



AMERICAN ACADEMY *of* ACTUARIES

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July 27, 2022

International Sustainability Standards Board
Emmanuel Faber, ISSB Chair
Sue Lloyd, ISSB Vice-Chair

Dear Chair Faber and Vice-Chair Lloyd:

The American Academy of Actuaries (Academy)¹ Climate Change Joint Task Force (CCJTF) appreciates the opportunity to comment on the International Sustainability Standards Board's (ISSB) request for public input on the Exposure Draft IFRS S2 *Climate-related Disclosures*. Actuaries are focused increasingly on risks associated with climate change—both in our roles as risk managers and in developing estimates of insurance premiums, reserves, and capital. The CCJTF commends the ISSB for its efforts to standardize disclosures associated with climate risks, making such disclosures, when they are finalized, a better source of information not only for a particular company but across companies.

Subsequent to finalization of new disclosure requirements, the CCJTF encourages the ISSB to compile disclosure information as data to measure how meaningful it is and continues to be, as well as to report on the resulting levels of risk recognition. In turn, the ISSB and other stakeholders could study whether to update and enhance the reporting guidance to provide more comparable and meaningful disclosures.

ACADEMY RESEARCH ON CLIMATE CHANGE AND CLIMATE RISK DISCLOSURES

In addition to perspectives gained from its volunteers' working experience and expertise, the Academy has also spent considerable time in recent years on two research projects that have provided additional insight into changing climate risks and appropriate regulatory deliberations with respect to climate-related financial risk in the insurance sector.

Actuaries Climate Index and Actuaries Climate Risk Index

First, the [Actuaries Climate Index](#) (ACI) v 1.1, created and maintained by four North American actuarial associations, including the Academy, documents changes in extreme occurrences of six climate-related elements of weather and sea level. The index, a measure summing the

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

observations across all of the elements, covers the U.S. and Canada, and breaks results down into 12 regions, seven in the U.S. While the index generally shows increasingly extreme climatic conditions since the end of the index reference period, 1961–1990, it also reveals the variability in those increases—both by element and by region. In 2020, the Academy also published a preliminary model, the [Actuaries Climate Risk Index \(ACRI\) v 1.0](#) and results providing estimates for property losses during the period 1991–2016 that could be attributed specifically to changing climate, controlling for changes in exposure.

As the ISSB sets forth its initial climate disclosure standards, changes in the requirements may be needed over time due to the evolving nature of climate change and climate risk. The CCJTF suggests that the ISSB consider the use of indices such as the ACI and ACRI that measure physical risks that are impacted by climate as a way to inform the ISSB about how fast climate risk factors are moving, to indicate movement on the time horizon and the potential timing for re-assessing the disclosure guidance.

Climate-Related Financial Disclosures

Second, the Climate Related Financial Disclosure (CRFD) Work Group (work group) of the Academy has been examining climate disclosures as they apply specifically to insurers. In the first part of the work group’s research, presented to the National Association of Insurance Commissioners (NAIC) in December 2020 and January 2021, the work group examined the climate-related financial disclosures completed through 2019 by about 70% of the insurance industry in response to the [NAIC Climate Risk Disclosure Survey](#). That survey consisted of nine Yes/No questions, with eight narrative responses required to elaborate. In the [second part of that research](#), presented in January 2022, the work group compared the NAIC Climate Risk Disclosures with the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) reports for the same companies using disclosures through 2020.

Six insights from the analysis of these filings potentially useful to the ISSB include:

1. TCFD reports generally provide more information than did the NAIC survey responses;
2. The increase in information provided by the TCFD reports is accompanied by an increase in the variability of responses;
3. Certain topics—governance, metrics and model results, and opportunities provided by climate change—are significantly better covered in TCFD reports than in the NAIC survey responses;
4. Certain topics—operational risk, underwriting risk, and engagement with policyholders and key stakeholders—are less completely covered in the TCFD reports than in the NAIC survey responses;
5. Only companies that are relatively large have been voluntarily submitting a TCFD report; and
6. The TCFD responses, as is true of the NAIC survey responses, are difficult to benchmark. The absence of systematic questions—whether Yes/No, multiple choice, or

quantitative—makes the creation of benchmarks difficult and, thus, makes it difficult to assess individual companies against those benchmarks.

These lessons suggest at least two issues to which the ISSB might give particular attention:

- a. Both the Carbon Disclosure Project (CDP) survey and the ClimateWise survey are used by many companies voluntarily, and both are designed to satisfy the requirements of the TCFD reporting guidance. As a result, it might be worth considering studying these two surveys (and others which meet the same criteria of being widely used, systematic, and meeting TCFD requirements) more closely to determine how best to draw from them to improve the ISSB disclosure standards; and
- b. The companies that file more robust responses tend to be larger, and they tend to be operating in multiple lines of business.

SPECIFIC COMMENTS ON THE QUESTIONS POSED

Based on the work completed on these research projects, and insights gained from our working experiences as actuaries, the CCJTF offers the following responses to select questions in the ISSB’s Exposure Draft Questions for Respondents.

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?

Response:

The ISSB draft standards are aligned with the TCFD while, in several instances, requiring more granular information. Aligning the ISSB standards has advantages for all stakeholders and is likely to meet the objectives the ISSB has outlined. However, our research described above shows that following the TCFD framework without additional questions—either closed-ended, or specific metrics, or questions producing narrative responses that can be reliably scored—is likely to create avoidable problems for stakeholders in making use of the disclosures.

- TCFD is the emerging consensus standard for CRFD reporting. Aligning with that standard will make it easier for regulators, companies, and stakeholders to assess the reports for individual companies.
- Our research indicates that, while TCFD responses may provide substantial useful information, that is not guaranteed. More specifically, our research suggests two major problems likely to arise with the current TCFD-aligned guidance:
 1. Relatively few companies are likely to provide robust responses; and
 2. The narrative responses at the heart of TCFD are highly variable across companies and very difficult to benchmark, assess, and compare. As a result, both regulators and stakeholders are likely to learn less from the responses—even when companies spend considerable resources producing robust responses—than they might if the TCFD framework was implemented in a way that produced quantifiable metrics based on the responses. Whether the questions are closed ended, or the questions are scored independently once submitted, quantifiable responses provide regulators and stakeholders the opportunity to benchmark, assess, and compare.

The additional, more granular information required by the ISSB standards compared to the TCFD may enhance the value of the narrative responses, but the risk of highly variable responses seems to remain. As companies are able and willing to respond quantitatively to Question #6, *Current and Anticipated Effects*, these standards would likely improve the value of the disclosures significantly compared to TCFD responses. To the extent that insurance companies respond quantitatively to the industry-specific requirements for a breakdown of the Gross and Net Probably Maximum Loss (PML) by climate hazard, that too will make the responses more effective.

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?

(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?

Response:

The definitions of climate-related financial risk to a company are broad and need to cover the broad spectrum of risks that may be material to the company. As a result, any description of risks for a particular industry may not apply to all entities within that industry. Moreover, relatively small risks to some companies may be material to others and aggregate across companies. A specific transition risk, that of reputational risk—while hard to anticipate—may be significant.

- The definitions for all material risks need to be broad, whether physical or transition, acute or chronic. The broad definition of risk includes the consideration of not just a single material risk but potential aggregated impact from risks.
 - Relatively small risks may add up to very substantial risks to particular companies.
 - And relatively small risks added up across companies might pose substantial risk to the country or to global financial stability.
- Within transition risk, it is important to highlight reputation risk.
- Reputation risk is difficult to anticipate but not impossible.
 - One of the most likely sources of reputation risk (with risk to climate change) arises from activities (whether directly by the company or in the company's value chain) that impact climate change adversely, whether or not the activities have a material financial impact. In this way, impact materiality, as discussed above, may be important to assess as an indicator of the likelihood of reputation risk.

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.

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?

Response:

We expect that the primary risks for insurance companies from their value chain lie in their downstream activities, i.e., those of their policyholders and customers. While some of those risks are captured in the underwriting process, some risks remain outside of that process and might be acknowledged under disclosures of material risks originating in the value chain.

- While many insurance companies certainly face climate risks (both physical and transitional) in their underwriting (and treaty-writing) operations, even more companies will face climate risk in their value chain's downstream, i.e., from the risks faced by policyholders and customers beyond the current customer transaction into future years.
- While the risks to individual policyholders are likely captured largely in the underwriting risk for companies (at least within the time horizon of the policy), some commercial policies include risks which go beyond those typically incorporated in underwriting. Consider, for example, transition risk (due to new government regulations, for example) that affects a policyholder in a way that is covered by current policy language but was not anticipated in pricing and underwriting.
- Value chain downstream risk may result in reputation risk for insurers. For companies that are insured by a particular insurance company, the activities of the insured entities may both reflect on the reputation of its insurer as well as become a financial risk to the insurer.

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 monetized 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 organizational 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?

Response:

As our research related to climate-related financial disclosures has shown, closed-ended questions that can be compiled into a comparable data source are useful in comparing the responses from one company to the next. The next step of comparability is disclosed metrics that are defined specifically enough in the disclosure such that the results can be compared across companies. More specifically, the CCJTF has the following comments about disclosing quantifiable metrics.

- Identification of material risks without sufficient quantitative disclosure of financial impact would not benefit investors, so investors want to understand the relative magnitude of various climate risks, track the size of various climate risks over time, and compare the climate risk of different companies.
- However, for many entities, it may be difficult to quantify these climate impacts (the example given is oversimplified). Furthermore, the precise impact may not be known for several years after the occurrence of a catastrophic event.
- Requiring metrics provides an added benefit, in that the entity's management would develop a more thorough understanding of potential financial impacts and this will likely lead to better decision-making and risk management.

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).

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 incentivize 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 nonmandatory 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?

(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?

Response:

While all required reporting of GHG emissions may be challenging for many companies, Scope 3 emissions standard disclosures seem especially noteworthy. Our comments consider materiality for specific companies, recognizing that Scope 3 emissions may be more material than Scope 1 and Scope 2 for some companies and not material for others. More specifically, the CCJTF has these further thoughts about Scope 3 disclosures.

- For companies in many industries, Scope 3 emissions will be more important than Scope 1 and Scope 2 and may be how the company defines its net-zero targets (often the case for financial services sectors). In general, a company that has high Scope 3 emissions may struggle to decarbonize under its current business model, so investors will want to understand that such companies may have a difficult transition.
- However, a threshold could be set for required Scope 3 disclosure. Setting a specific threshold for reporting Scope 3 emissions is important to minimize unnecessary reporting while maintaining as much comparability across companies as possible.

Regardless of what is decided in terms of a reporting threshold, it can be assumed that for companies with low Scope 3 emissions, transition risk is relatively low and there is little benefit to required Scope 3 disclosure. (Calculating Scope 3 emissions is more difficult than Scope 1 and Scope 2, so the ISSB may wish to consider it be required only when material).

- When it is determined that Scope 3 emissions are immaterial, the ISSB may wish to consider that the company disclose the methodology used in reaching that conclusion.
- A requirement of disclosure of immaterial Scope 3 emissions when a company has set reduction targets on that basis would make sense and could be effective in preventing “greenwashing.”
- A requirement to calculate emissions for each specific greenhouse gas is important because this is the only way to understand overall emission levels and to set and pursue reduction targets. However, it may be of little benefit to disclose emissions data for each type of GHG, as most investors will not have much use for this data.
- Using a universally consistent unit of measurement—carbon dioxide equivalent (CO₂e)—is important to enable investors to understand emissions levels.
- Requiring disclosure of gross emissions (before any purchased/generated offsets) is also important because the value of offsets is highly variable (e.g., if a registrant is planting 1 million trees to generate an offset—how would we determine the value of this? There is not one single species and size of tree.) Any incorporation of the value of the offset will be more effective if a description of the methodology for its determination is included.
- Requiring disclosure of Scope 3 emissions by individual category would be somewhat useful to investors. Depending on the category of emissions, investors would be able to understand how difficult it will be for the company to transition (e.g., it is relatively easier to make changes to the investment portfolio than it is to figure out a green way to transport and distribute the company’s sold products).
- Given that determination of Scope 3 emissions is much more difficult than Scope 1 and Scope 2, the ISSB may wish to consider that guidance emphasize that these are to be calculated and disclosed on a best-efforts basis.

Question 10—Targets

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?

Response:

In considering the need to require a disclosure articulating whether a company has set targets for GHG emission reduction as well as the next step of describing the targets, year-over-year progress in achievement of the targets as well as ancillary targets that may be components of getting to reduced GHG emission, the CCJTF offers the following input:

- Yes, it is important for investors to understand any reduction targets that have been set, so this disclosure is necessary. If a company has set reduction targets but does not want to disclose them—this could signal either weak targets or greenwashing.
- The elements of the disclosure described in the proposed rules, e.g., unit of measurement, time horizon, interim targets, etc., all are valid.
- It is particularly important to describe progress made in achieving targets since the prior year’s disclosure. This will give investors an idea of how closely companies are pursuing their transition plans and how well they are managing their climate risks.
- Regarding other targets—such as water usage or conservation policy or recycling programs, etc.—these are not particularly useful if they cannot be expressed in terms of GHG emissions reductions.
- It is likely that that this proposal will discourage companies from setting goals on occasion. These requirements may discourage some companies from setting ambitious reduction targets until they have developed an execution plan. The lack of a reduction target is a potential additional disclosure item to address this concern.

FINAL GENERAL COMMENT:

The proposed ISSB disclosure standards are primarily designed to help investors understand

the climate component of the environmental, social, and governance (ESG) profiles of potential investments. An added benefit of these disclosures might be that many insurance companies are looking for resources on how to better consider climate and ESG in the underwriting process. The information described in the ISSB disclosures will provide quite a bit of useful data for underwriters to use in that regard. This will help create a positive feedback loop, with insurers wanting to insure the best climate and ESG risks and corporate insureds making the determination that they can lower their insurance costs by developing better climate and ESG credentials.

If you would like to have a further discussion on our comments or if you have additional questions, please contact the Academy's Risk Management and Financial Reporting Analyst, Samuel Owen, at owen@actuary.org or +1-202-223-8196.

Respectfully submitted,

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