NEI

July 28, 2022

Mr. Emmanuel Faber, Chair
Ms. Suzanne Lloyd, Vice-Chair
International Sustainability Standards Board
c/o IFRS Foundation
Columbus Building
7 Westferry Circus
London E14 4HD, UK
Email: commentletters@ifrs.org

Re: Comment Letter on Exposure Draft IRFS S2 Climate-related Disclosures

We appreciate the opportunity to provide comments on the Exposure Draft IFRS S2 *Climate-related Disclosures* (Exposure Draft). We commend the International Sustainability Standards Board (ISSB) for its responsiveness to investors' need for better sustainability-related disclosure.

NEI Investments is a Canadian asset manager specializing in responsible investing, with approximately CAD$11 billion in assets under management. Our approach to investing incorporates the thesis that companies can mitigate risk and take advantage of emerging business opportunities by integrating best environmental, social and governance (ESG) practices into their strategies and operations. As part of our investment process, we utilise climate-related data to better inform our investment decisions and guide our corporate proxy voting and engagement activities.

We are supportive of the ISSB's use of the recommendations by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) to guide its disclosure recommendations. We are also supportive of the ISSB's standard-setting goal to be a globally adopted baseline for climate-related disclosure. Our comments support our overarching view that an orderly transition to a low carbon economy is a global imperative to mitigate the systemic risks of climate change and its impact to our global economy and financial system.

Question 1: Objective of the Exposure Draft

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

While we agree with the objective broadly, we believe that the climate-related information disclosed should be decision-useful to the users of the information. Please refer to our comment on definitions [below].

(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?

For users of the financial information, there needs to be a clarification of the definition "significant" in assessing the effects of climate-related risks and opportunities on enterprise value. The use of "significant" does not provide clarity on the degree of information to be disclosed.

Secondly, the term enterprise value is generally used in a public market context as defined by the ISSB definition as "…the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt"[1]. If the intent is for the standard to be applicable to all reporting issuers, including private and public entities and NGOs, we suggest the use of a cash flow metric[2] instead. A cash flow metric would implicitly consider material impacts to an entity's business operations. A different limitation of the focus on enterprise value is that users of sustainability-related financial information will include not only investors, but other stakeholders as well. These stakeholders may not translate into the enterprise value equation directly, but the degree to which the company potentially impacts upon them will still be relevant to investors.

Third, the objective in paragraph 1 does not expressly identify governance related information as being a component of the information needed by users to assess enterprise value (or equivalent measure of enterprise value), even though governance disclosure is a requirement [see paragraphs 4-6]. We recommend that the list of categories of information identified in paragraph 1 (a)-(c) be updated to incorporate governance, either through a new paragraph (d) or through integration of a reference to "governance oversight" into paragraphs (a) or (b).

(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?

The Exposure Draft has used the term "significant" and "material" interchangeably throughout the standard. While the definition of materiality has been defined by the ISSB in paragraph 56, the ISSB has not provided a definition of significant. We believe that the definition of materiality by the ISSB aligns with the Canadian capital markets definition[3] and provides clarity about the disclosure of information that could be reasonably expected to influence the user's decision. This definition is also generally consistent with International Accounting Standard (IAS) 1 definition[4] of materiality as it pertains to financial information. As such, we believe the standard should use the term material when defining disclosure requirements.

We strongly support ISSB's use of the recommendations by the TCFD to guide its disclosure framework. NEI has been a public supporter of the TCFD since 2018 and has committed to providing our own TCFD-aligned reporting in 2023.

Consistent with our comments in response to the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (General Requirements Exposure Draft), we encourage the ISSB to clarify, following the approach taken by the TCFD, that sustainability-related governance and risk management disclosures are not subject to a materiality assessment, unlike those with respect to strategy and metrics and targets.

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[1] [Draft] IFRS S2 Climate-related Disclosures, Appendix A

[2] Note that IFRS Accounting Standards do not employ the term Enterprise Value. However, a similar measure is fair value and while not applicable as an entity-specific measurement in principle it is a market-based value measurement. *IFRS 13 Fair value measurement.*

[3] Form 51-102F1 and Form 51-102F2, information is likely material where a reasonable investor's decision whether or not to buy, sell or hold securities of the issuer would likely be influenced or changed if the information was omitted or misstated

[4] IAS 1, Information is material if omitting, misstating or obscuring it could be reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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The Exposure Draft's current structure may lead to reporting entities determining that climate-related disclosure topics are not material (even after reference to the SASB industry disclosure topics and metrics, and the other sources referred to in the Exposure Draft). If this is the case then no disclosures would be required as to how these determinations were made, how risk procedures address such determinations and how the board exercises its governance oversight responsibilities over them. Users, including investors, require this information to be able to assess how an entity is approaching climate-related issues. Transparency is needed with respect to how a board is assessing and determining whether and which climate-related risks are material to a reporting entity and what practices are in place to oversee the risks that are identified. Consistent with the approach taken by the TCFD Framework, governance and risk management disclosure requirements are not subject to materiality in either of the draft regulatory disclosure regimes published by the Canadian Securities Administrators or the U.S. Securities and Exchange Commission in their respective recent consultation proposals.

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?

We support the proposed disclosures on climate-related governance. Climate change is a systemic risk and as such an entity's board needs to be made aware of all material risks and opportunities identified and managed and that there is ongoing organisational understanding and ownership of the business impacts of such risks and opportunities.

Paragraph 5(a) and 5(b): The ISSB disclosure requirement allows entities a level of flexibility in terms of what is deemed material information to report. NEI does not believe in a prescriptive approach to the board oversight of climate-related risks and opportunities, and individual boards are best positioned to determine how oversight is exercised. However, this does place the imperative on the board to provide adequate disclosure on how it stewards this core obligation.

Paragraph 5(c)/BC61: We agree that where applicable, boards should disclose the nature of any climate-related expertise of board members. We believe it would be useful to provide guidance on how to distinguish between actual expertise (e.g. a climate scientist or direct oversight of climate risks at another company) versus familiarity (e.g. sitting on the board of another company that is also addressing the risks of climate change). Our experience in sifting through thousands of proxies is that where a board has furnished a skills matrix, it often blurs the distinction between real expertise and indirect experience, with the result that most everyone is, for example, an expert on ESG issues – when this is often not the case. A simple requirement to provide two options – actual expertise versus familiarity (or indirect experience) would provide valuable context.

Paragraph 5(d)/BC60: Perhaps more important for most boards than the direct climate-related experience of the directors is the manner in which the board is kept informed. We strongly support the proposed requirement to disclose how the board is kept apprised of climate-related risks, by whom, and the frequency. Board members are not valuable because they know everything there is to know about a business or a sector. Instead, they are valuable because they are able to apply their own experience, expertise and knowledge to new challenges and situations. Therefore, information on how the board is constantly challenged and informed on climate-related risks is very important.

Paragraph 5(f): Regarding the disclosure of any linkages between executive compensation and the achievement of climate-related targets and goals, we believe that this information is material to the understanding of the corporate commitment to address its climate-related risks. We believe this information

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should be relatively easy to provide and many companies already disclose how they link the two. Further, we note that linking executive renumeration to climate-related targets and goals is an explicit ask of the Climate Action 100+ (CA100+)[5] investor collaboration. We anticipate that the CA100+ expectations will become standard best practice and investors such as ourselves have already expanded the asks of the CA100+ collaboration to other companies. Therefore, the expectation to provide this information will only continue to increase.

Paragraph 6: We agree with the proposal that reporting entities should avoid unnecessary duplication with disclosures already made under the equivalent governance section in the General Requirements Exposure Draft, especially where climate-related risks and opportunities are addressed by boards on an integrated basis with sustainability-related risks and opportunities.

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?*

As mentioned in our response to Question 1, we believe that the term "significant" should be eliminated and "material" should be used to describe the disclosure requirement for climate-related risk and opportunities. We agree that entities should be required to disclose material climate-related risks and opportunities that would occur over the short, medium, and long-term. We do not support a prescribed definition on what constitutes short, medium, and long-term, though we do believe it is important that entities explicitly define the terms themselves as recommended in paragraph 9(b).

(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?*

The disclosure topics defined in Appendix B have been derived from SASB Standards. We believe the SASB Standards are an appropriate model for identifying material sustainability-related disclosures, including with respect to climate-related disclosures. As climate change awareness continues to develop, we expect disclosure requirements to evolve in tandem.

The standard recognises that it will be the responsibility of the reporting entity to appropriately consider and assess all risks/opportunities that are reasonably likely to be material to it – including looking beyond the list of disclosure topics in the industry-based requirements. However, we have concerns with the lack of required disclosure with respect to how that materiality assessment was conducted. Paragraph Appendix B6 of the Exposure Draft requires reporting entities to exercise materiality judgements to determine whether or not a disclosure topic is relevant. There is no specific guidance on disclosure of the materiality assessment process itself.

Users of climate-related information need to understand how a company is identifying, overseeing, measuring and managing its material sustainability-related risks and opportunities in order to properly assess the impact to an entity's operations and cashflows. The process a company uses to determine what information is material

[5] https://www.climateaction100.org/

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and therefore required to be disclosed is a decision-useful piece of information. In the absence of this disclosure, it is not clear whether an issuer has intentionally decided that a certain climate-related topic is not material, and thus not reported, or if the issuer has simply overlooked the materiality of the topic. The materiality assessment and discussion of the methodology used to perform such an assessment should be a part of the requirements for climate-related disclosure as they are relevant to the identification and determination of material disclosure topics.

We believe that requiring entities to disclose how they assessed the materiality of climate-related risks and opportunities will improve the relevancy and comparability of reporting.

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?

We support the proposal on disclosure of material climate-related risks and opportunities in the entity's value chain.

We do note that the value chain should be defined specific to climate-related disclosures to avoid duplication of disclosure per the General Requirements Exposure Draft.

(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?

Given the difficultly in assessing quantitative data within or connected to an entity's value chain, we support the use of qualitative disclosure. We recommend, however, that the method on how the value chain is assessed also be disclosed (as per our recommendation in the General Requirements Exposure Draft [Appendix A and paragraph 40]).

Question 5: Transition plans and carbon offsets

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

We agree with the proposed requirement to disclose an entity's transition plan in its discussion of its climate-related strategy, including how those plans relate to the relevant climate-related targets set by the entity. We believe this requirement aligns with the TCFD's disclosure framework.

Adequate disclosure of an entity's transition plan is an important, decision-useful piece of information that brings necessary detail to the entity's climate-related commitments. Concerns about greenwashing are growing as the number of companies who commit to a net-zero future grow but detailed strategies to achieve net-zero are less prevalent. Absent a transition plan, corporate commitments to achieve long-term targets can appear to be based on good intentions alone, not on strategic and thorough business planning. As such, the disclosure of a transition plan will be both a timely and necessary requirement for users of climate-related information seeking to understand net-zero commitments across entities.

(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.

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Like most business strategy plans, an entity's transition plan should be reviewed on a regularly scheduled basis and updated for any material changes. We believe this would be captured under climate-related governance.

(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?

We believe that disclosures on the extent to which emissions reduction targets rely on the use of carbon offsets [13(b)] should be quantitative where possible. This would improve the comparability of reporting on emissions reduction targets and carbon offsets across entities.

(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?

NEI Investments will not be providing a response to question 4(d).

Question 6: Current and anticipated effects

(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?

We support the proposal to disclose material quantitative information on current and anticipated effects of climate-related risks and opportunities where it can be provided. As reporting of climate-related information continues to evolve and not all quantitative data is decision-useful, we support the use of qualitative information in its place. This disclosure should still be decision-useful information and the entity should explain why quantitative information could not be provided.

(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?

We broadly support this proposal. Please also refer to our comments in Question 6(c) below.

(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?

We broadly support this proposal. Please refer to our response in Question 1 on the use of material versus significant to reflect the effects on an entity's financial position and performance over the stated time frames. We also note that with respect to anticipated effects (BC97), we recommend the disclosure of the assumptions used in assessing the potential outcomes, whether it be a range or a single value as appropriate. As users of climate-related information, comparability of disclosures will enable enhanced understanding of the anticipated effects to an entity's financial position and performance.

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Question 7: Climate resilience

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

The TCFD recommendations on climate-related financial disclosures include the use of different climate-related scenarios to test the resilience of an entity's strategy with respect to actual and potential impacts of climate-related risk and opportunities. Paragraph 15(a) approaches the disclosure in a different manner, recommending the disclosure of the results of the scenario analysis by way of quantitative information.

While we do believe that an entity should strongly contemplate the use of scenario analysis when stress-testing or identifying the risks and opportunities of climate change, we do not believe that disclosure of the analysis and results needs to be required at present. Scenario analysis is an evolving tool and while we strongly encourage entities that face material climate-related risks and opportunities to utilise this tool, we do not as yet find the disclosure of the results to be decision-useful.

However, based on our experience working with companies that have undergone scenario analysis, the exercise itself can be extremely useful and allow for an expanded view of potential risks and opportunities. We believe that most, if not all entities that have utilised scenario analysis have seen a net benefit from its use, and that benefit has translated into a more robust corporate strategy. Thus, we believe the information on whether a company has used scenario analysis is a material piece of information that should be shared with investors.

We believe that disclosure of the use of scenario analysis should be required on a comply or explain basis. If a reporting entity makes such disclosure, it should include sufficient transparency for users of climate-related information to understand the rigour behind the assumptions made, the scenarios used and the commitments being made with respect to an entity's strategy. The expectations outlined in Paragraph 15(b)(i) broadly capture the key attributes of scenario analysis that could be disclosed. This recommendation for a comply or explain model will also dissuade reporting entities from not performing a scenario analysis simply to avoid the requirement to disclose.

While we acknowledge that climate scenario analysis is still in its early stages of development and is currently of limited comparability, consistency or decision usefulness for users of the information, we also recognise that data and methodologies are evolving rapidly and disclosures made under the Exposure Draft once implemented will be a big factor in leading that evolution. As this occurs, the disclosure requirements with respect to scenario analysis should be reassessed, with a view to making such disclosures mandatory and consistent with leading best practices overtime.

(b) *The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.*

  (i) *Do you agree with this proposal? Why or why not?*

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

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  (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?*

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

(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?*

(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?*

Refer to our response in 7(a) for questions 7(b), 7(c), and 7(d). NEI Investments will not be providing a response to question 7(e).

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?

Please refer to our response in question 1(c).

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?*

We broadly support the incorporation of TCFD's concept of cross-industry metrics. The ISSB disclosure requirement should also include the TCFD's guidance on the disclosure of assumptions used in calculating metrics[6]. However, we do believe that metrics may continue to evolve over time, and we anticipate that disclosure standards will reflect this evolution. We also repeat our concern over the term enterprise value. Please refer to our response to question 1(b).

(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.*

Please refer to our response in 9(a).

(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?*

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[6] TCFD Guidance on Metrics, Targets and Transition Plans: https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf

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We believe that the GHG Protocol should be the required methodology to define and measure Scope 1, 2 and 3 emissions. The GHG Protocol is the most widely used methodology and other methodologies utilise the GHG Protocol as the foundation for their work. For example, the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry uses the GHG Protocol in its methodology. As PCAF is emerging as the central standard used by the financial sector to assess its financed emissions, aligning mandatory reporting requirements with the GHG Protocol will provide important consistency.

Other methodologies may be used in conjunction, but not instead of the GHG Protocol methodology, if an entity so chooses to.

(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))?

NEI Investments will not be providing a response to question 9(d).

(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?

We support the separate disclosures as it will provide better transparency to the users of the climate-related information. The method of calculation chosen should also be disclosed, for example equity share or operational control method as defined by the GHG Protocol.

(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?

We support the disclosure of Scope 3 emissions if the entity has assessed Scope 3 emissions to be a material part[7] of its emissions profile.

While we understand that methodologies for assessing Scope 3 emissions continue to evolve, the true value of a Scope 3 emissions assessment is not in the number itself. Rather, it is a lens with which companies, and users of climate-related information, can view the company's strategy through. If, for example, a company's strategy is predicated on the production of a commodity or product that has significant emissions associated with its use, then that company is exposed to direct regulatory and reputational risks. Similar to scenario analysis, we believe the real value in Scope 3 reporting is in the process and would like to see all companies with a material Scope 3 emissions undertake the exercise of assessing their exposure.

We note that under the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry, financial institutions are required to disclose absolute Scope 3 emissions (i.e. financed emissions) in a phased-in approach, starting with the highest emitting sectors in 2021, and all sectors by 2026. We believe the international trend is towards the disclosure of Scope 3 emissions.

[7] Science Based Targets, SBTi Criteria and Recommendations TWG-INF-002, V. 5.0

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Question 10: Targets

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

We support the alignment of the target-related disclosures with those recommended by the TCFD framework, however further clarification and expansion of the standard is needed.

The standard should make a clearer association between disclosure of targets in paragraphs 13(a) and 13(b) related to strategy and decision-making, including transition plans, and disclosure requirements under paragraph 19 related to metrics and targets. It is unclear as to whether the standard is inferring that the setting of targets is mandatory. We note that paragraph 23 states that entities "shall" disclose targets but it is silent on what to do if a company has no targets at all. The standard should mandate disclosure of climate-related targets as proposed and also require entities to disclose their rationale for not having set targets, if that is the case.

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

Yes, we believe the definition is sufficiently clear.

Question 11: 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?

(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?

Our response below addresses questions 11(a) and (b).

Consistent with our December 2020 submission on the IFRS Foundation Consultation Paper on Sustainability Reporting [8] we believe that the ISSB should leverage existing frameworks by entities such as the TCFD, SASB, GRI, CDSB and CDP. Any duplication could lead to further fragmentation in sustainability reporting standards if the ultimate approach adds to the number of existing frameworks and standards, instead of fostering cohesion amongst the existing initiatives. That being said, we commend the ISSB in recognising the SASB standards as a starting point upon which an international standard can be created.

To facilitate the adoption of the standards within various jurisdictions, the final standards should support a level playing field for reporting entities and be jurisdictionally agnostic. Given the IFRS' global reach, the ISSB is in a better position to harmonise the various standards into a global reporting standard that can then be adapted to local jurisdictions.

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[8] 2020 IFRS Consultation Paper on Sustainability Reporting, http://eifrs.ifrs.org/eifrs/comment_letters//570/570_27662_MichelaGregoryNEIInvestments_0_NEISubmissionsIFRSFoundationConsultationPaperonSustainabilityReportingDec242020.pdf

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(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?

NEI will not be providing a response to question 11(c).

(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?

(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?

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

(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?

(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?

(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?

Our response below addresses questions 11(d) to 11(i), inclusive. Also refer to our response to question 9(f).

Financed and facilitated emissions are generally the largest source of emissions for firms in the financial services sectors, including those identified as financial banks, insurance companies and other firms with assets under management or administration.

We support the use of the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard for the assessment of Scope 3 emissions. The PCAF standard specifically utilises Category 15 of this standard to measure financed emissions and disclosure of financed emissions in the Exposure Draft should be guided by the same methodology.

We support the disclosure of both absolute and intensity-based financed emissions as users of the information would be better able to compare the data across reporting entities. Further, to improve the comparability and verifiability of data disclosed, the assumptions and calculation methodology used should be explicitly stated.

The disclosure of financed emissions associated with assets under management would be a reasonable proxy in determining an entity's indirect transition risk exposure. We recognize the limitations of using assets under management (AUM) as a proxy since AUM will be dependent on market conditions at a point in time, however,

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reporting in alignment with Category 15 would provide the data transparency needed to understand the composition of AUM.

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

(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.

Our response below addresses questions 11(j) and 11(k). Also refer to our response to question 11(a) and 11(b).

We support the proposed industry-based requirements as metrics linked to key drivers of climate-related risks and opportunities will vary across industries. The use of the SASB standards as a starting point supports the determination and identification of industry-based requirements, followed by necessary adjustments to have the issues be applied and adopted internationally. An example of an adjustment[9], from a Canadian perspective, is the omission of the Human Rights & Community Service issue in the Oil & Gas Midstream industry; the consideration of this issue, which includes the treatment of Indigenous Peoples, is a material factor when analysing the sustainability-related risks and opportunities of a reporting entity in this industry.

Please refer to our response to question 1(b) regarding the reference to enterprise value. We also recommend the disclosure of material information related to activity-specific emissions and location-specific emissions to enable users of climate-related information to have the ability to compare data across reporting entities.

(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?

NEI will not be providing a response to question 11(l).

Question 12: Costs, benefits and likely effects

(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?

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

(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?

While we understand that compliance and regulatory costs will be incurred by reporting entities in adopting disclosure requirements and users of climate-related information will need increased resources to understand

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[9] While this issue is not specific to climate-related disclosure, the example demonstrates the need for modifications to the SASB standards for international adoption.

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and use the disclosed information, there are significant benefits of having comparable, decision-useful climate-related information. The disclosed information will enable a reporting entity and users of the data to make informed decisions regarding climate-related risks and opportunities that may impact the entity's current and future business operations.

The proposed requirements will provide for standardised climate disclosures globally across entities. The availability of such information would also reduce costs for users of climate-related information by lowering the time spent needed to gather or estimate the data themselves, reducing variability and increasing comparability and reliability of the data.

Question 13: Verifiability and enforceability

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.

With the development of the ISSB's reporting requirements, climate-related data disclosure requirements will become standardised globally for the first time. Recognising that many reporting entities may also be compiling this data for the first time, we recommend a reasonable phase-in requirement for the assurance of climate-related data. We support the goal of making assurance of GHG emissions reporting the standard expectation, similar to audited financial statements. Initially, at a minimum, we would recommend as best practice the assurance or verification for Scope 1 and Scope 2 GHG emissions and explanations be required if assurance is not provided for reporting entities in high-emission sectors. Independent assurance on the accuracy, completeness and consistency of GHG emissions data would be beneficial to both internal decision-making and for other external users of climate-related information.

Question 14: Effective date

(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?

(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.

(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?

Our response below addresses questions 14(a), (b) and (c).

We believe that both IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 should have the same effective date. The standards to be set in IFRS S1 will be complementary to the standards recommended in this Exposure Draft, and so should share the same effective date.

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We do not have a view on when the effective date should be set by the ISSB. We do, however, strongly support a phased implementation period given the complexities that may arise in having to disclose climate-related data for the first time. We recommend that the ISSB should require that a reporting entity report on its governance and risk management pillars first, with strategy and metrics and targets to follow within a reasonable timeframe[10]. This would be consistent with the intention of the TCFD framework to begin with engaging an entity's board in the foundational work of integrating sustainability-related governance and risk oversight into the governance mechanisms of the reporting entity[11].

We also believe that the requirement for smaller entities to report in accordance with the standards set by the ISSB could prove to be more challenging based on the complexity of reporting climate-related data, considering the size, resources available and business maturity of smaller entities. Similar to our recommendations put forth to the Canadian Securities Association (CSA) proposal of National Instrument 51-107 Disclosure of Climate-related Matters[12], we believe that all entities, regardless of size, report on its governance and risk management pillars as a materiality assessment is not required for disclosure considerations. That being said, a phased-in transition of the disclosure requirements for strategy and metrics and targets for smaller entities would be reasonable.

Question 15: Digital reporting

NEI will not be providing a response to question 15.

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?

We are unaware of any aspects of the proposals in IFRS S2 that would limit the ability of IFRS Sustainability Disclosure Standards to be used as a baseline by other regulators and jurisdictions. We do believe that the ISSB should continue to collaborate with international regulators to be kept informed of any issues that may surface as the reporting standards are being adopted.

Question 17: Other comments

We believe that the disclosure of sustainability-related information, including climate-related information, will continue to develop and evolve as the regulatory regimes, policy makers and users of the disclosed information become more informed of climate-related information. We expect that the ISSB will continue to monitor and review these standards to ensure that they remain relevant and useful.

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[10] A reasonable timeframe would be notably less than three years, where the three year timeframe was recommended by the Canada Securities Association's Proposed NI 51-107 Disclosure of Climate-related Matters. https://www.osc.ca/sites/default/files/2021-10/csa_20211018_51-107_disclosure-update.pdf
[11] As recommended by the Canadian Coalition on Good Governance response to [draft] IFRS S2.
[12] NEI Investments' Comment letter for proposed NI 51-107: https://www.osc.ca/sites/default/files/2022-02/com_20220216_51-107_bonhamj.pdf

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We also look forward to how the IFRS Foundation and the Global Reporting Initiative (GRI) will collaborate[13] on reporting disclosures in the future.

We appreciate the opportunity to provide our comments on the draft proposals for climate-related disclosures. We commend the initiative the ISSB has taken to standardise global reporting as it is a challenging, but very needed exercise. Please let us know if you have any questions regarding our comments.

Sincerely,

Adelaide Chiu, CPA CA CFA
Vice President, Head of Responsible Investing & ESG Services
NEI Investments

Jamie Bonham
Director, Corporate Engagement
NEI Investments

Michela Gregory
Director, ESG Services
NEI Investments

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[13] GRI - *IFRS Foundation and GRI to align capital market and multi-stakeholder standards (2022, March 24).* GRI. https://www.globalreporting.org/news/news-center/ifrs-foundation-and-gri-to-align-capital-market-and-multi-stakeholder-standards/

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