review – created to be as accessible to members as possible – on our website.

Railpen's purpose is to secure our members' futures. We recognise that companies are required to produce significant levels of disclosure on their climate transition activities and therefore welcome the ISSB disclosure standards in a way that seeks to standardise and aid investor and member understanding of complex topics. We welcome the opportunity to respond to this important consultation and have answered the queries raised in the consultation in a way which reflects the breadth and depth of our responsibilities.

Our response

In this section, we provide the answers to the specific questions asked. We have split the response into answers to the twenty-two questions in the consultation. Where the consultation questions themselves summarise the proposals, we have condensed to aid readability. The responses build on our Net Zero Plan, climate-related engagement, Voting Policy and TCFD reporting.

Explanatory Note on Consultation

The International Sustainability Standards Board (ISSB) published the first set of its draft sustainability disclosure standards for consultation in April 2022.

What has been released?

The ISSB has released two draft standards for consultation:

- Draft General Requirements for Disclosure of Sustainability-related Financial Information Standard, which require companies to disclose information that enables investors to assess the effect of significant sustainability-related risks and opportunities on its enterprise value (Exposure Draft IFRS S1); and

- Draft Climate-related Disclosures Standard (Exposure Draft IFRS S2).

This document sets out Railpen's response to the Climate Exposure Draft only (IFRS S2). The Climate Exposure Draft is accompanied by several supplementary documents, including:

- Basis for Conclusions, which sets out supporting evidence and rationale for the proposed disclosure requirements, and should be read in conjunction with the Climate Exposure Draft; and
- Illustrative Guidance document, which provides example metrics that reporting entities can use when disclosing against the cross-industry metric categories; and
- Appendix B, setting out materials for identifying, measuring and disclosing information related to climate-related risks and opportunities associated with particular industries (derived, largely unchanged, from SASB standards).

The Draft Standards are also accompanied by a:

- Snapshot document, providing a high-level summary of the requirements, which includes FAQs on the format of sustainability disclosures, the proposed interaction between the IFRS Accounting Standards and the Draft Standards, and overall timing.

- Memo, which compares the TCFD recommendations with the Draft Standards and notes that there are some instances where the Draft Standards go further than the TCFD Recommendations (for example, requiring disclosure of performance against previously disclosed sustainability targets and an analysis of trends or significant changes in performance).

Overview of Draft Standards

Exposure Draft IFRS S1 on General Requirements for Disclosure of Sustainability-related Financial Information sets out the core content for a complete set of sustainability-related financial disclosures. It requires companies to disclose material information about all significant sustainability-related risks and opportunities to which they are exposed. The materiality judgement is made in the context of the information necessary for investors to assess 'enterprise value'. Information that could be relevant to the assessment of enterprise value is broader than information reported in the financial statements. According to the ISSB snapshot document, this includes information about a company's impacts and dependencies on people, the planet and the economy when relevant to the assessment of the company's enterprise value. The sustainability-related financial information disclosed would be centred on a company's consideration of its governance, strategy and risk management and the metrics and targets it uses to measure, monitor and manage significant sustainability-related risks and opportunities. This approach is consistent with the TCFD recommendations but extends them to sustainability-related risks and opportunities beyond those just related to climate. The Draft Standard would also require disclosure of material information about sustainability-related risks and opportunities across a company's value chain.

Exposure Draft IFRS S2 on Climate-related Disclosures uses the same approach as IFRS S1, requiring companies to centre disclosures on the consideration of the governance, strategy and risk management of its business, and the metrics and targets they use to measure, monitor and manage their significant climate-related (physical and transition) risks and opportunities. Again, the focus is on information that would enable an investor to assess the effect of climate risks and opportunities on the company's enterprise value. Companies would be required to disclose absolute gross Scope 1, Scope 2 and Scope 3 emissions (e.g. supplier and customer emissions). This approach is more stringent than the TCFD recommendations, which only require disclosure of Scope 1 and Scope 2 emissions. However, Scope 3 emissions have been included in the ISSB draft standard as companies will be required to disclose information across the company's value chain. Also, the Draft Standard includes industry-based disclosure requirements based on the SASB standards.

Sustainability-related disclosures under the Draft Standards would be required to be published at the same time as the financial statements (as part of companies' general purpose financial reporting).

Next steps
The ISSB is currently seeking feedback on the Draft Standards until **29 July 2022** and plans to finalise the two standards **by the end of this year**.

Railpen has retained the high-level overviews of consultation questions, and how these relate to the draft disclosure requirements, to provide context for members. However, we recommend that the draft Railpen response is read in conjunction with relevant consultation documents (particularly the draft Climate Exposure Standard and Basis for Conclusions) where time permits. Our proposed draft responses are highlighted in orange.

<u>Contents</u>

Question 1—Objective of the Exposure Draft

Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:

- to assess the effects of climate-related risks and opportunities on the entity's enterprise value;
- to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and
- to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.

Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

- Broadly Agree
- Broadly Disagree
- Other

(b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?

- Broadly Agree
- Broadly Disagree
- Other

(c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answers.

“The objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities. This information, along with other information provided as part of an entity's general purpose financial reporting, will assist users of the information in assessing the entity’s future cash flows, including their amounts, timing and certainty, over the short, medium and long term. This information, together with the value attributed by users to those cash flows, enables their assessment of the entity's enterprise value”.

a) Railpen broadly supports the proposed objective for the climate-related Exposure Draft and believe it should help improve the decision-usefulness of existing disclosures, enabling investors to better understand the climate-related risks and opportunities that their investees are exposed to and in turn enable their assessment of the reporting entity’s enterprise value.

- We highlight that the ability for users to assess the amount, timing and certainty of future cash flows and enterprise value, is very dependent on the financial materiality, specificity, clarity and depth of disclosure on exposure to climate-related risks and opportunities. Hence the detail around the reporting covered are key to assessing impact on cash flows and enterprise value.
  The specific recommendations on these along with their potential to supplement the existing TCFD framework with this information are covered under Q3 and Q4
- Users need information on the impact of a reporting entity’s activities on climate, as well as the impact of climate change on enterprise value of the reporting entity. There is often a significant overlap between financial materiality and the ‘inside-out’ impacts of entity activities on climate, with both influencing financial performance and position over the short, medium, and long-term (e.g. through write-down or stranding of assets, reputational risk, social impact on workers and communities leading to strikes, closures, reduced tax revenues for the local governments, asset price volatility affecting costs, degradation of natural capital)..

The objective, as worded currently, is fairly broad and does not focus specifically on material information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value. By expanding the objective to include financial materiality, specificity and the ‘inside-out’ impact of an entity’s activities on climate, as per a), it focuses on material, decision-useful and holistic information that will help users to better understand the impacts of climate-related risks and opportunities on the future cash flows and enterprise value of the entity. The Exposure Draft’s objective should more clearly acknowledge the relevance of financial materiality, the ‘inside-out’ impacts of reporting entity activities, specificity and depth of disclosure on the financially- material climate-related risks and opportunities to help users evaluate the effect on enterprise value.

Based on the above, we would update the objective as below:
“The objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities. This information, should encompass financially material contributors of climate risks and opportunities and the impact of the reporting entity’s activities on climate, along with other information provided as part of the entity's general purpose financial reporting, that will assist users in assessing the entity’s future cash flows, including their amounts, timing and certainty, over the short, medium and long term. This information, together with the value attributed by users to those cash flows, enables their assessment of the entity's enterprise value”.

The proposed disclosure requirements will help to support users of reporting in assessing the exposure of reporting entities to climate-related risks and opportunities, and how these risks and opportunities are being managed. However, we are concerned that the proposed disclosures do not provide investors with the granular, consistent reporting that is needed to: a) channel capital towards companies that are credibly aligning with a 1.5c world and b) to accelerate targeted engagement with companies that are not aligned. As noted in the executive summary and the above answers, the disclosure needs to focus on financially material climate-related risks and opportunities along with the 'inside-out' impact of company activities on the climate to gain a holistic view and build on the TCFD foundation with detailed, objective and comparable disclosures.

Our recommendation references a significant piece of recent research on the effectiveness of climate initiatives from ETH Zurich and Universität Erlangen Nürnberg, which applies a deep learning approach to climate disclosures of 14,584 companies. The research and results suggest that:

- Association with major climate initiatives SBTi, TCFD, and CA100+ represents channels for signaling and credibility and ownership and engagement channel. However, setting of a science-based target and publicly supporting TCFD are both significant steps, voluntary or mandatory disclosures on the four TCFD categories, without additional regulatory provisions, standardization, and guidance, do not provide the accuracy of information needed to make informed investment decisions. Establishment of these channels is a necessary first step but needs to be followed by actions over time, disclosure of which can be facilitated through ISSB.
- Active institutional ownership with targeted engagement strategies through CA100+ shows robust results over time again suggesting that companies and investors need time to establish these channels and follow-through, both of which can serve to significantly improve the quality of companies' climate-related disclosures, particularly in terms of the decision relevance and accuracy of reported climate commitments and actions.
- Guidance and standardisation should apply to all sectors, not just those with the highest direct emissions. The thought process here is that in order for users and markets to assess climate risks appropriately across high emissions sectors, incorporating emissions across their value chain is key. Hence standardisation across all sectors versus a select few, especially for basic disclosure across Scope 1 and Scope 2 emissions and intensity, remains crucial.

To be truly decision-useful, the standards must build and improve on the current high-level TCFD framework and supplement this foundational work with detailed, objective and comparable disclosures. ISSB has the potential to progress climate disclosure, from the generic form of governance, strategy, risk management and metrics and targets, to specific granular and objective disclosure covering reporting entity's physical and transition risk profile and actions. ISSB can also ensure this is done in an objective manner than can be absorbed and interpreted by users for assessment of the reporting entity's alignment to a 1.5c world.

Railpen is fully aware of the competitive pressures and liability risks for reporting entities on forward looking disclosures and also on the need for ISSB reporting to be objective and unbiased. Railpen's recommendations attempt to balance these considerations with disclosure that is standardised and decision-useful for alignment assessment for users. Railpen requests the ISSB to consider the following recommendations to ensure the climate-related disclosure requirements are fit for purpose including:

- Disclosure from the reporting entities on the results of materiality assessments which will improve the completeness, consistency and verifiability of data. The ISSB can propose guidance on how to conduct a materiality assessment and/or leverage existing frameworks like SASB by sector.

- Ensuring interoperability of the standards with national and regional reporting frameworks to allow for comparability of disclosures across jurisdictions. The standards should uphold the 'building blocks' approach to interoperability, providing a common global baseline for climate-related disclosures on which regional reporting frameworks can build where they wish to go further (for example, where they apply a double materiality lens). The ISSB should continue to engage closely with key standard-setters (particularly in the EU, the UK and the US) to minimise divergence and provide investors with a basis for comparison across jurisdictions they invest in.

- Ensuring prioritisation of quantitative and standardised qualitative climate and transition plan disclosure from non-financial followed by financial corporates and investors, due to the interdependencies of the latter on corporate disclosure, to implement their own transition plans. Incorporating and balancing user inputs from financial corporates and investors, into climate and transition plan disclosures from corporate preparers, as being done by ISSB, remains the priority.

- Disclosing the 'inside-out' impacts of reporting entities' activities, strategy and business model on climate change, and the implications of these impacts for enterprise value over the short-, medium- and long-term. More specifically, such risks include social impact on workers and communities due to loss of jobs, its direct and indirect effects and the need for reskilling, environmental impact due to harm caused to nature and biodiversity, certain unintended systemic effects including asset price volatility, in the transition to a low-carbon economy.

Question 2—Governance

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.

The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities. Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answer:

The proposed requirements go some way in providing users of disclosures with more detailed information on a reporting entity's governance and oversight of climate-related risks and opportunities.

Railpen recommends that the Exposure Draft also incorporates disclosures relating to a) company engagement and stewardship in climate issues and b) climate policy engagement and lobbying practices.

a) More specifically, Railpen recommends incorporating corporate engagement and stewardship reporting as a key part of the disclosure around risk management. This can be an objective overview of the reporting entity's current channel(s) of engagement with users including memberships with climate initiatives, annual engagement progress and challenges on the same.

   Building on the research and outputs from The Effectiveness of Climate Initiatives, ISSB's efforts to standardise climate-related disclosures can potentially serve to accelerate adoption of channels for target-setting, engagement and the associated follow-throughs while fully preserving the objectivity of financial reporting. This can be an additional benefit from ISSB's standardisation which can significantly improve the quality, decision-relevance and accuracy of the reporting entity's climate-related disclosures, commitments and actions, all of which are instrumental for alignment assessment for users and also in their own transition planning, and ultimately in clearly assessing the impact on enterprise value of the reporting entity.

b) Railpen recognises that corporate lobbying – by companies themselves and through trade associations, industry alliances and coalitions – has frequently opposed policy measures intended to support the goal of delivering net-zero emissions by 2050. Equally, like corporate stewardship and engagement, responsible lobbying has the potential to unlock action on climate transition initiatives. It is therefore vital to ensure that reporting entities deliver and disclose their lobbying positions and their direct and indirect lobbying activities, in line with the Climate Action 100+ Net Zero Company Benchmark and work towards delivering the criteria set out in the Global Standard on Responsible Climate Lobbying. Specifically, Railpen recommends the following disclosures on corporate lobbying on an annual basis, including:
   a. whether it has a Paris-aligned climate lobbying commitment that it applies to all areas of its business and operating jurisdictions, and whether its own lobbying activities are aligned with the goal of restricting global temperature rise to 1.5 degrees;

b. Paris-aligned lobbying expectations for the trade associations, alliances and coalitions of which it is a member, and a list of these;
c. Governance processes to ensure its trade associations, alliances and coalitions lobby in accordance with the Paris Agreement, including what actions the company would take as a member in the event that they do not;
d. Entity's overall assessment of the influence that its own climate lobbying has had on supporting ambitious public climate change policy, as well as supporting the entity's ability to deliver its own corporate transition strategy.

Question 3—Identification of climate-related risks and opportunities

Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).
Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

- Broadly Agree
- Broadly Disagree
- Other

(b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answers.
The recommendations should be strengthened by building on TCFD disclosure with more granular detail and advancement. The following bullet points cover specific additions and upgrades to existing TCFD disclosure which could progressively improve the depth, quality and decision-usefulness of reporting;

- Along with the choice of metrics for emissions data and targets as per TCFD, to also mandate the need for the targets to be science-based and with third-party verification.

- Physical climate risk assessment and potential impact includes analysis and disclosure of the vulnerability to physical risks of climate change faced by a company. This includes identification and management of physical risks, disclosure of scenarios and models used in risk assessment, namely material physical risks and their direct and indirect physical climate impacts, across short, medium, and long term time horizons.

IIGCC's Building Resilience to a Changing Climate: Investor Expectations of Companies on Physical Risks and Opportunities' provides examples of the type of physical risk-related disclosures and metrics that users of reporting would benefit from, including:

- Physical asset registers, and disclosure of the location of these assets. Companies should maintain an inventory of current and future climate-related risks in relation to those assets, with particular attention on major value chain assets;
- Financial impacts of recent weather events;
- Future anticipated physical risks from climate change
- Proportion of assets or business activities materially exposed to physical risks, based on key categories of commonly accepted risks (the recommended disclosure metric proposed in the TCFD's 2021 guidance on metrics, targets and transition plans)
- Development, implementation, and disclosure of the actions companies are taking to manage and respond to physical climate risks in the form of an adaptation strategy, or similar.

These can be added and cross-referenced between the 'Risk Factors' section of the ISSB disclosure and the 'Risk Management' section of TCFD both of which can include standardised qualitative detail on the same along with the metrics section of the TCFD report which can include physical risk metrics.

- To granularly disclose how transition risks are identified and managed (rather than general references to climate-related risks and opportunities).These include disclosure on technology, policy and market risks arising from the low carbon transition, for the reporting entity.
  - In disclosing transition risks, to incorporate the disclosure indicators established by the Climate Action 100+ Net Zero Company Benchmark, the Investor Agenda's Investor Climate Action Plans expectations and/or the IIGCC Net Zero Stewardship Toolkit criteria, which support user assessments of a reporting entity's capacity to align with a 1.5c world,
  - To more specifically disclose opportunities and actions that can substantively describe a reporting entity's current and future potential to adapt to a low carbon economy.
    - IIGCC's Building Resilience publication also sets out reporting on capex, opex and revenues associated with adaptation activities and solutions (such as building retrofits or upgrading equipment).
    - In addition, the growing number of sustainable or 'green' taxonomies provide a basis for reporting entities to develop metrics to assess the alignment of revenues and capital expenditure with climate objectives, which the Exposure Draft should seek to incorporate to the extent possible.
    - Disclosing metrics relating to climate and adaptation solutions will help provide a basis on which to estimate the positive contribution of entities to climate change mitigation and resilience.

- Railpen proposes that the Exposure Draft should require disclosures on the Just Transition. To manage risks and opportunities stemming from climate change, reporting entities need to assess and develop measures to prepare for the impacts of transitioning to a lower-carbon business model, on its workers and communities.

Railpen recommends incorporating these considerations in the relevant sections of the transition plan itself namely the 'Decarbonisation Strategy' and 'Capital Allocation Planning'.

- Railpen also proposes that the Exposure Draft should require disclosures on the identification and management of biodiversity risks. Reporting entities need to identify and assess any harm caused to nature on account of their transition to a lower-carbon business model, and incorporate measures to manage the same as well. Railpen recommends incorporating biodiversity considerations in the climate risks and opportunities disclosure of the transition plan.

Overall, Railpen recommends more depth and granularity in the identification and disclosure of climate risks and opportunities beyond the generic disclosure required by TCFD. This includes consideration of industry-based metrics and cross-industry categories which will help ensure greater comparability of sector-specific disclosures. Railpen acknowledges that the metrics established by the TCFD may be too high level, however recommends that the pressing priority is first for consistent and comparable disclosure of the basic quantitative cross-industry metrics along with a standardised and financially material qualitative disclosure framework across all public and private companies. This development will be key to set the foundation for comparable and relevant disclosure and additional metrics can develop to provide more granular and sophisticated measures over time.

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.
As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

- Broadly Agree
- Broadly Disagree
- Other

(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

- Broadly Agree

- Broadly Disagree
- Other

Please explain your answers.
To effectively manage climate-related risks across the value chain, it will be essential for reporting entities to implement and disclose processes for identifying, managing and mitigating principal adverse impacts within their value chains. As highlighted in our previous responses, these impacts can influence the reporting entity's enterprise value. Clear guidance and expectations from the ISSB on how to define and assess financial materiality and/or leveraging existing frameworks like SASB, to review and assess a reporting entity's value would also be helpful.

To enable users of reporting to gain a full understanding of a reporting entity's exposure to climate risks, reporting entities across all sectors, especially non-financial corporates should be required to disclose Scope 1 and Scope 2 GHG emissions. For a reporting entity, this will allow for disclosure of the consolidated snapshot of its own and operated Scope 1 and Scope 2 GHG emissions and that across its supply chain.

Railpen acknowledges that it can be challenging to produce consistent, quantitative disclosures for a reporting entity, especially across its value chain in regions and sectors where relevant data is not yet readily available. Many of the 'measurement challenges' cited in the Basis for Conclusions (B67) as a justification for a lack of quantitative disclosure requirements (and which are not elaborated on in the Basis for Conclusions) are likely to prove transitional in nature as data quality and quantity improves, and methodologies are refined.

For reporting entities across sectors and geographies, especially those operating in high impact sectors directly or as part of the value chain, Scope 1 and Scope 2 GHG emissions data is vital in enabling users of reporting to adequately determine financial materiality and the related impact on enterprise value.

Even with basic emissions data, qualitative disclosures are needed for meaningfully disclosing risks, strategy and company adaptation activities. This is more meaningful when reporting entities are viewed through a standardised and consistent lens which incorporates financial materiality, risk management, strategy, metrics and targets and opportunities. For example: qualitative disclosures where financial materiality by sector is as specified by the SASB framework, targets as per SBTi, metrics as per TCFD recommendations and governance, strategy, risk management and engagement disclosures as per TCFD, Climate Action 100+ Benchmark, Railpen CRIANZA framework and the IIGCC Net Zero Stewardship Toolkit, could provide a holistic sector-neutral framework combined with sector specific templates for qualitative disclosures. This can lead to standardised qualitative disclosure which is consistent and comparable across reporting entities and in combination with basic quantitative disclosure can be decision-useful for users for alignment assessment.

While the ISSB could opt for the 'comply or explain' approach as per the UK Financial Conduct Authority (FCA) in relation to quantitative climate-related disclosures to be made by asset managers and certain asset owners, Railpen is of the view that ISSB focussing on a template that combines basic quantitative and standardised qualitative disclosure leveraging existing frameworks and tools, will serve to improve the quality of meaningful disclosure from day one. While the proportion of quantitative disclosure may be low initially versus standardised qualitative disclosures, the overall disclosure will still be standardised and decision-useful for users from day one, with the proportion of quantitative disclosure improving as data becomes available and of better quality.

Question 5—Transition plans and carbon offsets

Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.

The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.

Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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

- Broadly Agree
- Broadly Disagree
- Other

(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.

- Yes
- No
- Other

(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?

- Broadly Agree
- Broadly Disagree
- Other

(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that 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 soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answers.

The proposed disclosures for transition plans focus primarily on how companies address climate-related risks and opportunities. For transition plans to be appropriately used for assessment of the reporting entity's alignment to Paris goals, more granular and consistent reporting is needed to: a) channel capital towards companies that are credibly aligning with a 1.5c world and b) to accelerate targeted engagement with companies that are not aligned.

To be truly decision-useful, climate transition planning and disclosure must build on the current high-level TCFD framework and supplement this foundational work with detailed, objective and comparable disclosures. ISSB has the potential to progress reporting, from the generic form of governance, strategy, risk management and metrics and targets, to specific granular and objective disclosure covering reporting entity's physical and transition risk profile and actions. ISSB can also ensure this is done in an objective manner than can be absorbed and interpreted by users for transition plan assessment and alignment of the reporting entity to a 1.5c world.

Railpen is cognisant of the competitive pressures and liability risks faced by reporting entities on forward looking disclosures and also on the need for ISSB reporting to be objective and unbiased. Railpen's recommendations attempt to balance these considerations with disclosure that is standardised and decision-useful for alignment assessment for users. Building on the research on the effectiveness of climate initiatives,

Railpen emphasises the need to disclose how their transition plans are compatible with the goals of the Paris Agreement and the need to limit global temperature rises to 1.5c and recommends the following requirements for ISSB to strengthen transition plan disclosure. These include:

- Guidance and standardisation across all sectors, especially for basic quantitative disclosure across Scope 1 and Scope 2 emissions and intensity
- Separate operational emissions targets to be set and disclosed for Scope 1 and 2 emissions
- Guidance on standardised qualitative disclosure using a sector-neutral approach coupled with sectoral pathway templates, emphasising financial materiality, physical risks, technology, policy and market risks of the transition, levers, opportunities and activities that the entity is involved in to adapt to a low-carbon economy, and the long-term low carbon business model for the entity.
  Railpen's recent response to the Transition Plan Taskforce (TPT)'s Call for Evidence proposal outlines our thinking on the sector-neutral framework and sectoral templates.
- Disclosure of the major climate initiatives that the reporting entity is associated with and facilitating disclosure of related actions over time.
- Disclosure of climate-related engagement channels and follow-through actions, both of which can serve to significantly improve disclosure quality, particularly in terms of the decision relevance and accuracy of reported climate commitments and actions.
- Additional metrics, such as 'green capex' metrics consistent with EU and other international taxonomies and disclosure of investments in fossil fuel production.

In line with the core asks established by CA100+, the formation of comprehensive business strategies that fully align with the goals of the Paris Agreement and reaching net-zero emissions by 2050 or sooner – and supported by Paris-aligned accounts - should be considered a critical component of a credible transition plan, particularly for companies operating in high impact sectors. These disclosures are also critical for investors using the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework (NZIF) to assess the alignment potential of their holdings. To this end, comprehensive net zero planning disclosures within the Exposure Draft should at the least include the elements laid out below, based on the TCFD recommendations and using the CA100+ Benchmark indicators as core metrics:

The CA100+ Benchmark is likely to continue to evolve over time. In addition to the above indicators, it is envisaged that the following disclosures could support investors in assessing the credibility of corporate transition plans:

- In line with the principle of proportionality, emissions-intensive companies should provide supplementary, granular emissions disclosures to enable performance to be benchmarked against peers and the sector in which they operate.
- Entities operating in carbon-intensive sectors should provide more detailed disclosures to reflect their relatively greater exposure to climate-related risks and opportunities, and the more urgent need to transition.
- Conversely, smaller companies operating outside high impact sectors could be subject to streamlined or otherwise appropriately scaled reporting requirements to reflect their reduced exposure to climate-related risks and more limited capacity to report and manage them.
- Finally, we recommended that corporates provide enhanced disclosure in line with the sector-specific Global Investor Coalition on Climate Change (GIC) Expectations on Climate Change guidelines (where applicable), including oil & gas, banking and real estate.

For investors, Railpen would highlight the [Investor Agenda's Expectations for Investor Climate Action Plans]() (ICAPs), which sets out key elements and actions of investor 'transition plans' for investors at all levels of ambition. Additionally, investors seeking to align their portfolios with net zero objectives should set out transparent climate action plans which outline how they intend to take forward action relevant to alignment, in line with the more detailed components of the NZIF. To support these disclosures, investors are recommended to report information in line with the four pillars of the TCFD framework – see page 23 of NZIF, which should be considered as key elements for disclosure of a net zero transition plan.

On offsets,

- Paragraph 13, b) (iii) seems to imply that an offsetting strategy is a valid method to achieve emissions targets (i.e. "the intended use of carbon offsets in achieving emissions targets"). In this regard, IPCC SR15 (Pages 95, 96, 97) highlights that reliance on carbon removals (i.e. carbon offsets) increases the risk of overshooting temperature targets. SBTi Net Zero Standard, October 2021 (Pages 9, 10), in alignment with IPCC SR15, further specifies that offsetting strategies do not count towards achieving emissions targets. Instead, SBTi details through its "mitigation hierarchy" that companies should prioritise emissions reductions within their sectoral value chains before any offsetting measure. SBTi states in its Net Zero Standard October 2021 that offsetting should be considered as a "beyond the value chain mitigation" measure (formerly known as "compensation") and does not count towards achieving emissions targets.
- While Railpen does not have an official policy for offsets yet, we agree that the use of offsets should be mainly to address residual emissions, it is not a substitute for emissions reductions. This is because an offsetting strategy does not protect companies from the transitional risks (e.g. legal, political, technological and demand-side challenges) created by climate change. As a result, the standards should be aligned with science-based recommendations on offsetting and clearly name offsetting as "beyond the value chain mitigation" measure (formerly known as "compensation") as recommended by the SBTi Net Zero Standard, October 2021.
- Paragraph 13, b) (iii) also requires reporting entities to disclose whether offsets used to achieve emissions targets are reliant on emissions avoidance. Our view is to *not encourage the use of avoided emissions offsets*, given the lack of scientific evidence on their impact or whether they provide value for money. We therefore recommend that avoided offsets should not be used in the context of emissions targets, and that reporting entities should instead prioritise removals and reduction offsets where necessary.
- Finally, Railpen notes that while the proposed disclosure requirements focus on the intended use of carbon offsets in achieving emissions targets, disclosure of the use of offsets for reported emissions is also necessary to inform user understanding of the credibility of reporting entities' transition plans.

The disclosure points proposed in Paragraph 13, b) (iii) 1,2,3,4 seem reasonable but the framing of these disclosures might give the impression to the reader that offsetting is a valid transition strategy and a valid method to achieve emissions targets making it equal to actions within companies sectoral value chains (e.g. installing renewables capacity in the power sector or producing electric vehicles in the auto sector). This approach by ISSB would contradict scientific evidence by IPCC SR15 against this approach, and guidance by SBTi and TPI.

As a consequence, ISSB should align with science-based recommendations on offsetting and clearly name offsetting as “beyond the value chain mitigation” measure (formerly known as “compensation”) as SBTi recommends in its Net Zero Standard October 2021 and the Oxford best practice offsetting principles. This would effectively position offsetting as a secondary option to decarbonisation instead of a primary option as it stands now. As noted in our response to Q5 a), avoided emissions offsets should not be used in the context of emissions targets, and that reporting entities should instead prioritise removals and reduction offsets where necessary. Additional disclosure points, for corporate and investor offsetting include:

- “Companies should disclose the average price and the total cost they have paid and expect to pay for their offsets” - The price paid for an offset does not, on its own, provide a guarantee of quality but it does provide a useful indicator to understand the cost and risks of an offset strategy. Investors expect companies to clearly disclose the average price they have paid for any offsets purchased during the year and the price assumptions it is making for future offsets purchases.

On the cost of reporting offsetting disclosures by companies, this cost is reasonable and Railpen broadly agrees with ISSB recommended disclosure points.

Question 6—Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.
The TCFD’s 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity’s financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

- Broadly Agree
- Broadly Disagree
- Other

(b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

- Broadly Agree
- Broadly Disagree
- Other

(c) Do you agree with 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? If not, what would you suggest and why?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answers.
The proposed approach broadly aligns with the suggestions outlined in our response to Q4 and Q5 on the importance of basic quantitative disclosure on emissions data and metrics along with standardised and financially material qualitative disclosure. However, given the currently evolving landscape of data, it is likely that reporting entities may be unable to provide quantitative information. In such cases, Railpen recommends that ISSB should adopt a "comply or explain" approach where preparers are required to explain why they are unable to provide quantitative information, especially in instances of non-disclosure due to data or methodological challenges which may compromise the robustness of disclosures. To improve the quality of disclosures over time, it would also be beneficial for reporting entities to be required to explain how they aim to address quantitative gaps in their disclosures over time.

Railpen recommends that ISSB require companies to disclose the quantitative climate-related estimates and assumptions used in their financial statements. The SASB framework and TPT sectoral templates both provide significant guidance to reporting entities on financially material climate risks that warrant disclosure by sector. This may include, for example, for oil, gas and utilities, commodity or carbon prices, actual remaining lives of assets; decommissioning costs or changes in production levels when forecasting impairment testing. If directors choose not to use Paris-aligned assumptions in their core accounts, they should provide details in the Notes to the Financial Statements on how Paris-aligned assumptions would impact the reported financial statements.

Paris-aligned accounts are essential in providing investors with the information they need to determine the credibility of transition plans and deploy capital in a way that is consistent with the Paris Agreement. To meet expectations for Paris-alignment, companies should make disclosures outlined in IIGCC's Investor Expectations paper for Paris-aligned Accounts:

- Board Affirmation that a 2050 net zero pathway has been considered in drawing up the accounts.
- Adjustments to critical assumptions and estimates: an explanation for how critical accounting judgments are consistent with net zero carbon emissions in 2050. If directors choose not to use Paris-aligned assumptions, they must explain why in the Notes to the accounts.
- Sensitivity analysis: Reporting entities should provide sensitivity analysis of how Paris-aligned assumptions and scenarios would impact the reported financial statements.
- Consistency: affirmation by Board of consistency between narrative reporting on climate risks and the accounting assumptions, or an explanation for any divergence.

Question 7—Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

- what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and
- whether the analysis has been conducted using climate-related scenario analysis; or an alternative technique.

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk-management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.
Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy.
Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve.
The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(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?

- Broadly Agree
- Broadly Disagree

- Other

Please explain your answer:
Along with a broad top-down climate resilience assessment, investors need sector-specific and entity-specific climate risks and opportunities information to adequately assess the climate resilience of reporting entities' strategies – particularly in relation to their alignment with Paris goals. In that context, the items listed in paragraph 15(a) provide the broad ingredients and high level transparency on the entity's strategy to climate-related risks and opportunities. We do recommend defining climate resilience in the proposals more clearly, noting that both investors and reporting entities will approach scenario analysis for the business in different ways.

For scenario analysis, Railpen recommends that companies follow the recommendations below, in line with TCFD and the UK regulatory guidance on climate disclosure:

- Companies should undertake climate scenario analysis, including quantitative elements, to analyse and test their strategic and operational resilience.
- Companies should select and disclose at least two relevant and recognised climate scenarios (e.g. the IPCC's Representative Concentration Pathways (RPCs), including a 'worse case' scenario whereby average global temperatures rise by 4°C by 2100 and a more optimistic scenario, such as those based on current climate policies.
- Companies should assess direct and indirect impacts of the scenarios on the business over the short, medium and long term. (TCFD recommends that companies 'define timeframes according to the life of their assets, the profile of the climate-related risk they face, and the sectors and geographies in which they operate')
- Ensure adequate in-house expertise to develop and integrate scenario analysis into business decision making processes on an ongoing basis.

In addition to the existing TCFD and UK regulatory guidance on scenario analysis, Railpen recommends that companies review scenario analysis annually to account for any factors that might affect its exposure and vulnerability to climate change, such as operational decisions, changes to supply chains, or investment decisions. In addition, every five years, it is recommended that companies review the scientific basis of climate scenario analysis, to ensure that changes to climate science, public policy, and market conditions are accounted for, and managing physical risk and building climate resilience is underpinned by the most recent data and information.

(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?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answer:
Undertaking scenario analysis is a core recommendation under TCFD and an essential tool to support investors in understanding companies' exposures to transition and physical risks, and how they are managing these risks. It also allows investors and other users of reporting to understand the impact of climate change on the long-term

enterprise value of the reporting entity. The general expectation of investors, therefore, is that large companies undertake scenario analysis and disclose relevant information, as described above.

However, Railpen recognises that scenario analysis can be a challenging exercise, and that small and some medium-sized companies, as well as companies in emerging markets and developing economies, lack the resources and capabilities at present to undertake full, quantitative assessments. In such circumstances, alternatives to scenario analysis are preferred to no action at all. Alternative analyses (e.g. undertaking a 'walk-through assessment describing how climate-related impacts could crystallise over time, qualitative analysis and probabilistic assessments especially for the short to medium term) can still provide decision-useful information for users of reporting and can provide a basis to move towards a more sophisticated, quantitative approach over time.

Reporting entities can rely on a growing range of resources to support them with their scenario analysis activities, including those developed and recommended by the TCFD itself. Dedicated materials for investors and other financial services firms have also been published by the UK's Climate Financial Risk Forum as well.

(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?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answer:

Railpen suggests that the proposed disclosures should elaborate further on the circumstances under which it would be permissible to not use scenario analysis (e.g. business size and/or market development as per jurisdiction, substantial data gaps/methodological challenges), where there is a risk that disclosures are misleading or inaccurate as a result. In this case, reporting entities should be required to disclose the steps they will take to address non-disclosure in future.

(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?

Railpen does not propose to answer this question – draft positions explained in sufficient detail above.

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

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answer:

Railpen's recommendations can be found in the answer to Question 7a.

(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?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answer:

Per the responses above, Railpen encourages all reporting entities to build the capacity to undertake scenario analysis in some form (even if qualitative initially). However, where this is likely to be challenging or excessively resource-intensive, alternative approaches to assessing climate resilience are preferred to no action at all. To support comparability of disclosures, the Exposure Draft could be improved by elaborating in more detail as to how reporting entities could undertake the alternative methods or techniques outlined in the proposals.

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answer:

There are high level, "top-down" sensitivity analyses and heatmaps by sector and region that can be applied to help reporting entities to understand and articulate whether their business operations and/or value chain is exposed to climate related risks. Railpen appreciates that small and medium sized entities may find it costly and cumbersome to conduct in-depth or bespoke scenario analysis and hence may qualitative approaches to scenario analysis. However, materiality of these risks to a specific entity is only likely to become clear post scenario analysis and assessment and therefore makes at least a basic form of climate scenario analysis a prerequisite for all reporting entities.

Question 8—Risk management

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both, the view that risks and opportunities can relate to, or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you 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? Why or why not? If not, what changes do you recommend and why?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answer:
Railpen welcomes proposals to broaden out disclosures to better account for the identification and prioritisation of climate-related opportunities, as well as risks. However, in line with previous responses, we would support more granular disclosure requirements on transition and physical climate-related risks and opportunities, on the basis that reporting entities will treat them differently and may be more/less exposed to one or the other category.

In addition to the proposed disclosure requirements, Railpen recommends that disclosures should include reporting on whether planned capital expenditure is consistent with achieving net zero emissions by 2050 (in line with CA100+ Indicator 6).

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

The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- indicative of basic aspects and drivers of climate-related risks and opportunities;
- useful for understanding how an entity is managing its climate-related risks and opportunities;
- widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and
- important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- separately Scope 1 and Scope 2 emissions, for:
- the consolidated accounting group (the parent and its subsidiaries);
- the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
- the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes non-mandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

- Broadly Agree
- Broadly Disagree
- Other

Please explain your answer:
Railpen acknowledges that a degree of flexibility is needed to enable the broad adoption of cross-industry metrics. However, to effectively operationalise these metrics by sector, it will be vital for the ISSB to build on the basic cross-sector metrics developed by TCFD and integrate SASB's sector-specific, financial materiality-based framework. The proposed disclosures should include the detailed guidance from SASB on areas of financially-material risks and disclosure, any sector-specific metrics as needed and their practical implementation along with the example metrics across the seven categories. We recognise that the illustrative guidance published alongside the Exposure Draft attempts to address some of the challenges around the broadly defined metrics, and that it is difficult if not impossible to produce a truly exhaustive set of example metrics. SASB provides a well-researched materiality based framework and metrics which can promote decision-useful and comparable disclosures above and beyond the example metrics included in the TCFD guidance.

(b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

- Yes
- No
- Other

Please explain your answer:
In addition to the cross-industry metric categories proposed, Railpen recommends the inclusion of:

- Green revenue **and** green capex metrics that align with international taxonomies. This could be specified in more detail under (d) capital deployment
- Granular metrics for physical risk, including a disaggregation of risk per hazard-type, a physical asset register which include location (latitude/longitude) of assets and an inventory of current and future climate-related risks in relation to those assets, with particular attention on major value chain assets, as noted in the answer to question 3(a).

- Forward-looking metrics to assess the potential future financial impacts of physical risk on enterprise value (e.g. % impact on net assets, climate value-at-risk)

(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:
Railpen agrees that the GHG Protocol provides a sound basis for defining and measuring Scope 1, 2 and 3 emissions. There are exceptions where lifecycle emissions accounting approaches are more suitable, such as in real estate, mining and infrastructure (e.g. PAS 2080). In these sectors, additional metrics for measuring lifecycle emissions should be considered (e.g. embodied carbon metrics for real estate companies).

The boundaries chosen for emissions disclosure should be comprehensive, including equity stakes and covering the “widest part” of the reporting entity's footprint (i.e. not just the smaller upstream for oil and gas). Additional Scope 1 and 2 disclosures for businesses with operational control will also be beneficial for users of reporting. Supplemental emissions disclosures should be made for certain subsidiaries, consolidated entities, activities should be considered, as highlighted in previous answers.

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:
Typically, emissions disclosure should also be broken down by gas for specific sectors including mining, oil and gas, electricity and food and beverages where it can be material with a recognition that the conversion ratio (28:1) may change over time. Scope 1, 2 and 3 emissions should be disclosed on a consistent organisational footprint to enable them to be added.

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:
Agree. Separate disclosure for both footprints enables the extent of the entity’s influence to be measured and reduces the transferring of emissions through small ownership changes. The energy consumption of the entity should be stated on a basis consistent with emissions also

(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?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:
Yes, Material Scope 3 emissions should be assessed and disclosed. However, as discussed in Q3, mandating basic quantitative disclosure on Scope 1 and Scope 2 emissions across all listed and unlisted companies is a key priority. The quantification of Scope 3 emissions is a challenging exercise and often, discussions around emissions across the company and supplier value chain and double-counting across sectors, are bottlenecks. A phased approach with the first phase of mandatory disclosure of Scope 1 and Scope 2 emissions across all public and private companies across sectors will provide a clearer foundation for the second phase of Scope 3 assessment.

Question 10 —Targets

Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change.

The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement.

Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:
The proposed disclosures will not provide users of reporting with sufficient detail on the specific information companies should be disclosing in relation to climate-related targets, as well as suitable methodologies for developing these targets.

Railpen recommends that companies should disclose quantitative net zero targets in a standardised format and against more specific, granular criteria, including the IIGCC Net Zero Stewardship Toolkit milestones and activities, the indicators established by the CA100+ Benchmark and the Net Zero Investment Framework Implementation Guide. This should include long-term, medium-term and short-term targets for reducing GHG emissions on a clearly defined scope of emissions. Companies should disclose the how the targets set are aligned with and informed by science-based net zero scenarios provided by robust and credible sources (such as the IPCC and the IEA), and how regional and/or sectoral science-based pathways have influenced the target. The following, supplementary criteria for target-setting should also be considered to ensure targets are comprehensive:

- Targets should cover activities across divisions, regions, equity stakes, and material emissions.
- Targets can be based on absolute and/or intensity metrics but should indicate how an intensity target translates into absolute emissions, and vice versa.
- A description of how these targets were calculated, and evidence and information that was used to inform the target setting process.
- The science-based scenario(s) or pathway(s) used to guide target setting and assess the alignment of companies, including the relevant model(s), and critical assumptions used.
- Performance against targets over time, and any relevant updates or adjustments.
- Reporting entities should focus on reducing gross emissions; the total expected impact of measures to “net off” residual gross emissions should be reported
- Per previous answers, separate targets for operational emissions (Scope 1 and 2), which should imply reduction in emissions of 50% in absolute terms by 2030. Reporting entities should disclose their energy consumption to understand what these targets imply for the carbon intensity of consumption.

Railpen also emphasises the need for the form and substance of disclosure to allow for the creation of disclosure metrics from reporting entities and to provide investors with standardised information to create assessment metrics. Railpen recommends that investors seeking to align their portfolios with net zero should use the disclosure metrics and targets from the reporting entities as basis to create and disclose their own targets, in line with the TCFD framework, as currently set out in the disclosure section of the Paris Aligned Investment Initiative's Net Zero Investment Framework:

- The targets, and metrics associated with these, as set out in the NZIF include: Emissions reduction targets (Scope 1 and 2) covering listed equity, fixed income, real estate, expressed in absolute or intensity terms (CO_2e/$mn invested). Scope 3 to be phased in over time and measured separately.
- A target for increasing the percentage of assets under management (AUM) invested in assets in material sectors that are i) net zero, or meeting criteria to be considered net zero ii) ‘aligned’ to a net zero pathway iii) ‘aligning’ to a net zero pathway.
- A target for allocation to climate solutions representing a percentage of revenues or capital expenditure (capex) from AUM, where ‘climate solutions’ are defined in accordance with the EU Taxonomy mitigation criteria where possible.
- The datasets or methodologies used to assess alignment of assets, and the extent to which these are consistent with the key features of the methodologies.
- Performance against targets over time, and any updates or adjustments to targets that are relevant.

Finally, the incorporation of a consistent template for disclosures into the standards will help to improve the comparability of targets across reporting entities. The SBTi template aligns with the TCFD recommendations and leverages data that many companies will already be disclosing. We recommend that companies should report in line with the SBTi template to promote standardised 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?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:
The IPCC's 2018 Special Report on Global Warming made clear that to avoid the worst effects of climate change, it will be necessary to limit global temperature rises to 1.5c, which necessitates reaching net zero emissions by mid-century. Emission reduction targets that align with 1.5c are also needed by investors that have made commitments to align their portfolios with net zero under the Paris Aligned Investment Framework, and to assess company alignment. To uphold this ambition globally, Railpen recommends the use of science based targets from SBTi. In the absence of the same, reporting entities should be required to disclose how their targets compare with both the latest international agreement on climate change and the latest, UN-backed scientific consensus, as established by the IPCC.

Question 11— Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.
The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the 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?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:

Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

Please select which industries you would like to comment on. If you would like to comment on all industries, select 'All industries.'

- All industries
- Aerospace & Defence
- Agricultural Products
- Air Freight & Logistics
- Alcoholic Beverages
- Apparel, Accessories & Footwear
- Appliance Manufacturing
- Asset Management & Custody Activities
- Auto Parts
- Automobiles

The Automobiles sector should disclose the volume of EV sales splitting out pure EV and PHEV numbers. In addition to Scope 1 and Scope 2 disclosure, automakers should disclose Scope 3 category 11 and 1 emissions for new vehicles sold. Category 1intensity is broken out by steel, aluminium and lithium etc. (tCO_2e/t etc.) using established industry methodologies.
The Automobiles sector should set emissions targets based on the emissions of the intensity of new cars sales, with operational emissions, Scope 3 category 11 and category 1 components split out. To align with sector emissions modelling automakers should aim to provide separate disclosure for "trucks" and cars recognizing that there are not standardised definitions regionally.

- Biofuels
- Building Products & Furnishings
- Casinos & Gaming
- Chemicals
- Coal Operations

The Coal Operations sector should disclose total production and sales output segmented by metallurgical and thermal output. State capital investment in coal segmented by metallurgical and thermal. The sector should set short, medium and long term production/emissions targets (including scope 3) including phase out dates by mine. Also set capital investment targets and forward looking investment budgets (again split by metallurgical and thermal). Methane is increasingly recognised issue for coal miners. Miners should disclose methane in CH_4 units.

- Construction Materials

The Construction Materials sector should disclose volumes of steel and cement procured. The mix of steel (Primary (BT-BOF, DRI-EAF) and secondary (EAF-Scrap)) carbon intensity of steel and cement procured. The sector should set targets to reduce emissions intensity of both steel and cement (Scope 3 category 1).

- Containers & Packaging
- Cruise Lines
- Drug Retailers
- E-Commerce
- Electric Utilities & Power Generators

The Electric Utilities and Power Generators sector should disclose Scope 1 generation (a subset of total Scope 1) and Scope 3 category 1, 11 and 15 (minimum), disclose total electricity generation (TWh) and split by region and disclose total emission intensity of generation by region. The sector should set targets for electricity generation, and separate regional targets including Scope 3 emissions targets covering sold energy (scope 3 category 11) and sold electricity scope 3 category 1, specifying the contribution of both towards the target.

- Electrical & Electronic Equipment
- Electronic Manufacturing Services & Original Design Manufacturing
- Engineering & Construction Services
- Food Retailers & Distributions
- Forestry Management
- Fuel Cells & Industrial Batteries
- Gas Utilities & Distributors
- Hardware
- Health Care Delivery
- Health Care Distributors
- Home Builders
- Hotels & Lodging
- Household & Personal Products
- Industrial Machinery & Goods
- Insurance
- Internet Media & Services
- Investment Banking & Brokerage
- Iron and Steel Producers

The Iron and Steel Producers sector should disclose total steel output and emissions intensity splitting out output and intensity by primary (BT-BOF, DRI-EAF) and secondary (EAF-Scrap). The producers should also state the input of secondary material and the emissions intensity by site (scope 1 & 2 and scope 3 upstream – consistent with res steel standard/CRU)

- Leisure Facilities
- Marine Transportation
- Meat, Poultry & Dairy
- Medical Equipment & Supplies
- Metals & Mining

The Metals and Mining sector should disclose green revenue/production including (minimum) copper, lithium, nickel and cobalt and other (based on IEA/IMF etc). Disclose Scope 3 cat 1, 3, 10 and 11 emissions. The sector should disclose absolute capex in coal, split between thermal and met coal, set a forward-looking capex budget and disclose Green capex based on same metals as defined above.

- Mortgage Finance
- Multiline and Speciality Retailers & Distributors
- Non-Alcoholic Beverages
- Oil & Gas – Exploration & Production
- Oil & Gas – Midstream
- Oil & Gas – Refining & Marketing
- Oil & Gas – Services

The Oil and Gas disclosures can be referenced from Exhibit 12 of IIGCC's Net Zero Standard for Oil & Gas. The sector should disclose total energy sold externally with no adjustments for fossil fuel equivalents, disclose emissions on the same footprint including Scope 1 and 2 and scope 3 category 11 minimum. Companies should also disclose Scope 3 category 1 and methane disclosure on a CH4 basis and consistent with OGMP 2.0. In addition to their main target integrated companies should disclose separate upstream emissions targets. Companies should indicate absolute implications of their targets and state the contribution of carbon neutralization measures. Companies should set production and methane targets. On Capital investments, companies should disclose total forward looking investment budget, forward looking capex in fossil fuels, upstream capex and exploration capex, investment in greenfield capex and investment in "green energy".

- Processed Foods
- Pulp & Paper Products
- Rail Transportation
- Real Estate

The recommendation here is to reference IIGCC's Investor Expectations for Listed Real Estate companies.

- Restaurants
- Road Transportation
- Semiconductors
- Software & IT Services
- Solar Technology & Product Developers
- Telecommunication Services
- Waste Management
- Water Utilities & Services

(a) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:

Assuming the above recommendations on integrating the SASB materiality framework above and beyond the TCFD framework are adhered to, this will enable entities to provide information consistent with equivalent disclosure in prior periods.

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning the Exposure Draft's proposals for financed or facilitated emissions.

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?
Please select which industries you would like to comment on. If you would like to comment on all industries, select 'All industries'.

- All industries

- Asset Management & Custody Activities
- Commercial Banks
- Insurance
- Investment Banking & Brokerage

Please explain your answer:
Disagree. The most comprehensive GHG accounting methodology for asset managers and other institutional investors is provided by PCAF, which is in turn accredited by the GHG Protocol. Railpen recommends that investors disclose financed emissions in line with the PCAF Standard.

(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:

Railpen proposes that asset managers should also report on their exposure to carbon-related (or material /carbon-intensive) sectors. Disclosing this metric could help to provide investors with insights as to where actions to reduce emissions and increase engagement will have the greatest impact.

The Paris Aligned Investment Initiative defines carbon-intensive ('material') sectors as those in NACE code categories A-H and J-L. However, Railpen acknowledges that the NACE categorisation system relates specifically to the EU, and the approach to classification is not consistent with all jurisdictions and especially not consistent with SASB. However, we propose that the industry classification be based on GICS, NACE and/or the ICB and the following industries are also categorised as 'carbon-related', alongside those listed in the proposals for commercial banks and insurance entities:

- Agriculture, forestry and fishing
- Manufacturing
- Water supply; sewerage; waste management and remediation activities
- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Transporting and storage
- Information and communication
- Financial and insurance activities.

(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:

Railpen supports the disclosure of both absolute emissions and emissions intensity of the portfolio. As investment portfolios can change over time (for example, due to change in asset mix, sectoral exposure, regional exposure, resulting from money inflows and outflows) and thus impact the emissions profile of an investment portfolio, it is important to monitor both metrics to provide context, explanation and transparency for any increase or decrease in portfolio emissions.

(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:

The PCAF GHG accounting approach is still expanding across asset classes and evolving over time, particularly following increased market participation. Disclosure of methodology will support transparency in the industry as variations to the accounting standard may be adopted.

(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:

As above, Railpen recommends that investors follow the PCAF methodology as the most comprehensive and robust standard in the market. ISSB should seek to promote standardisation and reduce the variation of reporting standards.

(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:

Financed emissions can be one indicator of transition risk. However, as financed emissions provides only a “snap-shot” of current emissions at a single point in time, if taken in isolation, it can be misleading especially in the context of a forward-looking view on transition risk. For a more accurate forward forward-looking indicator of transition risk, Railpen, recommends that financed emissions should be assessed alongside a company alignment metric that indicates how well an asset is positioned to transition over time. The company alignment assessment metric is also recommended by the UK Government climate disclosure regulations and is a useful additional indicator along with the emissions snapshot, to assess portfolio transition risk. Frameworks that provide a company alignment metric, or a methodology for the same are Railpen’s proprietary CRIANZA framework, Moody’s carbon transition assessment framework, IIGCC’s Net Zero Stewardship Toolkit approach and the CA100+ benchmark indicators. Along with emissions disclosure, all of these frameworks include the assessment of:

- Short, medium, and long term targets, aligned with science-based net zero scenarios
- Emissions performance against targets
- Decarbonisation strategy for achieving targets
- Capital allocation plan

A portfolio’s financed emissions at a single point in time be considered high on an absolute basis or relative to a benchmark. However, the portfolio’s exposure to a range of underlying investments satisfying multiple current and forward-looking indicators as above, may result in varying, and hopefully reducing, transition risk exposure over time.

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity’s business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity’s performance on the topic.

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

- Broadly agree
- Broadly disagree
- Other

Please explain your answer:
The SASB Standards have been developed in a rigorous manner to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The standards help define, and identify sustainability-related risks and opportunities for disclosure, especially those with a significant effect on the enterprise value of an entity by industry. Further, they set out standardised measures to help investors assess an entity's performance on the topic. Railpen is fully supportive of industry-based requirements derived from the SASB Standards.

(k) Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general-purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

- Yes
- No
- Other

Please explain your answer:
Railpen recommends a phased approach to industry-requirements on disclosures of climate-related risks and opportunities. The basic quantitative and standardised qualitative disclosure, including integration of the SASB framework with the TCFD foundation and the double materiality 'inside-out' considerations, will constitute the initial phase of mandatory disclosure. This, once effectively mandated and adopted across all public and private companies, in our view, will set the foundation for the next steps on additional metrics and disclosure and provide a clearer path, for more complex topics including Scope 3 emissions, biodiversity risks etc.

(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

- Yes
- No
- Other

Please explain your answer:

As per the answer to Q11(e), industry classifications encompassing jurisdictions and not just confined to Europe are key. Hence the incorporation of NACE, GICS, ICB codes will be helpful along with the inclusion of additional industries as per Q11(e). There are no additional recommendations beyond this.

Question 12—Costs, benefits and likely effects

Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits.

(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

While this is not substantiated by a detailed cost benefit analysis and is largely qualitative, it appears that the likely benefits of implementing the proposals with the recommendations on granular detail, basic quantitative and standardised qualitative disclosure, incorporation of financial materiality, climate engagement actions and outputs, all in a machine readable format, could have benefits for users and preparers, that far outweigh the costs in the long term. Done right and as an upgrade to the current TCFD framework, the ISSB climate-related disclosure reporting could serve as a template for overall sustainability disclosure template both in the UK and other jurisdictions. Given all the work done to date across the industry, the SASB framework provides the most comprehensive and cost-effective solution across the industry overall.

(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

In our view, if done right and as an upgrade to the current TCFD framework, the initial costs for preparers may be high but could serve to reduce on ongoing application. Given all the work done to date across the industry, the SASB framework provides the most comprehensive and cost-effective ongoing solution overall.

(c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

- Yes
- No
- Other

Please explain your answer:

As outlined in Q7, scenario analysis and sensitivity analysis typically could be an expensive exercise and in some cases provide results that may be intuitive from a qualitative standpoint as well. Hence this requirement needs to be viewed through a flexible and broader lens, especially for small and medium entities, who may need the flexibility to use standardised qualitative approaches to climate scenario analysis.

Question 13—Verifiability and enforceability

Paragraphs C21–24 of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* describes verifiability as one of the enhancing qualitative characteristics of sustainability-related financial information. Verifiability helps give investors and creditors confidence that information is complete, neutral and accurate. Verifiable information is more useful to investors and creditors than information that is not verifiable.

Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

- Yes
- No
- Other

Please explain your answer:

While the Exposure Draft on general sustainability-related disclosure standards provides a definition of 'materiality' including double materiality and 'inside-out' climate considerations, there does not appear to be any requirement for reporting entities to disclose the results of their materiality assessments. This means that users of reporting (including investors), as well as auditors, are unable to verify whether the information disclosed by reporting entities provides an accurate picture as to how they are addressing material climate-related risks and opportunities, and whether they are providing complete and relevant datasets.

Question 14—Effective date

Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires entities to disclose all material information about sustainability-related risks and opportunities. It is intended that [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* could take longer to implement.

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Why?

- Earlier
- Later
- The same as

(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.

(b) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier, and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

- Broadly agree
- Broadly disagree
- Other

Please explain your answers

As described in Railpen's letter on Climate first versus ESG first from 2020, the ISSB should, from the outset, consider both climate risks and broader ESG risks for two reasons: (i) materiality and (ii) unintended consequences. For some business models, climate-related risks (or opportunities) might be the most material ESG factor, but this is not always the case. For some industries, ESG issues other than climate change are more material, and information pertaining to broader ESG issues is likely to be of greater utility to an investor. Focusing on one issue to the exclusion of others can create unintended consequences. "ESG risk" captures a range of risk types that are related to one another. Climate risk, for example, is related to workforce issues, human rights, water scarcity, sustainable food production, responsible technology, governance, and more. If we accept that disclosure is linked to action, then requiring issuers to disclose only on climate issues (or providing issuers with incentives to converge to some sort of lowest common denominator) could lead to actions that do not appropriately consider the interrelation between risk types.

The ISSB should from the outset encourage entities and investors to consider the gamut of ESG risk types, not just climate-related risks.

As noted in the Basis for Conclusions, there is an urgent need to improve consistency and comparability of sustainability-related financial disclosures—particularly disclosures related to climate change. An increasing number of entities are already reporting in line with the TCFD recommendations, and the quantity and quality of climate-related data has grown significantly over recent years. It should therefore be quicker and more straightforward to implement the requirements established by the IFRS S2 disclosures than the IFRS S1 disclosures.

We do acknowledge the urgency of the challenges stemming from climate change, but would also encourage a holistic, non-siloed thought process around disclosure that carries along the related risk types as data improves. Hence, we would recommend the effective dates to be the same, and similar to TCFD implementation, apply it on the basis of certain size and revenue thresholds but for climate and overall sustainability disclosure for the same effective date.

Question 15—Digital reporting

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption of sustainability-related financial information, as compared to paper-based consumption, is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* Standards are the sources for the Taxonomy.
It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

As the Exposure Draft currently stands with its generic references to climate-related risks and opportunities similar to TCFD and climate transition plan disclosure, the research outlined in the Executive Summary still highlights areas of weakness where commitments could be made in a non-specific fashion and not followed up by actions. Introducing a combination of basic quantitative disclosure, standardised and simple qualitative disclosure and interoperability, context and mapping to existing disclosure standards (TCFD, TPT, GFANZ) could greatly facilitate digital reporting. Along with digital reporting, with or without a taxonomy per se, the ability use deep learning approaches will be greatly enhanced allowing users to efficiently assess the disclosure, highlight gaps and misalignment and maintain the feedback loop between analysis and engagement and significantly empower the stewardship and voting process. We recommend using formats that promote consistent language in documents and sectionalisation to enable deep learning approaches, natural language processing (NLP) and ease of dataset creation for automated review and analysis.

Question 16—Global baseline

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

- Yes
- No
- Other

Please explain your answer:

Railpen supports the 'building blocks' approach proposed by the ISSB, which should allow the Exposure Draft to provide a global baseline which other standard setters can build on. It will therefore be important for ISSB to work closely with regional standard setters (including EFRAG in the EU and the various UK stakeholders responsible for developing Sustainability Disclosure Requirements) to ensure the standards are fully interoperable with regional reporting and disclosure frameworks, including those which incorporate a double materiality perspective. Ensuring this works in practice will be resource-intensive and require considerable coordination with multiple stakeholders throughout the development process.

As per our response to Q1(a), users need information on the impact of an entity's activities on climate, as well as the impact of climate change on the entity, to fully assess that overall impact of climate on its enterprise value. In that vein, the current ISSB Exposure Draft does not elaborate sufficiently on the 'inside-out impact' or detail beyond climate-related risks and opportunities and on the interoperability of established climate-related disclosure requirements especially TCFD. Not introducing these links and proposed recommendations and enhancements, could limit the ISSB standards from being used in the most efficient and logical manner both for preparers and users.

Question 17—Other comments

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

We see the proposals as a sound foundation to: build on TCFD, integrate with SASB, incorporate double materiality and 'inside-out' considerations, and align with transition frameworks and standardise across jurisdictions, as per the proposed recommendations and enhancements. We welcome any discussions with ISSB on the proposal or specific aspects of the same.

About Railpen

Railpen is the trading name of Railway Pension Investments Limited, which is authorised and regulated by the Financial Conduct Authority (FCA). Railpen acts as the investment manager for the railways pension schemes and is responsible for the management of around c. £37 billion of assets on behalf of over 350,000 members. We also operate as an authorised master trust in respect of our Industry-Wide Defined Contribution arrangement that operates for the benefit of members with c. £1.7bn of DC funds included in our total assets under management.

'Sustainable Ownership' is Railpen's approach to incorporating sustainability considerations into the investments it manages on behalf of members. Railpen's work is enabled by the Trustee's related investment belief: "Incorporating and acting upon climate risk and other environmental, social and governance factors are significant drivers of investment outcomes and part of our fiduciary duty".

As one of the largest UK pension funds, and one of the few remaining occupational pension schemes with open, immature, Defined Benefit (DB) sections, we recognise the impact of climate change on our long-term investments and contribute positively to the kind of world into which our members retire. As well as encouraging our portfolio companies to report against the TCFD framework, we recently supported the Railways Pension Scheme (RPS) with the production of its first full 2021 TCFD report. You can find out more about our work, including our Net Zero Plan, 2021 Stewardship Report and 2020 Sustainable Ownership Review on our website.

Railpen's purpose is to secure our members' futures. We recognise that companies are required to produce significant levels of climate-related and therefore welcome the ISSB standards in a way that seeks to standardise and aid investor and member understanding of complex topics.

We remain very willing to continue to contribute our internal expertise, including further detail, which we think could significantly benefit the shaping of standardised, financially material and holistic disclosure of climate risks and opportunities.

We hope that this response has been of interest. Meanwhile, we will be happy to discuss further any of the issues raised and suggestions provided above.

Yours faithfully,

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