Institute and Faculty of Actuaries

29 July 2022

ISSB consultation on Exposure Draft IFRS S2 Climate-related Disclosures

IFoA response

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

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1 The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the International Sustainability Standards Board's consultation on its Exposure Draft *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*. The IFoA has a global membership of over 32,000 actuaries, working across the financial sector. As a profession specialising in risk management, actuaries have an important role in assisting others in understanding and integrating the financial risks of climate change.

2 This response has been written by the IFoA's Sustainability Board, with input from the Financial Reporting Group, and has been considered from an independent, public interest perspective. Given our area of expertise, our response focuses on risk but we welcome the requirements in the Exposure Draft to also assess the opportunities arising.

3 The IFoA welcomes the ISSB's intention to deliver a comprehensive global baseline of sustainability-related disclosure standards and comparability across global markets. Actuaries need to understand the long-term climate-related risks that a firm is exposed to so that they can incorporate them into their projections. It is therefore vitally important that these standards provide a workable international baseline. This will require continued international collaboration.

4 Disclosures will help investors and market participants assess an entity's enterprise value, both current and in the long term, and evaluate its response to and strategy for managing climate-related risks and opportunities. We note that the Exposure Draft only considers the impacts on

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financial results and not the impacts an entity has on the external environment. It is important that these impacts are also included within the materiality assessment to ensure that the systemic risks can be assessed and understood. For the disclosures to fully capture these risks, the materiality assessment must include any sustainability-related financial information that is material to the enterprise value of a company or has material impacts on its external environment. We do, however, understand the complexities with this and the need to balance reporting ambition with feasibility.

5 Adequate information must be disclosed to enable the users of the disclosures to understand both material risks and opportunities faced by an entity, as well as an entity's contributions to global systemic risk. Actuaries have a crucial role to play in promoting the understanding and integration of climate risks and opportunities within decision-making, and in supporting making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. By evaluating systemic sustainability impacts on the financial systems, actuaries are involved in assessing how sustainability topics may impact on our assessment of future liabilities and the adequacy of returns to meet these future liabilities. Therefore, information needs of actuaries require a general adoption of disclosures that are not purely focused on specific company risk.

6 We understand that firms and countries are at different stages along this journey and the importance of consensus on a baseline. We therefore agree on the nuanced approach taken around qualitative disclosure requirements where quantitative information is unavailable, and on allowing monetary effects to be disclosed as either a point estimate or as a range. Entities will refine their approach to disclosure over time as more data becomes available and accepted good practice evolves. To encourage this, we would support firms disclosing the limitations on reporting, and plans on how these are expected to be addressed over time.

7 We are encouraged by the broader focus on sustainability issues that have been covered through the general requirements, recognising the pressing issues beyond climate change. And while we recognise that climate disclosures are generally better developed, we would stress that biodiversity risk must be treated as urgently as climate change. Biodiversity loss poses serious, systemic risks for societies, economies and the health of the planet. It is amplified by and amplifies climate change impacts.[1] The Dasgupta Review estimates that resources are being depleted at 1.7 times the sustainable rate.[2] Rich country levels of GDP consumption are currently five times the sustainable level.[3]

8 We welcome the disclosure requirements around governance. This will help embed the process in companies. We hope to see that requirement extended over time to biodiversity and nature-related risks and suggest a road map is developed to cover all sustainability considerations.

9 We would like to response specifically on two questions.

Question 9d on disaggregating by constituent greenhouse gases

10 For many years the role of methane emissions as a significant GHG has been overlooked. Methane has more than 80 times the warming power of carbon dioxide over the first 20 years after it

[1] https://www.actuaries.org.uk/system/files/field/document/EAC-Biodiversity-and-Ecosystem-loss.pdf
[2] https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review
[3] IFoA response to EAC consultation Jan 2022

reaches the atmosphere. Even though CO2 has a longer-lasting effect, methane sets the pace for warming in the near term. Researchers estimate that methane from human sources is responsible for at least a quarter of today's warming[4]. Atmospheric concentration of methane is increasing faster now than at any time since the 1980s. Tackling methane emissions from the energy sector represents one of the best near-term opportunities for limiting global warming because the pathways for reducing them are well known and often cost-effective[5].

11 Current draft standards limit the ability of users of the disclosures to assess the financial risks associated with methane emissions. We believe at a minimum, there should be separate disclosures on methane, both volume and intensity. The Oil and Gas Methane Partnership 2.0 (OGMP), managed by the United Nations Environment Programme (UNEP), is a leading standard for oil & gas methane emissions disclosure[6], and we would suggest developing the standards to incorporate an OGMP metric that provides insight into data quality.

<u>Question 11 on industry-based requirements.</u>

12 The Exposure Draft proposes adding disclosure topics and associated metrics to commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. In our view, this introduces an additional level of granularity for the financial services that is too granular. We believe reporting should be at sector not industry level, and that the GHG Protocol to disclose Scope 3 emissions (which includes Category 15: Investments) is adequate for this purpose.

13 Instead, we suggest further work is needed to align with some of the international standards referenced in the main consultation papers – for example, emissions reporting should be fully aligned with GHG protocols for comparability, and both suitable local and international standards for measurements should be accepted. This will help support users of the information through comparable robust standards.

If you would like to discuss any of the points raised in this response, please contact Caroline Winchester, Policy Manager (caroline.winchester@actuaries.org.uk).

[4] https://www.edf.org/climate/methane-crucial-opportunity-climate-fight

[5] https://www.iea.org/reports/global-methane-tracker-2022

[6] https://ec.europa.eu/info/news/oil-and-gas-industry-commits-new-framework-monitor-report-and-reduce-methane-emissions-2020-nov-23_en