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VISION رؤيـــة 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

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IFRS Foundation
7 West ferry Circus
Canary Wharf
London E14 4HD
United Kingdom

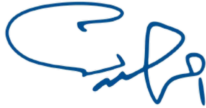
Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the ISSB and welcomes the opportunity to comment on the Exposure Draft, *IFRS S2 Climate-related Disclosures***.**

Our comments on the questions raised in the Exposure Draft are attached in the appendixes to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



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Appendix 1: SOCPA Comments on [Draft] IFRS S2 Climate-related Disclosures

Question 1 — Objective of the Exposure Draft

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

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

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

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

(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?

(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?

SOCPA Comments:

(a) SOCPA agrees with the objective of the Exposure draft as it enables a user to gain access to information about an entity's climate change related financial risks and opportunities, the response to and strategy for managing them and ability of the entity to adapt its planning, business model and operations to suit them. As a result of this a user is able to understand their impacts on the entity's financial performance, financial position and ability to create enterprise value.

In addition, some of our stakeholders believe additional definitions should be included. Specifically, terms such as "direct, indirect mitigation" and "resilience". If definitions are not included additional clarification should at least be included.

Further, there is also a request for more illustrative guidance regarding the relevant parameters that impact enterprise's value.

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٩٢٠٠٠٩٤٩٣

(b) Yes, the objective focuses 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. However, we would like to suggest illustrative guidance to be included regarding the relevant parameters that impact enterprise's value.

Some of our stakeholders believe that the ISSB's decision not to define the scope of 'climate-related risks and opportunities' and instead a broad approach of alignment with TCFD recommendations and SASB industry-based standards may potentially result in challenges with application and assurance.

(c) The disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1 as it requires disclosures on governance; strategy and risk management processes; quantitative targets and metrics; and assessment of strategic resilience to climate-related risks based on scenario analysis.

However, some of our stakeholders believe the current disclosure requirements in the exposure draft have ample references to emission reductions, their scope and metrics, but they do not consider other measures to address emissions, such as the reuse, recycling, removal and storage of emissions, whether through technological or nature-based solutions, such as tree planting and believe that those measures should be included and have equal weight with emission reductions.

Question 2 —Governance

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

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

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٩٢٠٠٠٩٤٩٣

Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

SOCPA Comments:

While agreeing with the proposed disclosure requirements above, SOCPA would like to highlight the requirement to ensure that the governance body has the appropriate skills and competencies to oversee strategies designed to respond to climate-related risks and opportunities, would be difficult for some corporates to implement. This would be due to limited skills and expertise available in the market as well as the cost associated with it. The larger entities would be able to afford the additional cost, however, the mid-sized and smaller entities would struggle.

SOCPA also believes the type of disclosures proposed and the resulting change to current reporting practices will most certainly cause added scrutiny and require entities to reassess the governance structures it has in place as well as the processes and controls in place for sustainability reporting. Many entities will require time to implement these changes while several would raise concerns regarding their inability to implement some of the required changes.

In addition, some of our stakeholders believe there is an overlap in strategy and risk management requirements and that could result in duplication of information disclosed.

Also, stakeholders have suggested that provision needs to be made to implement certain TCFD requirements e.g., around board mandate, competency, and appropriate skills in a flexible manner.

Question 3 —Identification of climate-related risks and opportunities

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

Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

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

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(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?

SOCPA Comments:

(a) SOCPA believes the proposed requirements to identify and disclose a description of significant climate-related risk and opportunities are sufficiently clear. The objective of these disclosures would be to help inform users of financial statements, the status and prospects of the company. However, the level of granularity of the disclosures are likely to depend on the nature of the risk / opportunity identified. Some risks / opportunities may be understandable when they are disclosed at the overall level (e.g. costs from high electricity / gas use) while others may be highly localized (e.g. increase in rainfall leading to increase in raw material availability).

In addition, some of our stakeholders believe that it would be challenging to isolate the risks of climate from other sustainability related risks and therefore when applying IFRS S2 there would be uncertainty regarding what information to disclose. Also, they believe the high degree of estimation and judgement involved would likely become a time consuming, costly, and challenging process for the verification and assurance by auditors. Therefore, more precise definitions and illustrative examples are required to reduce the impact.

(b) SOCPA agrees with the proposed requirements. While the defined industry requirements would improve relevance and comparability of disclosures, we wish to draw attention to our comments on question 4 of IFRS S1:

"IFRS S2 Climate-related Disclosures, under Metrics and Targets - paragraph 19, an entity is required to disclose industry-based metrics. Appendix B sets out the industry-based metrics. In Appendix B For example:

1. An entity in the Meat, Poultry & Dairy industry will have to apply Industry-based requirements in volume B23 (FB-MP). This requires for example for an entity in the industry to disclose:

"Description of water management risks and discussion of strategies and practices to mitigate those risks"

2. Home Builders will have to apply Industry-based requirements in volume B35 (IF-HB). This requires for example for an entity in the industry to disclose:

"Description of risks and opportunities related to incorporating resource efficiency into home design, and how benefits are communicated to customers".

In both of the above examples if the entity does not have adequate processes in place the relevant risk and opportunities will not be identified.

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٩٢٠٠٠٩٤٩٣

While paragraph 5 of the Exposure Draft provides for a governance structure to monitor this – in practice the management would have more hands on say on the processes rather than a governance body.

Entities operate in various environments and depending on the industry the sustainability matters that are impacted as a result would vary. A user of general-purpose financial statements would not be aware of all processes that need to be established by an entity and would depend on the entity to establish the required processes and disclose the relevant details.

SOCPA therefore suggests in addition to what is required by paragraph 26, for entities to specifically state when they have not established processes generally established by entities to identify such risk and opportunities. This should cover:

- Processes generally established by entities in the industry
- Processes generally established by entities to address a specific sustainability related risk or opportunity

This would ensure that entities establish a more comprehensive set of processes as well as bring a certain amount of uniformity to the disclosures. Implementation of this during the early years of the standard would be difficult. However, once the practice becomes more prevalent the users of the financial statements would immensely benefit."

In addition, some of our stakeholders believe, that some of the industry's requirements, such as Appendix B on oil and gas sector's exploration and production, are unacceptable in terms of metrics (e.g., embedded carbon content, rather than emissions, and other reserve considerations) and approach which prejudges available and upcoming technologies and undermines global energy security.

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

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

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

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

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

(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?

SOCPA Comments:

(a) SOCPA agrees with the proposal. A user would only be concerned with the risks and opportunities that impact an entity's enterprise value. There is no requirement to disclose all risks and opportunities that impact the value chain. However, entities would have to possess the ability to exercise adequate judgement to determine which risk and opportunities that impact the value chain will also impact the entity's enterprise value.

SOCPA also believes it would assist preparers if the ISSB could provide illustrative examples on how companies should make judgements regarding risks and opportunities that could impact their enterprise value / value chain.

In addition, some of our stakeholders believe that "value chain" is a broad term and could pose challenges to preparers. Also, they believe entities would need to exercise judgement to assess and determine the materiality of which risk and opportunities that impact the value chain will also impact the entity's enterprise value.

The proposed requirements on the qualitative disclosure requirements about current and anticipated risks needs a little more clarity. It should be elaborated more in the standards to avoid confusion and enable adequate understanding. Consideration for a definition, or further guidance, for the term 'business model' may be needed.

(b) SOCPA believes the disclosures required about an entity's concentration of climate-related risks and opportunities should be both qualitative and quantitative rather than qualitative or quantitative. As seen by the examples below the risks and opportunities would vary. Therefore, in order to ensure the users of financial statements are provided with all relevant information it would be best for the disclosures to be both qualitative and quantitative. However, in determining the most appropriate disclosures, entities should be given the option to make the decision based on the cost it would have to incur to generate the required information for disclosures.

Examples:

Example 1:

Risk: Flooding

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٩٢٠٠٠٩٤٩٣

Concentration: Plant & Machinery constructed near waterways, comprises 45% of property plant & equipment

Example 2:

Risk: Energy efficiency

Concentration: Old equipment not yet replaced (not meeting energy efficiency), comprises 45% of operational property plant & equipment

In addition, some of our stakeholders believe quantification of climate-related risks should be at the discretion of the reporting entity based on the availability and quality of the data and the technical challenges they pose.

Quantification of climate-related risks should be at the discretion of the subject entity based on the availability and quality of the data and the technical challenges they pose. To ensure consistency among reporting entities, the disclosure may specify which information are crucial to be quantitative, and information that can be in the form of either quantitative or qualitative information. In addition to that, the qualitative disclosure requirements about current and anticipated risks should be elaborated more in the standard to avoid confusion and enable adequate understanding.

Question 5 — Transition plans and carbon offsets

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

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

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

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٩٢٠٠٠٩٤٩٣

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

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

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

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

(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.

(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?

(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?

SOCPA Comments:

(a) SOCPA agrees with the proposed disclosure requirements for transition plans as it is very comprehensive. However, would like to highlight that the disclosures required will place significant burden on small and mid-sized entities.

Some of our stakeholders believe the proposed disclosure requirements for transition plans do not explain how to ensure the integrity and credibility of the transition plan made by reporting entities, which as mentioned, may affect the decision-making process of the users. Disclosure requirements for transition plans may be commercially sensitive. Entities will need flexibility in disclosing their transition plans and changes to their business model.

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٩٢٠٠٠٩٤٩٣

(b) SOCPA will like to suggest the following additions:

1) Paragraph 13 (a) (i) (1) requires disclosure of changes to an entities business model and gives examples such as divestments and decommissioning resulting from responding to significant climate-related risks. For these specific examples to be useful, SOCPA believes they should be extended to include the financial impact resulting from such divestments / decommissioning. These disclosures can be:

    - impact on revenue
    - impact to profits / (losses) and
    - impact on cashflows

2) Paragraph 13 (b) (iii) (1) requires the disclosure of the extent to which the targets, the entity intends to meet, relying on the use of carbon offsets. Offsets are typically generated by and obtained from third parties. SOCPA suggests this disclosure be extended to include the cost of such offsets to be obtained from third parties. Example: Cost of carbon credits to be acquired from a market in which it is traded or using a confirmed contract.

Comments received from stakeholder's state:

- In paragraph 13(b), the information for addressing emissions seems limited to either reductions or offsets. If all means are to be recognized and employed to prevent emissions from reaching the atmosphere (the main objective of climate action), then all emission management measures should be included, including the reuse, recycling, removal and storage of emissions, whether through technological or nature-based solutions, such as tree planting (all elements of the Circular Carbon Economy approach which was adopted by the G20 in 2020), both within the operations of the entity and through the acquisition of carbon offsets.

- Paragraph 13(b)(ii) refers to targets being set in the value chain. Stakeholders believe the lack of capability and accessibility of detailed data across the value chain may become an issue. As a result, it is recommended setting clearer boundaries on the definitions and clearer requirements but not targets on the value chain. There is concern that emissions targets within the value chain are hard to quantify and not available immediately.

(c) SOCPA agrees that the proposed carbon offset disclosures will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions. However, in order to ensure that the credibility of carbon offsets is maintained it is important to amend Paragraph 13 (b) (iii) (2) to state that offsets will have to be subject to a third-party offset verification or certification scheme and request information pertaining to the verification / certification to be disclosed.

In addition, some of our stakeholders believe it would be challenging for entities to monitor this given the scale of these initiatives varies between entities. Also. Clarification of whether

emission targets set and disclosed by an entity include carbon offset. Additional guidance on whether certain emissions can be presented as an offset or not should also be given.

Our stakeholders also believe that some of the requirements tend to be technical and may not add value to users.

(d) As stated in (a) above, the disclosures required will place significant burden on small and mid-sized entities. However, carbon offsets would be a significant requirement for any entity's approach to reducing emissions. While there would be a cost for preparers to both validate and disclose information relating carbon credits, the information will be extremely useful for users of financial statements.

Question 6 — Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

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

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long

term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

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

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

(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?

(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?

SOCPA Comments:

SOCPA agrees with all 3 proposals above. In the context of the above proposals, it is important to note that entities would need to develop methodologies and processes to ensure that information they communicate is relevant and faithfully represents what they are intending to cover.

In making the disclosures relating paragraph 14 entities would be required to make assessments of potential future outcomes as a result of sustainability-related matters. These assessments would include making assumptions and judgements and determining appropriate methodologies. SOCPA believes entities would need to make these assumptions, judgements and methodologies sufficiently clear so that users can understand the impact of them on the sustainability related matters relating to information disclosed in paragraph 14. SOCPA would therefore like to see paragraph 14 (a) – (d) include disclosures on what these assumptions, judgements and methodologies are and how they were determined.

In addition, when entities disclose their assessments, it is important that they explain the limitations of any assumptions and judgements in order for users to make their own assessment of how to use the information.

However, SOCPA believes as a result of the limited state of readiness most entities will adopt a qualitative approach as they would be unable to provide either a single point or a range.

Some of our stakeholders believe the requirement of anticipated effects of climate related risks and opportunities is challenging and difficult to apply. Such aspirations go hand in hand with the overall development of scientific research on the matter and the availability and

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affordability of tools to evaluate such impacts. The ISSB is requested also to align on what is acceptable and what is not acceptable in this regard.

Question 7 — Climate resilience

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

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

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

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

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential

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legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

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

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

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

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

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

(b) The Exposure Draft proposes that if an entity is unable to perform climaterelated 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?

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?

SOCPA Comments:

(a) SOCPA agrees that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy. These items will enable users of general-purpose financial statements to better understand an entity's strategy for addressing significant climate-related risks and opportunities.

Some of our stakeholders believe the standards should include examples of major industry related risks to ensure consistency and completeness so that climate resilience to an entity's strategy be explained appropriately in the sustainability report.

(b)

i. SOCPA believes scenario analysis is fast becoming established as a tool used by entities and users understand the likely effects of climate change on business models, strategies, profit / (loss), assets and liabilities. Many entities currently use scenario analysis in risk management for many other purposes.

The current proposal allows an entity to use climate-related scenario analysis to assess its climate resilience unless the entity is unable to do so. If it is unable to use such scenario analysis, it should use an alternative method or technique to determine its climate resilience. SOCPA agrees with this proposal.

In addition, some of our stakeholders believe scenario analysis will be challenging for preparers/entities and assurance providers and have also requested for more guidance on how the analysis performed aligns with the standard and risk management strategies.

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٩٢٠٠٠٩٤٩٣

ii. SOCPA agrees with this proposal as it would provide the user of the financial statements with the reasons and justification why an alternative method or technique is being used.

iii. The Basis for Conclusions of this Exposure Draft states that "It is recommended that scenario analysis should become the preferred option…." and that consideration was also given to whether scenario analysis should be required by all entities with a later effective date. SOCPA believes that if no timeframe is included entities will not have any incentive to move towards the preferred option of presenting scenario analysis. Therefore, SOCPA suggests that the Exposure Draft should require the presentation of climate-related scenario analysis by all entities with a later effective date than other proposals in the Exposure Draft.

SOCPA does not believe mandatory application of climate-related scenario analysis should be required at the time IFRS S2 becomes effective. Therefore, our response to this will not impact our response to question 14 (c).

(c) SOCPA agrees with the proposed disclosures about an entity's climate-related scenario analysis as they provide the users with information relating to management's expectations of uncertain outcomes in a range of hypothetical situations that are based on management's view of the risk and opportunities affecting the business.

(d) SOCPA agrees with the proposed disclosures about alternative techniques used assessment of the climate resilience as it provides the required information on management's expectations of uncertain outcomes which are based on management's view of the risk and opportunities affecting the business.

(e) As given in the Basis for Conclusions the ISSB Board believes that formal scenario analysis and related disclosures can be resource-intensive and is generally an "iterative learning process". This would mean that any entity would have to incur a cost during the initial years.

The Exposure Draft requires an entity to disclose significant sustainability-related risks and opportunities, including the time horizon over which each could be reasonably expected to have a financial effect. These would be based on information and assumptions both specific to the entity as well as the environment it operates in. Users of general-purpose financial statements would be able to better understand the resilience of the entity's strategy to climate related changes, development or uncertainties only if they are provided with climate-related scenario analysis. Therefore, while there is a cost for entities during the initial years SOCPA believes benefits will definitely justify this cost.

Question 8 — Risk management

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise

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٩٢٠٠٠٩٤٩٣

value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

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

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

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

SOCPA Comments:

SOCPA agrees with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess, and manage climate-related risks and opportunities.

However, similar to our response to Question 4 of IFRS S1, SOCPA wishes to highlight, while the Exposure Draft requires processes to be disclosed, the onus of determining what processes to be established is on the entity. If an entity chooses not to establish a certain process, then there is no related risk or opportunity identified, hence no disclosure.

Entities operate in various environments and depending on the industry the climate related risks and opportunities that are impacted as a result would vary. A user of general-purpose financial statements would not be aware of all processes that need to be established by an entity and would depend on the entity to establish the required processes and disclose the relevant details.

SOCPA therefore suggests in addition to what is required by paragraph 17, for entities to specifically state when they have not established processes generally established by entities to identify such risk and opportunities. This should cover:

- Processes generally established by entities in the industry
- Processes generally established by entities to address a specific climate related risk or opportunity

This would ensure that entities establish a more comprehensive set of processes as well as bring a certain amount of uniformity to the disclosures. Implementation of this during the early years of the standard would be difficult. However, once the practice becomes more prevalent the users of the financial statements would immensely benefit.

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٩٢٠٠٠٩٤٩٣

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

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

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

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

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

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

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

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٩٢٠٠٠٩٤٩٣

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

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

For Scope 3 emissions, the Exposure Draft proposes that:

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

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

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

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

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٩٢٠٠٠٩٤٩٣

(b) Are there any additional cross-industry metric categories related to climaterelated 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.

(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?

(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))?

(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?

(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?

SOCPA Comments:

(a) SOCPA agrees 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. However, SOCPA wishes to highlight that detailed guidance is only available on the reporting of greenhouse gas emissions while the other six categories do not have detailed guidance. As a result, entities will have to consider other relevant industry-based metrics from IFRS sustainability standards and other sources to satisfy these categories. SOCPA therefore recommends that additional guidance be issued on these other six categories as well.

Also, these metric categories are based on significant assumptions and judgements (as limited guidance is available). As a result, it could lead to individual entities defining the metrics in each of the cross-industry categories differently. This is an area SOCPA has a significant concern about due to the possibility of entities getting creative and resorting to greenwashing. Therefore, as with reporting of greenhouse gas emissions SOCPA believes detailed guidance should be made available on the other six-categories as well.

(b) SOCPA believes the cross-industry metric categories related to climate related risks and opportunities required by the Exposure Draft is adequate as it covers and provides the user with information from all possible angles.

(c) SOCPA agrees that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions. However, wishes to draw attention to the following.

Control is defined as follows in the "Green House Protocol" (GHP) standard:

"The ability of a company to direct the policies of another operation. More specifically, it is defined as either operational control (the organization or one of its subsidiaries has the full authority to introduce and implement its operating policies at the operation) or financial control (the organization has the ability to direct the financial and operating policies of the operation with a view to **gaining economic benefits** from its activities)."

The definition of "Control" in IFRS 10 states that:

"An investor controls an investee when it is exposed, or has rights, to **variable returns from its involvement with the investee** and has the ability to affect those returns through its power over the investee."

SOCPA sees a contradiction between the 2 definitions.

"Financial Control" in the above definition of GHP standard refers to only "gaining economic benefits", while "Operation Control" in the GHP standard's definition does refer to any returns (gains or losses).

As a result of this contradiction SOCPA believes even subsidiaries within the definition of IFRS 10 and consolidated by the holding company could end up being classified as Scope 3 under the GHP standard as these subsidiaries will not fit in to the definition of operational control / financial control and would be identified as being outside of the organisational boundary.

(d) SOCPA believes an entity should be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO_2 equivalent. As this is the universal unit of measurement and would show the global warming potential of each of the seven greenhouse gases.

(e) SOCPA agrees with this proposal. However, wishes to draw attention to our response to section (c) above. Subsidiaries consolidated for accounting purposes could be classified as Scope 3 under the GHP standard as these subsidiaries will not fit into the definition of operational control / financial control and would be identified as being outside of the organisational boundary.

Additionally, the exposure draft requires associates and joint ventures to separately disclose GHG emissions information for Scope 1 and Scope 2. SOCPA believes in many instances it will be very difficult to obtain such information from these investees as they are not controlled by the parent and could have very different operating structures.

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٩٢٠٠٠٩٤٩٣

(f) SOCPA agrees with this proposal as this approach would provide the user of general-purpose financial statements with a complete picture.

Question 10 — Target

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

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

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

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

(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?

SOCPA Comments:

(a) SOCPA agrees with the proposed disclosures about climate-related targets as these are created based on the latest international agreement on climate change. However, SOCPA wishes to highlight the requirement to undertake climate scenario analysis that conform with Paris Agreement – aligned transition pathway (BC 122 of the basis for conclusions) would require companies to design models for which they would need to obtain data for inputs as well. These models will be built on assumptions also determined by the companies. Many companies would need to make changes to its human resource capabilities as well as infrastructure to carry out these processes.

(b) SOCPA agrees that the proposed definition is sufficiently clear and BC 121 of basis for conclusions adequately defines this.

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٩٢٠٠٠٩٤٩٣

Question 11 —Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

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

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

(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?

(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?

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

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

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٩٢٠٠٠٩٤٩٣

(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) 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?

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

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

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

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment

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٩٢٠٠٠٩٤٩٣

of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

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

(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.

(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?

SOCPA Comments:

(a) SOCPA agrees that this approach would ensure the ideal balance between comparability while avoiding complexity. However, Companies should review if these industries specific metrics could be implemented (or are applicable) in their jurisdictions. SOCPA will reach out to companies in the Kingdom of Saudi Arabia in order to understand the applicability in respect of each industry.

(b) SOCPA agrees with the proposal as the ISSB has modified the SASB standards to ensure international applicability by removing any US-specific terminology. The ISSB also has used a climate-related scope only, restricting metrics to those related to climate-related matters. In addition, the ISSB also has added disclosure topics relating to financed and facilitated emissions to various other industries such as consumer banking, investment banking, insurance, and asset management.

(c) SOCPA agrees with this proposal as well. This will ensure that an entity would be able to provide information consistent with the equivalent disclosures in prior periods.

(d) SOCPA believes the metrics are similar, but the industry-specific requirements provide additional detail. There is also some overlap between the cross-industry metrics categories and the industry-specific metrics proposed (example: greenhouse gas emissions are proposed as an industry-specific metric, which is also required as a cross-industry metric).

(e) SOCPA agrees with the industries classified as ‘carbon-related’ in the proposals for commercial banks and insurance entities and would like to include “clothing and related accessories” (https://www.climatecouncil.org.au/resources/fast-fashion-climate-change/) as an additional industry.

(f) SOCPA agrees with the proposed requirement to disclose both absolute- and intensity-based financed emissions as this would provide the user with information on the complete impact of the emissions.

(g) SOCPA agrees with the proposals to require disclosure of the methodology used to calculate financed emissions as this would make the information more transparent.

(h) SOCPA agrees that entities should be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions as the GHG Protocol has responded to the demand for an internationally accepted method to enable GHG management of companies' value chains and provides comprehensive information through its Value Chain (Scope 3) Accounting and Reporting Standard.

(i) SOCPA agrees for entities carrying out asset management and custody activities, disclosure of financed emissions associated with total assets under management is useful as these emissions could impact the entity by way of diminished investment returns in their portfolios and could lead to reduced performance fees.

(j) SOCPA agrees with the proposed industry-based requirements as they help entities disclose metrics specific to their industry when describing how they monitor and measure climate-related risks and opportunities.

(k) SOCPA does not believe there are any other additional industry-based requirements that require to be addressed.

(l) SOCPA does not have any additional comments.

Question 12 —Costs, benefits and likely effects

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

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

(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?

SOCPA Comments:

(a) SOCPA believes there are several likely benefits by implementing the Exposure Draft. Primarily entities would be able to demonstrate commitment to transparency and would be able to measure impacts to improve performance. As result of implementation of the Exposure Draft entities will also be able to attract capital and investment and also increase customer loyalty.

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Any entity would have to incur upfront costs in setting up a governance structure as well as setting up processes. The cost would vary from industry to industry and the size of the entity. Example: Financial sector will have additional costs as a result of requirements for measurement and disclosure of financed and facilitated emissions.

(b) All entities would also incur day to day costs as a result of implementation of the Exposure Draft. This would be to maintain and improve processes, staff training costs as well as costs for consultants and third-party validators to obtain independent assurance of its processes.

(c) SOCPA believes the requirement to measure and disclose financed and facilitated emissions in the financial sector is going to be a sensitive area. The measurement and disclosure of these emissions will be of significant use, however, the costs in certain instances could outweigh the benefits.

Question 13 — Verifiability and enforceability

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

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

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

SOCPA Comments:

SOCPA believes in making the disclosures relating paragraph 14 entities would be required to make assessments of potential future outcomes as a result of sustainability-related matters. These assessments would include making assumptions and judgements and determining appropriate methodologies. Therefore, entities would need to make these assumptions, judgements and methodologies sufficiently clear so that users can understand the impact of them on the sustainability related matters relating to information disclosed in paragraph 14.

However, paragraph 14 (a) – (d) does not include disclosures on what these assumptions, judgements and methodologies are and how they were determined.

In the absence of these disclosures SOCPA believes there would be challenges in verifying the information disclosed in paragraph 14.

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The disclosure requirements related to green house and carbon emissions matrices and the industry specific information required would present a challenge to auditors and regulators to verify and enforce; Qualitative disclosers may prove to be difficult to verify. Quantitative would be easy to verify, but more difficult to source.

Question 14 —Effective date

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

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

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

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

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

(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?

SOCPA Comments:

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(a) SOCPA believes that the effective date of the Exposure Draft should be the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. This is because IFRS S2 which proposes disclosure requirements for climate-related risks and opportunities is essentially a subsection of the sustainability-related risks and opportunities covered by IFRS S1.

However, SOCPA is open to the option of letting IFRS S2 being implemented ahead IFRS S 1 as IFRS S1 would need more effort to implement.

(b) SOCPA believes the earliest an entity should be required to apply this [draft] Standard is for annual reporting periods beginning on or after 1 January 2024. While certain entities have already established processes which enable them to adopt the standard with short notice, majority of the entities would need time to set up their governance structure, processes, controls and procedures to identify, assess and manage climate-related risks and opportunities.

SOCPA would also like to suggest that for emerging economies the standard should allow for an additional year from the earliest date of application of the standard to reach full compliance.

(c) SOCPA would like to raise the question why such an option is not available for IFRS S1? As we highlighted in our comments to (a) above, IFRS S2 disclosure requirements for climate-related risks and opportunities is essentially a subsection of the sustainability-related risks and opportunities covered by IFRS S1. If IFRS S 1 is to come into effect as a complete standard SOCPA does not see the purpose of IFRS S2 requirements being split and sections coming into effect earlier than others. If this option is available for IFRS 2, the same option should be available for IFRS S 1 as well.

If this split option is to be pursued for both IFRS S1 and IFRS S2, SOCPA suggests entities be allowed to apply the sections on governance and strategy initially and then subsequently risk management and metrics and targets.

Question 15 — Digital reporting

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption of sustainability-related financial information, as compared to paper-based consumption, is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential

proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

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

SOCPA Comments:

It is important to consider how users are informed of the basis of preparation (for example definition of materiality) and level of audit assurance provided, as these may be different between financial statement tags and sustainability information tags. It is important to note that effective implementation date for entities could be affected by the time required to draft and finalize Taxonomy due to operational dependencies.

Question 16 — Global baseline

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

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

SOCPA Comments:

SOCPA does not believe that there are any particular aspects of the proposals in the Exposure Draft that could limit the ability of IFRS Sustainability Disclosure Standards being used as a Global baseline that others could build on.

However, some of our stakeholders believe the disclosure requirements are too exhaustive to meet the objective of acting as a global baseline. A pragmatic approach is recommended, where the baseline is readily achievable to allow other regulators and local jurisdictions to build on the requirements, as appropriate. As making, the baseline too exhaustive may act as a deterrent to widespread global adoption.

Question 17 — Other comments

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

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SOCPA Comments:

The ED includes many repetitions of the verbatim of many paragraphs of the IFRS S1 with the replacement of the phrase "sustainability related sustainability-related risks and opportunities" with the phrase "climate-related risks and opportunities". IFRS S1 stated in paragraph 11 that "Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity shall provide disclosures about…". Therefore, we suggest linking the two documents without repeating the same requirements. For example, IFRS S2 may state that the requirements about disclosure on governance in IFRS S1 apply to the governance of climate-related risks and opportunities. IFRS S2 should only include the additional requirements, if any.

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