BlackRock

29 July 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD

RE: Exposure Draft ED/2022/S2 Climate-related Disclosures

Dear Mr Faber,

BlackRock is pleased to have the opportunity to respond to the Exposure Draft ED/2022/S2 *Climate-related Disclosures*, issued by the International Sustainability Standards Board ("ISSB"). We have long supported international efforts toward a single, globally consistent set of baseline sustainability reporting standards, that is aligned with the Taskforce on Climate-related Financial Disclosures ("TCFD") framework. We consider this key to enhancing the quality of information available to investors and other stakeholders. A global baseline of standards will help users to assess a company's exposure to and management of climate-related risks and opportunities, and to facilitate investment and stewardship decisions.

As a publicly traded asset management firm, we write this letter from two perspectives: (i) as a fiduciary investor that uses climate-related data and disclosures in our investment and stewardship processes on behalf of our investment clients; and (ii) as a public issuer responsible for making disclosures to our shareholders and other stakeholders. Because we invest on behalf of clients with a variety of long-term financial objectives, in our role as a fiduciary, we engage in investment processes that weigh a variety of investment factors, risks, and opportunities, including those related to climate, and other sustainability factors As a publicly traded issuer, we are committed to providing meaningful climate-related information to all our stakeholders. Our sustainability-related reporting, which is aligned with the recommendations of the TCFD, is available in BlackRock's TCFD report.[1]

As both an investor and an issuer, we are guided by our fundamental conviction that reliable, comparable, and consistent climate-related disclosures by companies are essential for investors to accurately integrate climate risks and opportunities into their investment decision-making processes. We welcome the alignment of ISSB's proposal with the TCFD framework, which we believe serves to provide investors with comparable information to assess issuers' long-term transition plans and near-term actions to mitigate sustainability risks, and to make better informed investment decisions.

We value the opportunity to provide our considerations on the Exposure Draft, and welcome further discussion on any of the points that we have raised.

Yours sincerely,

Michelle Edkins	**Joanna Cound**
Managing Director	Managing Director
BlackRock Investment Stewardship	Head of Global Public Policy Group, EMEA

[1] Further, our 2021 Sustainability Disclosure includes reporting aligned with the SASB Standards for Asset Management & Custody Activities, as well as reporting on additional sustainability topics that matter most to our stakeholders. The SASB Standards provide a roadmap for reporting to investors focused on achieving disclosure that is useful, cost-effective, industry-specific, evidence-based, and informed by market practitioners. We see the TCFD Recommendations and the SASB Standards as complementary. For more information, see our Investment Stewardship Commentary: Sustainability Reporting: Convergence to Accelerate Progress.

Introduction

BlackRock manages assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, alternatives, and multi-asset strategies. Our clients, the asset owners, include pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world. Because our clients have diverse financial objectives, we consider a variety of investment factors, risks, and opportunities, including those related to climate.

Asset managers investing on behalf of clients are not just looking for more data on climate risk; they need *high-quality* information that is (1) relevant to understanding climate-related risks and opportunities, and (2) reliable, timely, and comparable across jurisdictions. Investors also recognize that climate data, controls and risk methodologies are still evolving. As a fiduciary to our clients, BlackRock has engaged with public companies on climate disclosure over the past five years. We have observed these companies continually developing and adapting their climate risk management and reporting tools, improving the quality of their disclosure over time.

BlackRock strongly supports the ISSB's goal of providing a global baseline of standards to support the disclosure of more reliable, comparable, and consistent climate-related information. We view both the ISSB Exposure Draft ED/2022/S1 on sustainability-related financial information and ED/2022/S2 on climate-related disclosure as important contributions to a multi-year, multi-jurisdictional effort towards improving the availability, quality, comparability, timeliness, and interoperability of sustainability-related disclosures.

We have separately responded to the ED/2022/S1 on sustainability-related financial information. Our comments below are intended to propose aligning the ED/2022/S2 on climate-related disclosure with the following principles, which we believe will provide investors with high-quality disclosures, while creating the flexibility necessary for continuing development of creative, pragmatic best practices. These principles have similarly guided BlackRock's response to the climate-related disclosure rules proposed by the U.S. Securities and Exchange Commission ("SEC"), Enhancement and Standardization of Climate-Related Disclosures for Investors.

While national authorities will ultimately determine the application and scope of ISSB-aligned standards (including the associated liability framework) in their jurisdiction, we encourage the ISSB to continue engaging with global regulators, as well as other standard setters, to ensure interoperability and alignment with the principles outlined below.

Principles for High-Quality Climate-Related Disclosures

- **TCFD alignment:** We support disclosure frameworks aligned with the TCFD framework and sector-specific metrics, such as those that will be taken forward by the ISSB. The TCFD framework has incorporated market feedback and attracted widespread support because of its relative simplicity and consistency. Our experience is that it results in clear disclosures that allow investors to assess how companies are adapting their business models to respond to climate-related risks and would provide an effective global framework.

- **Global baseline standards with industry-specific guidance:** We strongly support a global baseline of climate-related disclosure standards to enable investors to make more informed decisions. We urge regulators to work with market participants and standard setters, like the ISSB, to continue developing industry-specific guidance.

- **Flexible approach to improving disclosures:** We believe that regulators should allow for a "comply or explain" regime (consistent with the TCFD framework) for disclosure areas, such as certain metrics and targets, that are still actively evolving. This regime will allow companies to provide the disclosures or explain why they cannot. A flexible approach to disclosure will likely encourage more and more companies to provide such disclosures.

• **Distinction between Scope 1&2, and Scope 3 disclosures:** We support quantitative disclosure aligned with the Greenhouse Gas Protocol ("GHG Protocol"). As investors, we use GHG emissions estimates to size an issuer's climate-related exposure. Specifically, we look to companies to provide Scope 1 and 2 GHG emissions disclosures, and meaningful short-, medium-, and long-term science-based reductions targets, where available for their sector.

As investors, we use Scope 3 emissions as a proxy metric (among others) for the degree of exposure companies have to carbon-intensive business models and technologies. However, we do not believe the purpose of Scope 3 disclosure requirements should be to push publicly traded companies into the role of enforcing emission reduction targets outside of their control. Given methodological complexity for Scope 3 emissions and the lack of direct control by companies over the requisite data, our investors believe the usefulness of this disclosure varies significantly right now across industries and Scope 3 emissions categories. We encourage regulators to adopt a disclosure framework that accounts for this significant variation. Under this framework, companies would disclose emissions estimates for any of the fifteen Scope 3 categories that are material to them. If none of the fifteen categories are material, or if companies are not yet capable of estimating their Scope 3 emissions, they would have the option of explaining why that is the case.

• **Consistency across public and private markets:** Mandating reporting by companies across both public and private markets is critical to averting unintended consequences in the capital markets such as (1) the sale of physical assets to private companies to avoid disclosure, and (2) private companies being potentially disincentivized from going public, decreasing choice for public market investors. Uniform disclosures would also provide market participants with a clearer understanding of how the transition to a lower carbon economy is progressing across the entire economy. The absence of consistent private and public market disclosure standards forces public companies to step into the role of policing their value chain partners and clients through negotiating the implementation and monitoring of the data they need for their own disclosures, such as private companies' GHG emissions reporting.

• **Protections from liability:** The liability attached to climate-related disclosure should be commensurate with the evolving nature of that disclosure to encourage rather than discourage higher-quality disclosure. We urge regulators to adopt a liability framework that provides meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve, and that gives companies the flexibility they need to develop their disclosures without imposing a chilling effect.

• **Adequate time for companies to develop high-quality disclosures:** Climate-related disclosures often require companies to collect and aggregate data from various internal and external sources. Practical realities of data-collection and reporting do not cleanly line up with financial reporting cycles. Giving companies adequate time (e.g., 120 days) after their fiscal year-end to accurately collect and analyze this data will increase the quality of the climate related information investors receive. This timeline should still result in companies producing climate-related data in advance of their annual meetings, giving investors time to assess it before making proxy voting decisions.

• **Adhering to relevant materiality thresholds:** Finally, we believe companies' climate-related disclosure obligations in their annual and quarterly reports should be linked to relevant materiality thresholds. Materiality thresholds will assist investors in identifying those companies that consider climate-related risks material to their operations and in evaluating the impact of those risks on companies.

Response to Exposure Draft ED/2022/S2 Climate-related Disclosures

As an investor, BlackRock has been pleased to observe that an increasing number of issuers are using the TCFD framework to provide more detail to their stakeholders through disclosures that are becoming increasingly robust over time.[2] We welcome the ISSB's alignment with the core principles of the TCFD framework. We strongly support the ISSB's objective of building a single, global set of baseline sustainability reporting standards on which jurisdictions can build, to accelerate the disclosure of more comparable climate-related information.

The ISSB's proposed standard for climate-related disclosures will benefit investors and other stakeholders by increasing the quality of information available. We believe this will assist us and other investors in evaluating the material impact of climate risk on particular issuers and in identifying those issuers that consider climate-related risks and opportunities material to their operations. We believe that the proposal sets forth an important roadmap to inform disclosure decisions on climate-risk oversight, strategy, governance, and risk management and will compel issuers to conduct a more thorough analysis than currently undertaken under the existing voluntary framework alone.[3]

Setting out clear international guidelines around these disclosures will help level the playing field for all issuers and, over time, help reduce costs in complying with multiple reporting frameworks. In order to enable issuers to build the appropriate processes and controls to comply, the effective date should be no less than one full year after the standards are finalized.

In offering our support for the ISSB's efforts to provide a baseline global standard for climate-related disclosure, we are submitting the following specific recommendations, which we believe will allow the final guidance to promote reliable, comparable, and consistent disclosures.

Disclosure of climate-related information in general purpose financial reporting

The ISSB's exposure draft for climate-related disclosure refers to a company's 'general-purpose financial reporting' as the location that this information should be published. However, given the diversity among national reporting regimes, 'general purpose financial reporting' may entail different practical conditions and associated liability per jurisdiction.

- **Timing:** Defining the reporting location as a company's 'general purpose financial reporting' also effectively determines the timing of climate-related disclosure. However, the practical realities of the collection and reporting of climate-related data do not cleanly line up with financial reporting cycles. Climate-related disclosures often require companies to collect and aggregate data from various internal and external sources. As an investor, what we view as most important is ensuring that companies produce climate-related disclosure in advance of their annual meetings, giving investors time to assess the information before making proxy voting decisions. Giving companies adequate time (e.g., 120 days) after their fiscal year-end to accurately collect and

[2] As long-term investors on behalf of our clients, we look to companies to help their investors understand how climate risks and opportunities are integrated into their governance, strategy, and risk management, as well as to provide Scope 1 and 2 GHG emissions disclosures, and meaningful short-, medium-, and long-term science-based reductions targets, where available for their sector. While recognizing the measurement challenges, we also look for disclosures on how companies are considering Scope 3 GHG emissions, particularly where these are material. We consider these disclosures in our qualitative and quantitative assessments of companies' risk return profiles and in our voting analysis.

[3] We note, however, that costs involved for issuers related to report in line with the ISSB's proposed climate-disclosure standard may include data management costs associated with compiling the GHG emissions information; expertise required to estimate GHG emissions, which can be obtained from consultancies, technology solutions providers, and/or hiring personnel with expertise in GHG emissions disclosures to produce the necessary computations and reporting. These are anticipated costs and challenges to be considered as these skills may not currently reside within most issuers globally, especially small and medium enterprises.

analyze this data will increase the quality of the climate-related information investors receive.

- **Liability:** We recognise that the liability attached to general-purpose financial reporting will depend on national regimes, and consequently the ISSB's requirement to locate climate-related disclosure within that report will in turn result in differing liability in different jurisdictions. In our view, liability should be commensurate with the evolving nature of climate-related disclosure, to encourage rather than discourage higher-quality disclosure. We urge national regulators to adopt liability frameworks that provide meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve (for example, in some jurisdictions this may be provided in the form of a safe harbour from liability), and that gives companies the flexibility they need to develop their disclosures without imposing a chilling effect. We recognize that in certain national regimes, this may result in climate-related disclosure being located outside of general purpose financial reporting.
- **Materiality:** Further, while we note that the ISSB Exposure Draft ED/2022/S1 on sustainability-related financial information defines material information in alignment with the definition in the International Accounting Standards Board's (IASB's) Conceptual Framework for General Purpose Financial Reporting,[4] in our view, materiality should be determined according to the definition most relevant to each jurisdiction's wider reporting framework.[5]

Permitting disclosure in the location best aligned with the liability considerations relevant to a specific national jurisdiction, whether or not that is inside of the general purpose financial reporting, will encourage issuers to make more robust climate-related disclosures (including with respect to newly implemented emission targets, scenario analyses and transition plans). Providing issuers with more time after the deadline of their general purpose financial reporting to prepare the information required will also increase the quality and accuracy of the climate-related information that investors receive.

For companies subject to reporting requirements in multiple jurisdictions, providing the option to cross refer to comparable reporting at parent company level may increase the efficiency of disclosure in some instances, and support the transparent disclosure of climate-related risks and opportunities to investors.

Further, explicitly permitting the use of prior quarter estimates could support more timely disclosure by issuers.

GHG emissions disclosure

As an investor, we believe that climate risk is investment risk, and we strive to help our clients make the most informed choices to improve their investment outcomes. We welcome the efforts of the ISSB to draw on the TCFD framework and the GHG Protocol[6] in determining what climate-related information issuers should disclose. We encourage the ISSB to engage with regulators and market participants to provide additional industry-

[4] Specifically, that information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'

[5] For example, as we note in our response to the U.S. SEC proposal, Enhancement and Standardization of Climate-Related Disclosures for Investors, the relevant, well-established definition of materiality is that established by the U.S. Supreme Court in TSC Industries, Inc. v. Northway, Inc., 426 U. S. 438 (1976) (holding that a fact is material "if there is a substantial likelihood that a reasonable shareholder would consider it important" in making an investment decision or if it "would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available" to the shareholder).

[6] We recognise that the GHG Protocol is in the process of being updated, including determining the need for additional guidance building on the existing set of corporate GHG accounting and reporting standards for scope 1, scope 2, and scope 3 emissions. We expect additional guidance will enhance reporting against the GHG Protocol standards, and support the efforts of the GHGP to ensure alignment with the climate and sustainability disclosure frameworks under development internationally."

specific guidance on which gases are likely to be material, and how materiality should be evaluated.

Recognizing that relevant data and methodologies are still emerging, we recommend that the ISSB take a flexible approach to GHG emissions disclosures.

Scope 1 and 2 GHG Emissions. We support requiring issuers to disclose their Scope 1 and 2 GHG emissions estimates regardless of materiality, as this information helps investors assess exposure to climate-related risks and opportunities across a variety of sectors. However, given the methodological and estimation challenges issuers face today in collecting Scope 1 and 2 data on a timely basis, we are of the view that it is impracticable to require this information to be disclosed or 'filed' in general-purpose financial reporting on the annual report timeline, even if material, although that may change over time as these challenges abate. In our response to the SEC's proposed climate-related disclosure framework, we have included a proposal for a New Form through which issuers could 'furnish' all GHG emissions data, given these methodological and estimation challenges.[7] We encourage the ISSB to permit Scope 1 and 2 disclosures – where material – to be incorporated by reference from an appropriate alternative reporting location instead of requiring that it be included in a company's general purpose financial reporting, unless a robust safe harbor can be provided to afford meaningful protection from liability for Scope 1 and 2 disclosures included in a company's general purpose financial reporting .

- **Scope 3 GHG Emissions.** As we have said previously, at this stage, we view Scope 3 emissions differently from Scope 1 and 2, given the methodological complexity and lack of direct control by companies over the requisite data to assess Scope 3 emissions. In our experience as investors, these issues, and the usefulness of Scope 3 disclosures more generally, vary significantly across industries and the 15 categories of Scope 3 emissions. We support a 'comply or explain' approach to disclosure of Scope 3 in an appropriate alternative reporting location outside of a company's general-purpose financial reporting, allowing issuers to either disclose material Scope 3 emissions or explain why certain emissions categories are not relevant to the issuer or not subject to reasonable estimation.
- As investors, we believe it is important to be able to evaluate companies' assessments of their emissions across their value chain, or Scope 3 emissions, as such emissions could affect the economic viability of issuers' business models. Climate risk and the economic opportunities from the transition are a top concern for our clients and a rapidly growing share of them have already committed to net-zero aligned portfolios. As investors, we use Scope 3 emissions as a proxy metric (among others) for the degree of exposure companies have to carbon-intensive business models and technologies. However, we do not believe the purpose of Scope 3 disclosure requirements should be to push publicly traded companies into the role of enforcing emission reduction targets outside of their control.
- Further, as recognized by the US SEC in its proposal *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, "the methodologies pertaining to the measurement of GHG emissions, particularly Scope 3 emissions, are evolving," and with the broader adoption of reporting standards, data sets, and methodologies, they will improve meaningfully further.[12] This evolution will require effort on the part of standard setters to provide the further guidance necessary for these disclosures to be reliable and consistent for investors, including with respect to materiality and the appropriate calculation methodology for each category of Scope 3 emissions.

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[7] Absent a meaningful safe harbor from liability, we recommend that material Scope 1 and 2 GHG emission disclosures be furnished on a New Form until methodologies and industry practices have evolved sufficiently. For details, see BlackRock's response to the SEC's Climate Disclosure proposal, submitted on 17 June, 2022.

- A flexible approach to rulemaking based on a "comply or explain" approach, compared to mandating complete Scope 3 disclosures within general purpose financial reporting before most issuers have the requisite capability, will provide issuers the opportunity to develop the resources necessary to comply with industry standards and best practices as they emerge.
- **AUM Associated Emissions:** We support the separate disclosure of GHG emissions associated with assets under management ("AUM") on behalf of external clients, and encourage the ISSB to specify a methodology to support consistent disclosure. However, while BlackRock reports AUM associated emissions based on the PCAF framework,[8] we note that data, controls and methodologies for computing GHG emissions associated with some asset classes are still emerging, and flexibility will be needed as this area develops.[9]

Whole-of-board approach to governance of climate-related risks and opportunities

We support the objective of enabling a company's stakeholders to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities, building on the recommendations of TCFD.

However, in our view, robust oversight with respect to climate-related risks and opportunities requires a whole-of-the-board approach. While we recognize and appreciate that a dedicated committee of the board can be beneficial, especially for companies where climate risk and opportunities are material, the formation of such a committee should be at the discretion of the board. We do not think it is conducive to a holistic approach or, in some cases, appropriate to require companies to disclose the identity of an individual responsible for oversight of climate-related risks and opportunities.

Assessing and managing climate-related risks and opportunities is the purview of management, subject to appropriate board oversight. However, we do not believe issuers should be required to disclose specific details regarding management's process, but should instead consider which elements of its climate-related governance and risk oversight processes are relevant to its investors. Prescribing a more granular level of disclosures would likely require issuers to disclose a large volume of information that is, on the one hand, unlikely to be material for investors, and on the other hand, may be competitively sensitive for issuers.

Climate resilience, and the evolution of scenario analysis

Where issuers choose to prepare and disclose scenario analysis, this may help a company's stakeholders assess the climate resilience of its strategy. However, we note that for all issuers, regardless of industry, climate-related scenario analysis has proven to be one of the most challenging aspects of the TCFD recommendations.[10]

Predicting climate change and quantifying its impacts on companies and the economy is inherently complex. We acknowledge the current lack of uniformity across issuers in various industry sectors on the (i) most appropriate climate-related assumptions to use, (ii)

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[8] The Partnership for Carbon Accounting Financials (PCAF) is a global, industry-led partnership to facilitate transparency and accountability of the financial industry to the Paris Agreement, by developing a harmonized approach to assess and disclose GHG emissions associated with investments, and set science-based targets. PCAF has developed an open-source global GHG accounting standard for financial institutions, the Global GHG Accounting and Reporting Standard for the Financial Industry.

[9] Several asset classes in which BlackRock makes investments on behalf of its clients are not included in the preliminary estimates in our 2021 TCFD report – either because insufficient data was available or because methodologies to compute GHG emissions associated with an asset class have not yet been established. Due to this, the figures provided represent roughly 65% of BlackRock's 2020 AUM. BlackRock will seek to incorporate additional asset classes into its TCFD reporting over time.

[10] BlackRock conducted its first climate-related scenario analysis in 2020, which was published in our 2020 TCFD report. In 2021, we sought to build on this foundational work and enhanced our climate scenario analysis. We published the high-level conclusions from this analysis in BlackRock's 2021 TCFD report.

scenarios against which analysis should be conducted, and (iii) client response assumptions to utilize.

Until there is further evolution leading to consistency in climate scenario analysis, the current disclosure landscape is not ready for a mandatory approach to climate-related scenario analysis. We find a "comply or explain" approach consistent with the TCFD framework. to be most appropriate at this time. A flexible approach to disclosure will likely encourage more and more companies to provide such disclosures.

Encouraging climate-related disclosure by private companies

At present, climate-related information with respect to private issuers is lacking in comparison to what is increasingly available from public issuers. To avoid regulatory arbitrage between public and private market climate-related disclosures,[11] we believe that climate-related disclosure mandates should not be limited to public issuers, but should include private companies above an appropriate threshold. Therefore, we encourage national authorities building on the ISSB baseline standard for climate-related disclosure to find innovative ways to include the private markets in their reporting frameworks.[12]

Conclusion

BlackRock strongly supports the ISSB's goal of providing a global baseline of standards, to support the disclosure of more reliable, comparable, and consistent climate-related information, aligned with the TCFD framework. We view both the ISSB Exposure Draft ED/2022/S1 on sustainability-related financial information and ED/2022/S2 on climate-related disclosure as important contributions to a multi-year, multi-jurisdictional effort towards improving the availability, quality, comparability, timeliness, and interoperability of sustainability related disclosures.

Our recommendations are intended to support the objective set out by the ISSB to promote reliable, comparable, and consistent disclosures. Given the diversity among national reporting regimes, 'general purpose financial reporting' may entail different practical conditions and associated liability in different jurisdictions. Therefore, permitting disclosure in the location best aligned with the liability considerations relevant to a specific national jurisdiction will encourage issuers to make more robust climate-related disclosures. For companies subject to reporting requirements in multiple jurisdictions, providing the option to cross refer to comparable reporting at the parent company level, even if outside its general purpose financial reporting, may increase the efficiency of disclosure in some instances, and support the transparent disclosure of climate-related risks and opportunities to investors.

While national authorities will ultimately determine the application and scope of ISSB-aligned standards (including the associated liability framework) in their jurisdiction, we encourage the ISSB to continue engaging with global regulators, as well as other standard setters, to ensure interoperability and alignment with the recommendations outlined above, and to find innovative ways to include the private markets in their reporting frameworks.

We thank you for taking the time to review our input and are happy to be of further assistance as this consultation process proceeds.

[11] This is already occurring. See recent New York Times article: "Oil Giants Sell Dirty Wells to Buyers With Looser Climate Goals, Study Finds."

[12] We note that the UK has adopted climate reporting requirements for private companies, and EU regulators are evaluating climate disclosure requirements, which would apply to both public companies and private companies over a certain size.