Submitted via email

29 July 2022

IFRS Foundation
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Submitted via email: commentletters@ifrs.org

Dear Sir / Madam,

Exposure Draft IFRS S2 Climate-related Disclosures ("Exposure Draft")

MSCI[1] is a leading provider of climate risk data and analytics to the global investment community and has collected climate and environment, social, and governance (ESG) related disclosures from thousands of companies globally for over two decades and developed tools to assist asset owners and managers in their analysis of climate and ESG risks and opportunities to their portfolios.

MSCI supports the efforts of the ISSB to require entities to report certain climate-related disclosures.

In our earlier response to the IFRS consultation wherein feedback was sought on sustainability reporting we made the three key points viz., interoperability of standards, climate disclosure framework aligned with the TCFD framework and meaningful sustainability disclosures in terms of materiality/economic relevance.[2]

We are in broad agreement with the proposals included in the Exposure Draft and welcome the close alignment with the recommendations of the TCFD, which are supported by more than 2600 companies.[3] The ISSB work is timely, too. As the TCFD recommendations are being adopted into national regulation in many jurisdictions, we observe significant divergence in implementation, which may hinder an efficient take-up of climate-related pricing signals, thereby creating barriers to the reallocation of capital towards investments required for a net zero transition.[4]

Climate change data should be consistent, comparable and timely. Investors would benefit from consistent, comparable and timely disclosures in order to better assess the nature, size and timing of the investment risks they face related to climate change. In this respect, the ISSB will

[1] MSCI ESG Ratings, research and data are produced by MSCI ESG Research LLC.
[2] MSCI feedback on IFRS foundation consultation paper on sustainability reporting
[3] TCFD Status Report, 2021. Accessible here.
[4] As TCFD Comes of Age, Regulators Take a Varied Approach (MSCI | April 2022)

provide a baseline framework for sustainability reporting, which will enhance data comparability for investors and allow to better assess the impact of material non-financial information on enterprise value.

We have 3 primary comments set out below and offer more detailed responses to the Exposure Draft in Annex I to this cover letter:

1. Integrate location-based and resource withdrawal data
2. Scope 3 and financed emission disclosures are highly relevant
3. Welcome global convergence on minimum baseline

Integrate location-based and resource withdrawal data
We agree that entities disclose the amount and extent of their assets and business activities exposed to transition and physical risks. This is in line with the TCFD's set of cross-industry metrics. We believe that such disclosure should also include disclosure of the precise location of the entities' ten largest operations, properties or processes (by asset value or production volume) and resource withdrawal/consumption (reported in standardized units of volume per time) if the asset is extraction based (e.g. water facility). This will allow users to better understand potential vulnerabilities faced by the entity such as asset impairment or stranding, value of liabilities and costs to business interruptions.

Scope 3 and financed emission disclosures are highly relevant
We welcome the integration of Scope 3 disclosures, including industry-specific financed emissions for the financial sector. Furthermore, we acknowledge that the financed emissions requirements included in the Exposure Draft are based on the significant work already undertaken by the Partnership for Carbon Accounting Financials (PCAF) as part of its PCAF Standard. MSCI has recently integrated the PCAF methodology in a full portfolio footprint solution.[5]

Recent MSCI research shows the relevance of Scope 3 emissions for most sectors. We researched 1,038 or about 35% of MSCI ACWI Index[6] constituents that set decarbonization targets. Based on our estimates, about 85% of these companies' total value chain emissions were attributed to Scope 3 boundaries across the Global Industry Classification Standards (GICS®) sectors.[7] Our research also found that financed emissions account for almost 80 percent of total carbon footprint for global systemically important banks. Despite this, there is still a long-way to go to have more complete disclosure of financed emissions as can be seen in Exhibit A.

Welcome global convergence on minimum baseline
We acknowledge that the Exposure Draft can be used by countries and jurisdictions as a minimum baseline for their own respective sustainability disclosure frameworks. We would welcome recognition of the ISSB standards by leading economies, standard setters and financial supervisors and a commitment to integrate and adopt the emerging ISSB framework.

We provide the following attachments:

- **Annex 1**
  Specific responses to the Exposure Draft.

[5] Total Portfolio Foot printing (MSCI)
[6] MSCI All Country World Index
[7] Breaking Down Corporate Net-Zero Climate Targets (MSCI |May 2021)

- **Annex 2**
  Additional research paper references relating to the impact of a net-zero transition and physical climate risks on different asset classes and the use of climate scenarios for portfolio optimization, risk management and regulatory reporting purposes.

We would welcome a discussion with you to provide additional granular information on how financial institutions can determine climate-related financial risks that are material and various tools and strategies that are currently available to incorporate climate risks into their risk management framework.

Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

/s Linda-Eling Lee
Managing Director, Global Head of ESG & Climate Research
MSCI ESG Research LLC

Annex 1– MSCI response to the Exposure Draft IFRS S2 Climate-related Disclosures

Question 1: Objective of the Exposure

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

Broadly Agree

Yes. We agree with the objective that has been established for the Exposure Draft. Investors would benefit from consistent, comparable and timely mandatory disclosures in order to better assess the nature, size and timing of the investment risks they face related to climate change. Also, the disclosures shall assist investors to evaluate an entity's resilience to climate related risks.

(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

Yes. We agree with the objective of the Exposure Draft to require an entity to disclose information about its exposure to significant climate-related risks and opportunities. The disclosures under the Exposure Draft will create a minimum standard of reporting that would enable a base comparison across portfolios containing companies in different sectors and/or countries.

(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

Yes, we agree with the disclosure requirements set out in the Exposure Draft as it meets the objectives laid out in paragraph 1. Having said that, a reference to "significant" climate related risks and opportunities may require elaboration or clarification by the ISSB. Unless "significant" is pre-defined by the ISSB, disclosures may preclude comparability across entities. A clearer definition of "significant" would include more details around the threshold that must be reached before a climate risk is considered to be "significant". This would ensure all entities are applying an even bar of significance, thus encouraging greater comparability. If the ISSB pursues the approach of leaving the assessment of what is "significant" to the entity, then we emphasize that this disclosure will only be useful if accompanied by underlying assumptions, i.e. how has the entity established the definition of significance?

Question 2—Governance

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

Yes, we agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. However, there are a few aspects which require further elaboration by the ISSB to make it more decision useful for the investors.
The proposal included in paragraph 5(c) of the Exposure Draft requires disclosure about the appropriate skills and competencies of an entity's governing body to oversee strategies designed to respond to climate-related risks and opportunities. However, we encourage the ISSB to provide guidance on the attributes required for an individual to be considered to have the adequate skill and the qualification to meet the requirement of a climate expert.

Question 3—Identification of climate-related risks and opportunities

(a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

Broadly Agree

Yes, we agree that the majority of the proposed requirements around climate risk disclosure are sufficiently clear. However, we believe that the term 'significant', which is used to describe climate risks, requires further elaboration and clarification by the ISSB. Please refer to our response to Question 1 (c).
We agree that the disclosure of climate-related risks and opportunities should include the impact of climate events on an entity's financial statements, business model, strategy and cash flows, as this is in accordance with the TCFD's common set of terminologies. This will allow companies and investors to assess the disclosed climate risks and opportunities in a consistent and comparable way.
It is important that companies disclose the specific time horizon, i.e., year ranges, used in the assessment which will provide investors with an understanding as to how the companies evaluate the probability of future impacts. Disclosure of climate-change information and analysis of climate-related risks should cover varying time horizons and not simply the period covered by the particular reporting year. Assessments of risk across varying time horizons require determinations of the probability of future events and the impact of those events that are specific to the individual companies.
As context for what elements of "climate-related" risks investors are already seeking to measure and incorporate, the MSCI Climate Value-at-Risk model is designed to provide forward-looking and return-based valuation assessment by company to measure climate related risks including company value decrease caused by transition or physical risk. The table below shows the building blocks of the Climate Value-at-Risk and how it correlates with some of the disclosure points the Exposure Draft is requesting from entities, including the impact of climate risks on the value chain.

Policy Risks	**Technology Opportunities**	**Physical Risks & Opportunities**
Cost of Emission Reduction Requirements (Scope 1)	Green Revenues (Clean Tech Revenues)	Extreme Heat (Chronic)

Electricity Pass-through Cost Model (Scope 2)	All Company Patents	Extreme Cold (Chronic)
Value Chain Impacts (Scope 3)	Low Carbon patents	Heavy Precipitation (Chronic)
		Heavy Snowfall (Chronic)
		Wind Gusts (Chronic)
		Coastal Flooding (Acute)
		Tropical Cyclones (Acute)
		Fluvial Flooding (Acute)
		Wildfire (Acute)
		River low-flow (from Drought Events, Acute)

(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

We acknowledge that the industry-based disclosure requirements outlined in Appendix B of the Exposure Draft have been derived, largely unchanged, from the SASB Standards. We agree with the ISSB that these industry-based disclosure requirements identify sustainability topics most relevant to the enterprise value for an entity in a particular industry thereby encouraging an entity to disclose more decision-useful information to investors and other users of market data. As the industry-based requirements take a narrow lens by specifically focusing on a particular industry or even sub-sector, we believe that this will not result in an additional reporting burden for entities as only a subset is likely to apply to a particular entity.

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

(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

We agree that the definition of climate-related risks should include the impact of climate-related conditions and events on an entity's business model and value chain. The negative impacts on a company's value chain should also be included in an entity's disclosure requirements. This is in

line with the TCFD recommendations.[8] No upstream or downstream activities should be excluded. This will allow investors to build a more comprehensive picture of the potential impact of climate-related risks faced by an entity. However, the Exposure Draft does not include a requirement for an entity to define its value chain, nor does the Exposure Draft provide guidance for entities regarding the exact scope of their value chain for risk assessment. Therefore, we would encourage the ISSB to require entities to disclose how and to what extent they have defined their value chain risks.

(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 Disagree

As it does for other disclosure requirements included in the Exposure Draft, the ISSB should encourage the disclosure of quantitative information for an entity's value chain reporting. Only if it is unable to do so, qualitative information shall be provided. If an entity is only able to disclose qualitative disclosure for its value chain reporting, this should be sufficiently clear information for users and investors to use (i.e. detailed location data).

<u>Question 5—Transition plans and carbon offsets</u>

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

Broadly Disagree

The proposed disclosure requirements in the Exposure Draft lack the granularity needed to fully assess an entity's transition plan. For example, the Exposure Draft should consider the use of a cross-sector set of transition plan metrics as recommended by the TCFD's transition plan elements.[9] A standard set of data and metrics should be used, because it facilitates broader understanding and progress against goals.[10] Decarbonization targets should refer to Scope 1 and 2 emissions across all operations globally, plus Scope 3 emissions across all categories according to the Greenhouse Gas Protocol. Investors need to know to assess the net-zero targets of providers across the following 3 key dimensions –

- Comprehensiveness - examine how much of the total emissions of a company are covered by the published targets. Additionally, the comprehensiveness determines whether solely carbon dioxide equivalent (CO2e) emissions are considered, or all greenhouse gas (GHG) emissions.
- Ambition - analyse how much and how quickly a target aims to reduce emissions. This provides investors with an overview of how a company's trajectory may deviate at the key horizons of 2030 and 2050 from the path required to achieve net-zero.
- Feasibility - assess how feasible a given target is and how much confidence investors can have in its achievement. This will inform the level of confidence that a company will achieve its targets.

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[8] Guidance on Metrics, Targets and Transition Plans (TCFD | October 2021)
[9] Guidance on Metrics, Targets and Transition Plans (TCFD | October 2021)
[10] Breaking Down Corporate Net-Zero Climate Targets (MSCI | 24 May 2021)

(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.

Broadly Agree

To enable investors and other market participants to build a comprehensive picture of how an entity plans to transition to a lower-carbon economy, it may be helpful for the Exposure Draft to include disclosures recommended by the TCFD's transition plan elements.[11] This includes, but is not limited to metrics. The transition plan should describe metrics the entity will monitor to track progress against plans and targets, including related operational and financial performance metrics, metrics aligned with the cross-industry, climate-related metric categories, and industry-specific or organization specific metrics. Please also refer our response to Question 5 (a).

(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

We welcome the proposed carbon offset disclosures in the Exposure Draft if it enables a better assessment of the quality of the underlying projects. Currently, there is a lack of confidence and clarity among investors about how different types and quality of carbon offsets should be treated.
In addition to what is already included in the Exposure Draft, the ISSB should require entities to detail which part of their total GHG footprint (Scope 1, 2 or 3) the carbon offsets are intended for; whether the offsets purchased are tied to projects that remove or avoid emissions; the extent to which the emissions removal or emissions are additional (i.e., would not have otherwise occurred without the funding from the offset); and what mechanisms are in place to monitor and attain assurance that the emissions removed or avoided are permanent. Furthermore, the ISSB should include the location and cost of carbon offsets being used by an entity. This information is particularly important for assessing plans to reduce Scope 2 emissions.

(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?

No Comment.

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[11] Guidance on Metrics, Targets and Transition Plans (TCFD | October 2021)

<u>Question 6—Current and anticipated effects</u>

(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

Listed corporates generally provide guidance to the market on future financial performance. Therefore, including quantitative information, either as a single-amount or range, on the financial effects of climate-related risks in near-term or medium-term outlook would be beneficial for users of financial statements and the financial markets. From a risk perspective, it would allow users of the financial information to run their own sensitivity analysis using key quantitative information provided by the entities.

(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

Entities report potential impact of financial risks, such as interest rate risk or foreign exchange risk, in financial reports. Disclosing similar forward-looking data for climate-related risks and opportunities would allow users of financial statements to understand the sensitivity of financial performance, financial position and cash flows to climate-related risks. In the case of financial effects of climate-related risks and opportunities, the focus may be on an entity's alignment to a warming degree or abatement target and allowing users of financial information to understand the impact this alignment may have on financial performance.

(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

It would be beneficial for users of financial statements to have quantitative data from the entity of the anticipated effects of climate-related risks and opportunities over different time horizons that may impact financial position and performance. This will allow users to measure the impact of risks and opportunities on the business.

<u>Question 7—Climate resilience</u>

(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

(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 Disagree

Alternative methods such as qualitative analysis and single-point forecasts can provide only limited information compared to more sophisticated scenario analysis. MSCI research shown below highlights the analysis and results that can be derived from scenario analysis compared to more basic qualitative exercises, thereby showing the benefits to investors using the disclosed data. As the ISSB notes in the Exposure Draft, scenario analysis exercises are increasingly being used by investors and other users as a tool to better understand the future effects of climate change on an entity's business models, strategies, financial performance and financial position.

The most important and useful information is in the form of quantitative metrics. Although a qualitative overlay to the quantitative disclosures is also important, "boilerplate statements" should be discouraged in favor of meaningful disclosure that explains how the risks posed by different climate scenarios might be expected to impact the company's financial position and how those risks are being managed as a result.

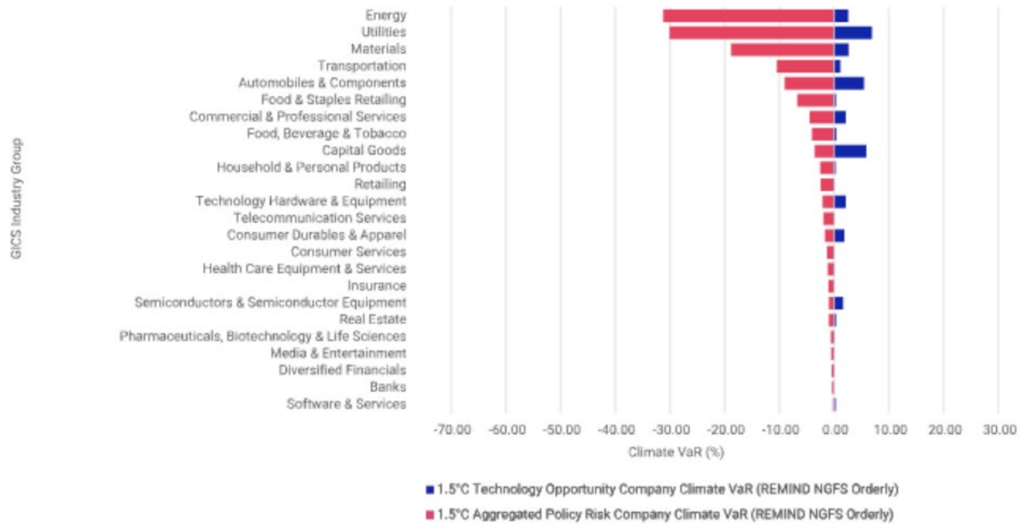
We agree with the ISSB that scenario analysis, over time, should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to manage significant climate-related risks. If an entity is unable to perform climate-related scenario analysis, we agree that it needs to disclose the reasons for not performing the analysis. Furthermore, it should provide an expected date or time-period by when it reasonably expects to start conducting scenario analysis.

Benefits of using scenario analysis

Scenario-based information is relevant and meaningful for an investor seeking to hedge their portfolio against a range of scenarios to climate change. To show the importance of scenario analysis for the financial sector, MSCI illustrated the uneven distribution of climate impacts for different sectors building on scenarios developed by the Network for Greening the Financial System (NGFS).[12] For example, in the NGFS' 1.5°C Net-Zero 2050 scenario, carbon-intensive sectors and industry groups such as energy, utilities and materials carried the highest policy risk, with the average energy company losing around 31% of enterprise value.

[12] Stress Testing Portfolios for Climate-Change Risk (MSCI | October 2021)

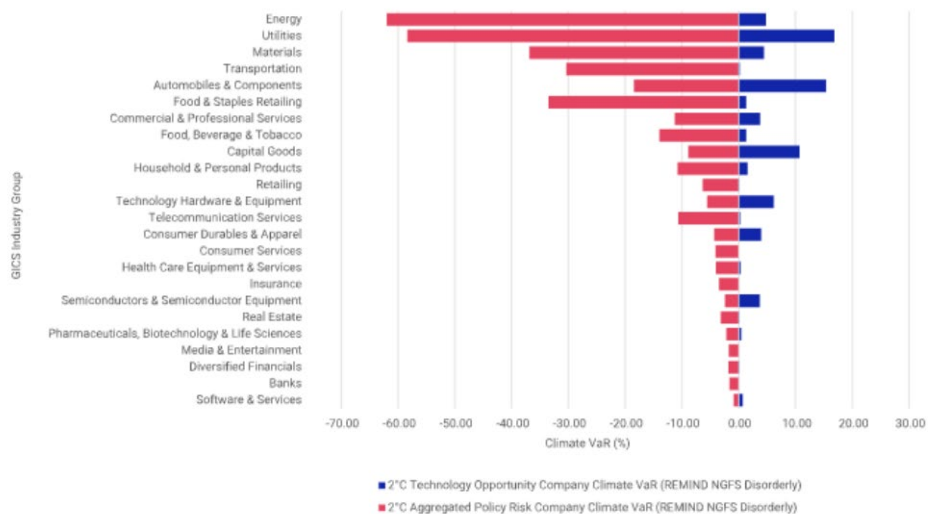
Figure 1: Early-Action Risks Cluster in Energy and Utilities



Source: [Stress Testing Portfolios for Climate-Change Risk (MSCI | 2021)]

Under the NGFS late-action 2°C scenario, the policy risks increase substantially, with the average energy company doubling its loss to enterprise value compared to the 1.5°C scenario (62% vs. 31%, respectively). However, other industry groups would face greater proportionate losses. For example, the average transition risk for food and staples retailing would quintuple to -33.46% in a late-action 2°C scenario from -6.73% in an early-action 1.5°C scenario, with most of the increased risk coming from electricity use (Scope 2).

Figure 2: Impact of the transition risk scenarios on the enterprise value of companies



Source: [Stress Testing Portfolios for Climate-Change Risk (MSCI | 2021)]

(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

Please refer our response to Question 7(b)(i)

(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?

No Comment.

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

Broadly Agree

The proposed scenario analysis disclosures listed in the Exposure Draft correlate closely with the recommendations made by the NGFS in its guide to scenario analysis.[13] We believe that by requiring detailed disclosure of the scenario analysis being undertaken by entities, the ISSB is supporting users and investors make better informed decisions regarding capital allocation and how an entity will perform in the transition to a lower-carbon future.
However, we believe there is scope for the ISSB to be more specific in its requirements on scenario analysis. We note that the Exposure Draft does not prescribe particular scenarios that an entity should use. We believe that using different models and scenarios leads to results that are not comparable. While this can give entities some flexibility, it is important for investors to be able to effectively compare the results of a prescribed scenario analysis. In November 2021, the TCFD updated its guidelines to include references on what types of climate scenarios are available to use, including the recommendation to use scenarios from the NGFS and the Intergovernmental Panel on Climate Change (IPCC).[14] We believe the ISSB should also look to align with the TCFD here and encourage the use of NGFS and IPCC-based scenarios.

(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 Disagree

Please refer our response to Question 7(b)(ii)

(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?

No Comment.

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[13] Guide to Climate Scenario Analysis for Central Banks and Supervisors (NGFS | June 2020)
[14] Guidance on Metrics, Targets, and Transition Plans (TCFD | October 2021)

Question 8—Risk management

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

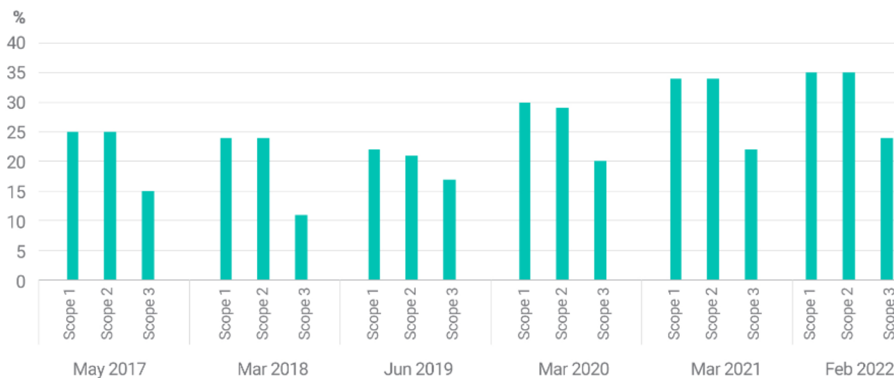
Question 9—Cross-industry metric categories and greenhouse gas emissions

(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

We strongly support and encourage the ISSB Exposure Draft aligning with the cross-industry metrics recommended by the TCFD framework, to promote comparability. The TCFD framework has become a global quasi-standard and is the basis for climate-related financial disclosure by over 2600 companies.[15]
We welcome the approach in the Exposure Draft that includes all seven of the TCFD cross-industry core metrics and underlines the relevance of a forward-looking approach to climate-related disclosure. By including cross-industry core metrics, the Exposure Draft supports consistent, comparable and reliable disclosure for investors.
We particularly welcome the inclusion to disclose GHG emissions as part of the cross-industry set of metrics for all entities. The disclosure of GHG emissions will help narrow the reporting and information gap that currently exists, as can be seen in MSCI research. The figure below shows that although GHG emissions disclosure has increased over the last 5 years, fewer than 40% of MSCI ACWI Investable Market Index (MSCI ACWI IMI) constituents reported Scope 1 and 2 emissions. An even smaller number of constituents, fewer than 25%, reported Scope 3 GHG emissions.[16]

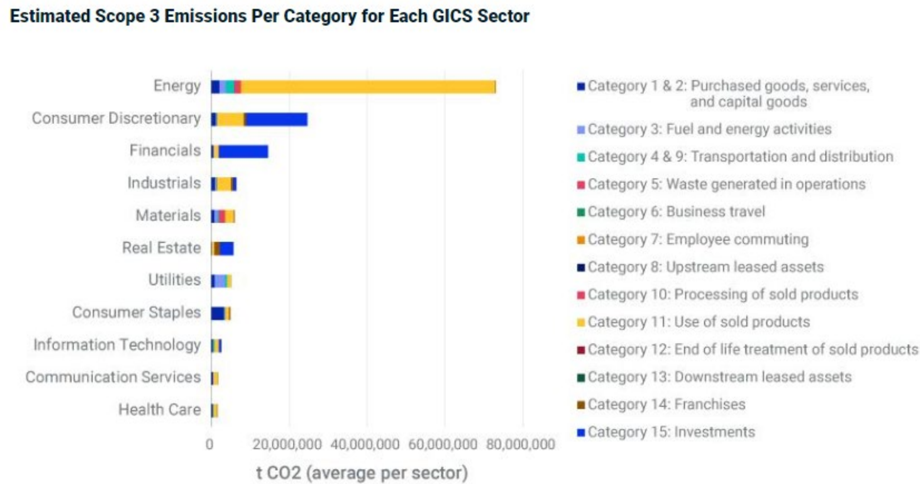
Figure 3: GHG-Disclosure rates for MSCI ACWI IMI constituents



[15] 2021 Status Report: Task Force on Climate-related Financial Disclosures (Financial Stability Board | 14 October 2021)
[16] Reported Emission Footprints: The Challenge is Real (MSCI | March 2022)

Investors seeking to measure their exposure to Scope 3 emissions, thus, face a big challenge of scarce and inconsistent disclosed data. To tackle the Scope 3 disclosure challenge, MSCI has developed a model to estimate these emissions across each of the 15 categories using a combination of revenue estimates and production data. The exhibit below highlights the exposure of each Global Industry Classification Standard's (GICS®) sector to each category of Scope 3 emissions, providing insights into the potential risks each sector faces and the location of these risks within their upstream or downstream value chain.[17]

Figure 4: Estimated Scope 3 Emissions per category for each GICS Sector



A detailed Scope 3 estimation model can help fill in the gaps in companies' carbon-emission reporting. This type of detailed information may enhance investors' view of where carbon-transition risks lie across their portfolios.

(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.

Broadly Agree

In addition to the cross-industry metrics included in the Exposure Draft, the disclosure by all entities of location information for the 10 largest facilities and of their largest suppliers would provide investors and other users of this data to better assess an entity's climate risks exposure.

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

[17] Scope 3 Carbon Emissions: Seeing the Full Picture (MSCI | September 2020)

We agree that the Exposure Draft should require all entities to disclose GHG emissions on an absolute basis and on an intensity basis, using the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 Emissions. The GHG Protocol provides a standardised approach for an entity to measure a true and fair account of its GHG emissions.[18] This also provides investors and other uses of the data with comparable information across reporting entities.

(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))?

No Comment.

(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

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

Please refer our response to Question 9 (a)

<u>Question 10—Targets</u>

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

Broadly Agree

We agree with the target disclosure requirements outlined in the Exposure Draft. They cover most of the important data points needed to assess the robustness, credibility and comparability of an entity's climate related targets. We acknowledge that the requirement to disclose how a target compares with those created in the latest international climate agreement (i.e. Paris Agreement) provides market participants with a basis for comparing the level of ambition of an entity's target. However, we note that the Exposure Draft does not define what a science-based target should look like for entities, and therefore does not require entities to disclose on how their targets meet any science-based requirements (e.g. the Science-Based Targets initiative).

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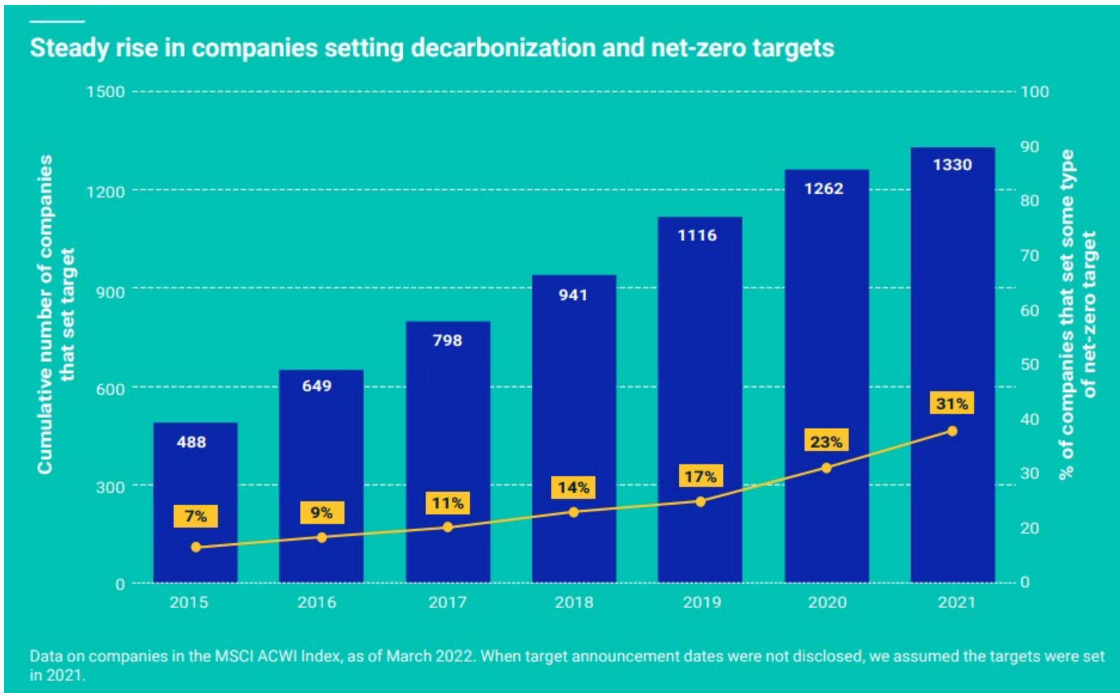
[18] GHG Protocol, Corporate Standard, July 2022

Figure 5: Steady rise in companies setting decarbonization and net-zero targets



Source: MSCI ESG Research, June 2022

The figure above shows that there has been a steady rise in the number of companies setting decarbonization and net-zero targets. About 45% of the more than 2,900 companies in the MSCI ACWI Index had set a decarbonization target, as of March 2022.[19] However, corporate climate targets are vastly heterogenous and very difficult to compare or track progress over time. Understanding a company's climate target or commitment, particularly with regards to the planned reduction of GHG emissions and being able to compare different climate targets on a consistent basis are critical for investors seeking to measure or mitigate climate risks in their portfolios.

MSCI has developed a three-part framework, the Climate Target Scorecard, for assessing the robustness of corporate decarbonization targets that may provide some guidance on what matters for investors (see table below).[20] The framework evaluates a company's climate commitments based on their comprehensiveness, ambitions and feasibility.

Analytical Framework	Descriptions	Key Components
Comprehensiveness	Does the target focus on the majority of a company's emissions?	Type Unit Target scopes Target coverages Percentage of company footprint covered by the target

[19] MSCI Net Zero Tracker, June 2022
[20] Breaking Down Corporate Net-Zero Climate Targets (MSCI \| May 2021)

Ambition:	How much and how quickly does a target aim to reduce emissions?	Remaining emissions reduction Normalized reduction per year Target year Projected target emissions against net-zero trajectory in 2030 Projected target emissions against net-zero in 2050
Feasibility:	How feasible is a given target, and how much confidence can investors have in its achievement?	Track record of meeting previous targets Progress on active targets Intention to use carbon offsets Revenue from climate change solutions Decarbonization strategy by scope and category

(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

<u>Question 11—Industry-based requirements</u>

(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

We acknowledge the work undertaken in the Exposure Draft to revise the SASB Standards to improve the international applicability. We believe this will support efforts to use the Exposure Draft as a global baseline in jurisdictions around the world.

(b) 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?

No comment

(c) 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?

No comment

(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

Yes, we agree with the industry-based financed emissions disclosures. Cross-industry Scope 3

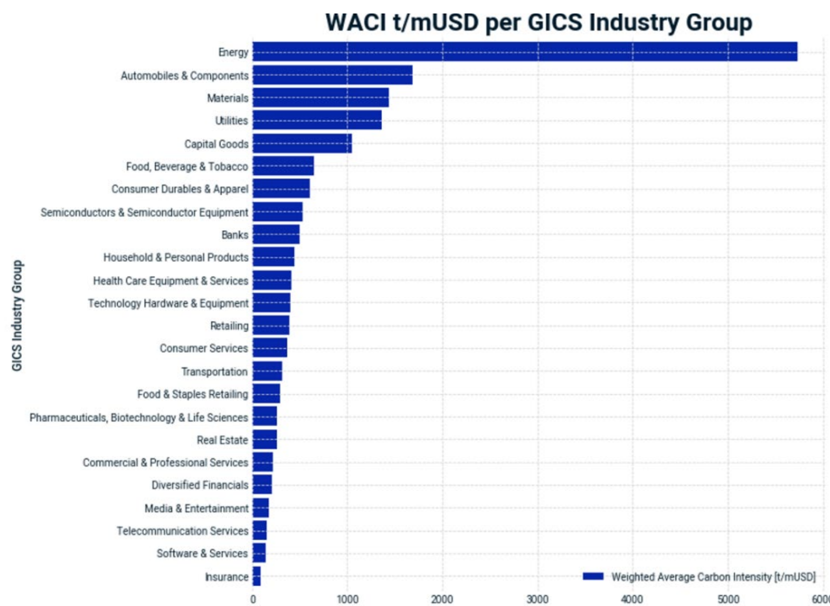
requirements derived from the GHG Protocol lack the needed granularity and specificity for financial institutions. We believe that industry-specific requirements for financed emissions better allows investors to assess how much emissions they are financing through their investments across all asset classes and thus their exposure to carbon-intense industries.

(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

Based on MSCI's assessment of the average Scope 3 intensities of different sectors, according to the GICS, the list of industries classified as 'carbon-related' by the Exposure Draft covers those industries which is responsible for relatively high GHG emissions.
Furthermore, it will be beneficial if the final standards have a complete and defined list of all GICS sectors which are deemed to be carbon-related, and the list to be assessed regularly to ensure that they are indeed the most carbon-intense at the time.

Figure 6: GHG Emissions intensity by sector



Source: MSCI ESG Research, Dec 2021

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

Broadly Agree

Both absolute and intensity-based metrics entail different information and is therefore helpful for investors to have them assessed and presented together. Disclosure of just absolute financed emissions by itself can be misleading.
For example, absolute emissions show the footprint of a given investment and addresses the question of what the climate impact of an investment is. On the other hand, intensity-based emissions disclosure normalizes the emissions by the value or revenue of a firm, thus making GHG footprints more comparable for investors.

(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

(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 Disagree

We would strongly encourage the ISSB to prescribe the use of the PCAF Standard on financed emissions. This is a much more granular and specific approach than what is included in the GHG Protocol alone, and therefore of much more valuable use to financial firms. For example, the PCAF Standard allows for asset-specific financed emissions calculation.

(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.

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.

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

No Comment.

(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.

No Comment.

(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?

Other

We acknowledge that the Exposure Draft refers to both the Sustainable Industry Classification System (SICS) and the Global Industry Classification System (GICS) with regards to the industry-based requirements. The industry-based requirements in the Exposure Draft are built on the SASB standards, which are in turn based on the SICS. However, the Exposure Draft also refers to the use of GICS for financed emissions disclosure. Therefore, we would encourage that the Exposure Draft allows entities flexibility to choose either SICS or GICS in their use of industry classifications.

<u>Question 12—Costs, benefits and likely effects</u>

(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?

No Comment.

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

No Comment.

(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?

No Comment.

<u>Question 13—Verifiability and enforceability</u>

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.

No Comment.

<u>Question 14—Effective date</u>

(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?

The same as that of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

We acknowledge that the ISSB will set the effective date for the climate-related disclosure requirements included in the Exposure Draft when it approves the final Standard. We believe that this should be at the same time as the effective date of the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. This will ensure that investors and users of the data have access to consistent data across climate and other sustainability matters at the same time.

(b) 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.

We understand that jurisdictions and reporting entities will require some time to implement the new Standard once it has been finalized. However, we would encourage the effective date to be set sooner rather than later, as it is important for entities to start disclosing the information as soon as it is practically feasible.

(c) 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 Disagree

Considering that many of the disclosure requirements in the Exposure Draft are inter-related with one another, we would agree that all of the disclosures should be applied together at the same time.

Question 15—Digital reporting

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)?

We would recommend entities to tag the sustainability and climate-related disclosures in Inline XBRL; it would be the preferred format. With the increase in textual data / narrative, the detailed tagging would help in synthesizing varied sustainability and climate-related disclosures consistently especially for qualitative data. We would support a well-defined list of tags (vs. allowing custom tags) or a guidance to define the sustainability and climate-related tags that is aligned with existing reporting standards and taxonomy to avoid incomparability in the disclosures by different entities.
We believe broader adoption of Inline XBRL could ensure higher data comparability and consistency.

Question 16—Global baseline

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?

No

We acknowledge that the Exposure Draft can be used by countries and jurisdictions as a minimum baseline for their own respective sustainability disclosure frameworks. For example, all disclosures included in the Exposure Draft are covered by the proposed European Sustainability Reporting Standards (ESRS), which also then goes further by adding more detailed disclosure requirements across a number of areas such as targets, policies, energy consumption, etc.

Question 17—Other comments

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

No Comment.

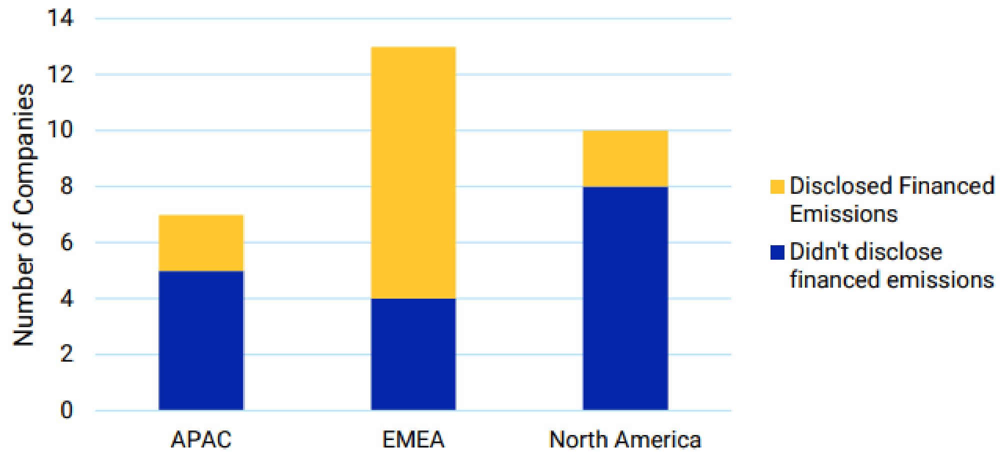
ANNEX II - Additional research paper references relating to the impact of a net-zero transition and physical climate risks on different asset classes and the use of climate scenarios for portfolio optimization, risk management and regulatory reporting purposes

MSCI Research	Details	Link
Climate scenario analysis at MSCI	Introduces our approach to climate scenario to help clients identify and understand financial risks from climate change and take actions.	Scenario Analysis - MSCI
Breaking Down Corporate Net Zero Climate Targets	An increasing number of companies are setting net-zero climate targets. This MSCI report outlines an analytical framework to assess these targets.	Breaking Down Corporate Net-Zero Climate Target (msci.com)
Net-Zero Knowledge Hub	The Net-Zero Knowledge Hub brings together information from MSCI and other thought leaders that professional investors, issuers and financial intermediaries can draw upon as they map out plans to decarbonize their portfolios and organizations.	Net-Zero Knowledge Hub (net-zero-hub.com)
Measuring Climate Impact with Total-Portfolio Carbon Footprinting	MSCI investigated PCAF-aligned financed emissions for various asset classes, including global equities and sovereign, corporate and municipal bonds. The findings found significant variation in financed emissions across asset classes and across sectors within asset classes.	Measuring Climate Impact with Total-Portfolio Carbon Footprinting - MSCI
Corporate Bonds and Climate-Change Risk	In this report, MSCI focuses on the portfolios of developed-market corporate bonds and studies the financial materiality of climate-change risk for these portfolios.	In Transition to a New Economy: Corporate Bonds and Climate-Change Risk (msci.com)
MSCI Report for the Norwegian Ministry of Finance	This report studies the emission exposure and climate-risk exposure of Norway's Government Pension Fund Global (GPFG) equity benchmark, using standard methodologies as recommended by the Financial Stability Board's Task Force on Climate-related Financial	msci-modelling-climate-risk-and-climate-benchmarks-2022.pdf.pdf (regjeringen.no)

MSCI Research	Details	Link
	Disclosures (TCFD) and the Network for Greening the Financial System (NGFS).	
How Climate Change Could Impact Credit Risk	This MSCI article investigates how different climate scenarios could impact the five-year default probability of a large USD and EUR bond issuers.	How Climate Change Could Impact Credit Risk - MSCI
Stress Testing Portfolios for Climate-Change Risk	Climate scenario analysis provides a powerful tool for understanding the implications of climate change in portfolios. Using two of these scenarios, MSCI finds significantly higher costs for energy companies in a "late action" scenario but also rising impacts for otherwise less exposed firms like those within food and staples retail.	Stress Testing Portfolios for Climate-Change Risk - MSCI
Net-Zero Alignment: Portfolio Construction Approaches for Investors	How can investors align with a net-zero pathway in their portfolios? The report uses MSCI's Implied Temperature Rise (ITR) metric, which aims to show the temperature alignment of companies, portfolios and funds with global climate targets.	Net-Zero Alignment (msci.com)
Net-Zero Alignment: Objectives and Strategic Approached for Investors	MSCI investigated three common approaches to net-zero investing to see whether they can have a real impact on decarbonizing the economy.	Net-Zero Alignment: Objectives and Strategic Approaches for Investors - MSCI
Net-Zero Alignment: Managing Portfolio Risk Along the Net-Zero Journey	MSCI examines the challenges investors face when looking to measure and manage climate risk in their portfolios, while meeting the imperative of reaching net-zero emissions.	Net-Zero Alignment: Managing Portfolio Risk Along the Net-Zero Journey - MSCI
Understanding Carbon Exposure in Private Assets	Since the Paris Agreement, there has been growing scrutiny on carbon emissions by public companies, but it is much tougher for investors to evaluate their exposure to carbon from privately held assets.	Understanding Carbon Exposure in Private Assets - MSCI

MSCI Research	Details	Link
New Frontiers in Carbon Footprinting: Private-Equity and Debt Funds	In this article, MSCI partners with Burgiss to estimate carbon-emission intensities of private-equity and -debt funds with reported revenue figures in the Burgiss Transparency Database.	New Frontiers in Carbon Foot printing: Private-Equity and -Debt Funds - MSCI

Exhibit A – Financed Emissions Disclosure by Global Systemically Important Banks by Region



Source: MSCI ESG Research LLC, as of February 8, 2022.