ISO/TC 207/SC 7
Greenhouse gas and climate change management and related activities

Chair: ***Ms. Sara Jane Snook***
Secretariat: ***Standards Council of Canada***
Committee Manager: ***Mrs. Christine Geraghty***

DECEMBER 2, 2022

Gary Gensler, Chair
Securities and Exchange Commission
100 F Street NE, Washington, DC 20549-1090

To: Chair Gary Gensler:

Re: Recognition of ISO Standards in the SEC Climate financial disclosure rules

Further to our submission in the summer, I would like to follow up on recognition for ISO standards in the new SEC climate financial disclosure rules.

Whilst I know you have received many submissions from stakeholders, ISO is not any other stakeholder. We are recognized by the World Trade Organization (WTO) as one of two international standards providers of Greenhouse Gas Emissions standards.

We understand that the SEC has discussed GHG emissions and that you want to finalize your climate financial reporting disclosure rules soon. We are requesting equivalency for ISO Greenhouse Gas Emissions Measurement standard ISO 14064 with the Greenhouse Gas Protocol now referenced in your draft rules. We are also attaching the submission we made to the ISSB consultation for your information.

Our technical standards people would be happy to meet with your technical staff to provide further details on the ISO Greenhouse Gas standards. We are also the only global supplier of validation and verification standards for greenhouse gas emissions.

Please contact me, Sara Jane Snook [redacted] or phone [redacted] to arrange a briefing.

I look forward to receiving your positive response to the inclusion of ISO standards in the work of the SEC. There are many more areas that we can collaborate on to further the UN Sustainable Development Goals.
We would appreciate acknowledgement of receipt of our letter.

Yours truly,

Sara Jane Snook

CHAIR, ISO TC207/SC7 GREENHOUSE GAS AND CLIMATE CHANGE MANAGEMENT

Via email: customerservices@ifrs.org

Re: Comment letter on the ISSB Sustainability Exposure Draft and Climate Exposure Draft

July 27, 2022

To the Review Team-Exposure Draft IFRS S2 Climate-related Disclosures:

Thank you for the opportunity to provide a comment letter on the newly proposed ISSB Exposure draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (Sustainability Exposure Draft) and the Exposure draft IFRS S2 Climate-related Disclosures (Climate Exposure Draft).

We represent the International Organization for Standardization (ISO) Committee on GHG and Climate Change Management, ISO TC207 SC7. ISO is an independent, non-governmental international standard-setting body composed of representatives from 167 national standards bodies. It was founded in 1947 and through its members, it brings together experts to share knowledge and develop voluntary, consensus-based, market relevant International Standards that support innovation and provide solutions to global challenges. While ISO offers a diverse range of standards that offer complementary support to the proposed disclosures rules, this submission will focus on those that are directly under the mandate of ISO TC207 SC7.

We agree that the basis of financial reporting standards is the mechanism to determine GHG emissions. These have the potential to drive mitigation and accelerate climate action to address the urgent issue of climate change and its effect on financial risk. ISO's standards serve as foundational instruments in use around the globe. They are clear, consistent, and comparable. We draw you attention firstly to:

ISO 14064-1:2018
Greenhouse gases-Part 1: Specification with guidance at the organizational level for quantification and reporting of greenhouse gas emissions and removals.

There are many companies and organizations throughout the world that rely on the methodology in the ISO 14064 series for their GHG emissions measurement and reduction tracking. This global reach is already in place through the ISO organization.

We would like to respond directly to some of your questions and add a few general comments on principles.

General Comment 1: GHG accounting, like financial accounting, needs to provide a sound basis and structure for reporting for a variety of entities across the globe. To achieve that end, any standard must be relevant and present faithfully with a neutral depiction.

General Comment 2: GHG accounting should, as far as possible, mimic financial accounting because many of the indicators used to judge performance are a combination of financial and GHG information (e.g., $/t CO2e) and it is important that both the financial and GHG information have similar attributes (e.g., authority, boundaries, ownership).

Below are our specific answers to the questions in your exposure draft.

Question 1: Objectives of the Exposure Draft

(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?

We agree with the objectives particularly because they target

- **both the effect of climate change (we believe both physical and transition risks should be addressed),**
- **both the risks and opportunities,**
- **the enterprise value rather than the general good to society (like financial disclosure, the objective should be the ramifications to the enterprise value),**
- **the resource allocation, rather than what could have been done, to address the climate and climatic risks and opportunities; and**
- **the assessment of the entity's ability to adapt.**

This is a comprehensive approach that focuses on the entity and its enterprise value but is sufficiently generic to apply to a wide variety of enterprise types and structures.

Question 2—Governance

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

We agree on the disclosure requirements for governance as the requirements could apply to SME to large organizations and in a variety of industrial sectors.

Question 3—Identification of climate-related risks and opportunities

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

We agree with the proposed disclosure requirements for significant climate-related risks and opportunities and strongly agrees with

- **the differentiation between physical and transition climate-related risks as these can have orders of magnitude difference in their financial costs,**
- **the defining of short-, medium- and long-term climate-related risks as these will depend on the risk and industry; and**
- **the tailoring, yet standardization, of disclosures and metrics to industries for comparability and efficiency of reporting.**

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

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

(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?

We agree with the proposed disclosure requirements for significant climate-related risks and opportunities and strongly agrees with the use of the concept and definition of value chain rather than life cycle chain as it includes other, often overlooked, expense categories necessary to conduct business. We agree with the use of the term significant rather than material in this context as significant will address the future components of the strategy better than the term material.

We struggle with the application of the term "targets" in 13(a) because to achieve target, the entity must have some measure of control over the activity or process. In the value chain, entities can have significant or insignificant control (it's a spectrum) over the sources and sinks and setting targets and expecting to reach those targets for which you have insignificant control is fruitless or lucky. Additionally, 13(b)(ii) implies that these targets will be emission targets, whereas many entities will set an emission intensity target. We suggest that setting targets might be an industry specific guidance material and may not be emission targets but emission reduction targets. A further enhancement to target setting would be the distinction of setting targets on matters on which you have some degree of control.

Question 5—Transition plans and carbon offsets

(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?

We agree with the requirements to disclose transition plans that are linked relevant climate-related risks. Not all entities will have climate-related risks and it will be important for these entities not to have to "manufacture" a transition plan; yet it is important for the intended user of the report to understand the transition plan when these risks exist. We also agree with the differentiation in the transition plan between adaptation and mitigation measures. We would suggest being more specific about the timing of the transition plans (e.g., when does each phase start, are they permanent solutions of do they terminate, etc.).

We struggle with the application of the term "targets"; please see our comments below on Questions 10 - Targets.

We struggle with your application of offset as it is a limited version of the current carbon financial instruments available or could be developed. We would suggest the use of a broader term, like carbon financial instruments, to include offsets, credits, renewable electricity certificates, clean fuel credits, etc.

We agree with the disclosure of the use of carbon financial instruments (e.g., offsets) and their quality; however, an expression of their quality may be problematic at this time as rating systems are evolving (e.g., ISO 14068, Carbon Neutral standards, etc.) and their quality is subject to the system they are derived from. We suggest disclosure of the type, the system and whether assurance has been provided rather than an interpretation of carbon credit quality. We believe this approach provides for sufficient transparency.

We believe that the disclosure of the type of credit will be adequate in identifying "nature-based" solutions. We find that the term "nature-based" solutions to be in flux and have significant interpretation (e.g., bio-engineered nano-bacteria that stimulates plant growth) and would recommend removing that context in 13(b)(iii)(3).

We suggest that the disclosure of the use of carbon financial instruments include whether they were used for regulatory compliance.

We struggle with the use of terms validation, verification, and certification as in some systems use the term certification to mean verification and other apply it to only the qualitative characteristics of the subject matter. We suggest using terms consistent in the accounting profession, such as assurance, and specifying the Scope and level of assurance in the disclosure.

We have no comment on the balance of costs.

Question 6—Current and anticipated effects
No comment. Not assessed.

Question 7—Climate resilience
No comment. Not assessed.

Question 8—Risk management
No comment. Not assessed.

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

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

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

(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?

We strongly disagree with the use of the GHGProtocol as a basis of reporting for the following reasons

- **The GHGProtocol has been developed as a voluntary reporting standard and as has been proven in many regulatory systems, the transition between voluntary and regulatory is fraught with problems and blind adoption will likely cause problems.**
- **The GHGProtocol is not policy neutral. The use of Scope 1, 2, and 3 introduce policy. We prefer the categorization of what to report be based on entity responsibility, thus aligning with financial reporting. ISO uses the concepts of direct (for sources and sinks you are responsible for) and indirect (for sources and sinks that are in the value chain but are not responsible for).**
- **The GHGProtocol does not align well with accounting standards. We have discovered that complex entities (particularly ones with US GAAP and IFRS subsidiaries) struggle with the GHGProtocol's requirements for reporting Scope 1 and setting targets.**
- **The GHGProtocol is US centric.**

We strongly recommend aligning GHG accounting and reporting with the international financial accounting methodology as much as possible. As a reporting framework, the analogue of a balance sheet works well for GHG reporting

- **Assets (Removals and Carbon Financial Instruments)**
- **Liabilities (Emissions)**
- **Shareholder Loans (Storage)**

NOTE: ISO 14064-1:2018 recommended reporting formats have been designed to mimic financial reporting and appear like a balance sheet with analogue line-item classification (assets = removals, liabilities = emissions, shareholder equity = storage). In addition, ISO demonstrates how to properly report and disclose carbon financial instruments understanding that they are not necessarily fungible units with the inventory or with themselves (e.g., renewable energy certificate (RECs) measured in kWh and Offsets measured in t CO2e/a) but affect stakeholders' decisions. The GHG Protocol does not align similarly in structure but rather has a list of reporting categories.

We also recommend aligning the GHG accounting and reporting boundaries with the financial accounting methodology to ensure that metrics chosen are structured appropriately. Thus, assets that appear on the financial balance sheet should be represented as sources/sinks/storage on the GHG balance sheet.

NOTE: ISO 14064-1:2018 is flexible enough to align with financial reporting requirements; whereas the GHG Protocol, particularly for Scope 3, Category 15 on financial investments is quite prescriptive and may not align with the mandatory financial disclosures. We believe that sound disclosure for GHG accounting will need to align as closely to the financial reporting because many of the indicators that shareholders and stakeholders examine rely on both GHG *and financial data. Flexibility is needed to account for the wide variety of organizational structures found in financial reporting.*

We recommend that categorization of emissions be done on a responsibility basis because entities can only manage what they are responsible for and influence what they are not responsible for. The concept of responsibility has implications on setting targets and assurance as sources and sinks that they do not have responsibility for are difficult to set targets for and usually do not have the same information access as those that an entity is responsible for. This approach also aligns well with entities data management systems and the uncertainty inherent in the quantification and data.

NOTE: ISO 14064-1:2018 uses the concept of direct and indirect to distinguish between sources/sinks/storage that they are responsible for and those that lie in the value chain. This type of approach would work well for the ISSB Climate Disclosures.

We recommend setting a reporting boundary for indirect emissions based on significant emissions/removals/sequestration and when not available, disclosure as to why.

NOTE: ISO 14064-1:2018 does not distinguish between Scope 2 and Scope 3 but categorizes both as indirect emissions because from an audit and data management perspective, they present the same challenges in reporting and controls. Instead, ISO 14064-1:2018 uses the approach of establishing a reporting boundary that is relevant to the organization. The GHG Protocol mandates the reporting of certain Scope 3 elements (depending on the industry), which may not be applicable to all organizations. We would recommend great flexibility on the initial ISSB requirements with strong guidance to support appropriate disclosure rather than being overly prescriptive in the initial stages.

We agree with the disclosure of the entity's absolute gross greenhouse gas emissions expressed in tonnes of CO2e for the same period as the financial period.

We agree with the disclosure of the entity's greenhouse gas emission intensity but suggest for certain industries, the appropriate denominator can be problematic (e.g., waste industry, industries with multiple products (e.g., refineries), service industries, industries with virtual products) and the ISSB use a consistent financial metric as the denominator.

We suggest that the ISSB uses the same approach it uses in the financial statements to include emissions for the consolidated accounting group, associates, joint ventures, unconsolidated subsidiaries, or affiliates rather than using the structure of the GHGProtocol.

We agree with the requirements to disclose significant indirect emissions, including the quantification methodology.

We agree with the requirement that for significant indirect emissions that can not be quantified, disclosure of the reasons for being unable to obtain a true representation of the

emissions, removals, or sequestration. We prefer this phraseology as the challenges can present in either the data availability or quantification methodology.

We suggest that the requirement to disclose internal carbon pricing may be too advanced for SME and proprietary to other entities.

We recommend disclosing past year emissions so that interested parties can gauge change. In addition, management should comment on reasons for any changes.

Question 10—Targets

(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?

We struggle with targets that are judged to be science based, created based in international agreements on climate change, or Net-Zero for several reasons

- **Science based targets evenly distribute the requirement to reduce emissions rather than focusing on industries with the most emissions and emission reduction potential. There are some industries where it will be difficult to reduce emissions because of their high efficiencies.**
- **International agreements are far removed from day-to-day business operations and are generally high level and not industry specific. Equalized reduction requirements may appear fair but in truth, certain industries release more GHG emissions or have more ability to reduce than others and the onus or opportunity is not equal.**
- **Net-Zero definitions are evolving and in practice, there are many industries that will not meet this standard without offsets.**

We prefer a general requirement to disclose the methodology upon which the targets have been based.

Validation of targets does not achieve the ends that many stakeholders believe it does. Validation is the process of ensuring that the targets have been structured and calculated appropriately; it does not ensure that the targets are appropriate (which is an endorsement, not a validation). We recommend the removal of the validation of targets in 23(e) as this application could be confusing.

Question 11—Industry-based requirements

No comment. Not assessed.

Question 12—Costs, benefits, and likely effects

No comment. Not assessed.

Question 13—Verifiability and enforceability

The GHG Protocol does not address audit and auditor requirements to any great extent. We hope our standard ISO 14064-3:2019 Greenhouse gases-Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions, which was modeled, in part, after the IAASB audit standard, may be of assistance.

Question 14—Effective date
No comment. Not assessed.

Question 15—Digital reporting
No comment. Not assessed.

Question 16—Global baseline
No comment. Not assessed.

Question 17—Other comments
We would also like to bring your attention to our supporting climate-related standards that the ISSB may benefit from:

ISO 14064-2:2019
Greenhouse gases- Part 2: Specification with guidance at the project level for quantification, monitoring and reporting of greenhouse gas emission reductions or removal enhancements

ISO 14064-3:2019
Greenhouse gases-Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions

ISO/Technical Report 14069:2013
Greenhouse gases – Quantification and reporting of greenhouse gas emissions for organizations – Guidance for the application of ISO 14064-1

ISO 14065:2020
General principles and requirements for bodies validating and verifying environmental information

ISO 14066:2011
Greenhouse gases- Competence requirements for greenhouse gas validation teams and verification teams

ISO 14067:2018
Greenhouse gases —Carbon footprint of products - — Requirements and guidelines for quantification

We believe the above ISO standards would be of benefit to the ISSB when implementing the climate change-related disclosure requirements.

ISO TC 207/SC7 is host to internationally recognized experts in greenhouse gas management and its relationship to climate change. We are very willing to contribute our expertise to the ISSB in any way that would be helpful. Our experts can facilitate consultations or help with training. We can discuss the ISO Standards with the ISSB experts at their convenience. We would like to help the ISSB meet the objectives they have set for clear, concise, comparable standards for financial reporting of climate and sustainability data.

Please contact us for any further information you require.

Yours truly,

Sara Jane Snook P.Eng.
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[redacted]

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