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29 July 2022

The International Sustainability Standards Board
IFRS Foundation
Columbus Building
7 Westferry Circus
London
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Submitted by email: commentletters@ifrs.org

Dear Sir or Madam,

Re: SBAI Response to IFRS S2 - ISSB Exposure Draft on Climate-Related Disclosures

The Standards Board for Alternative Investments (SBAI)[1] welcomes the opportunity to submit comments on the ISSB's Exposure Draft on Climate-Related Disclosures[2].

At the SBAI, we support efforts to develop a global baseline for reporting of climate-related disclosures to create consistency and comparability of corporate entity reporting across the industry. The SBAI stakeholders, consisting of institutional investors and alternative investment managers with over USD 7tn in assets, require better data on climate change related risks and opportunities to make well informed investment decisions and to facilitate better reporting. We support these efforts through our publications in our Responsible Investment Toolbox, helping alternative investment managers and institutional investors better understand how responsible investment considerations apply to different investment strategies. Lack of relevant data is regularly highlighted as one of the key challenges by members of the SBAI Responsible Investment Working Group, which consists of over 180 representatives from both asset managers and institutional investors.

The SBAI is broadly supportive of the disclosure recommendations in the Exposure Draft. In particular we are supportive of the ability to integrate disclosures with those for IFRS S1 where the process is the same.

We do highlight a few key points and recommendations below[3]:

<u>Clarity of Scope of Applicability:</u>

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[1] https://www.sbai.org/
[2] https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf
[3] Any references to industry specific metrics refer only to those described in Volume B15 – Asset Management and Custody Activities: https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/industry/issb-exposure-draft-2022-2-b15-asset-management-and-custody-activities.pdf

It is our understanding that these disclosure requirements have been written solely for corporate entities, and that investment funds[4] that produce financial statements <u>would not</u> be in scope for these disclosures. That said, the current Exposure draft refers broadly to "entities" that produce financial statements with the only explicit exception made for non-for-profit entities which might need to adapt the disclosures.
We would ask the ISSB to make clear in the published standard that these disclosures are intended for corporate entities only.

<u>Effective Date for Asset Management Entities providing these disclosures:</u>

The industry guidance for Asset Management and Custody activities[5] requires the disclosure of the percentage of assets under management included in the financed emissions calculation. Asset managers will be reliant on data from underlying issuers to calculate these numbers.
We would therefore recommend that the effective date for Asset Management entities be for the reporting period following that for other corporate entities to allow asset managers to collect the data required from underlying corporate issuers.

<u>Potential Difficulty with assessing the exact contribution of climate-related risks and opportunities:</u>

Paragraph 14 of the Exposure Draft implies a default position of being able to provide quantitative information about the impact of climate-related risks and opportunities on its most recent financial position, cash flows, and financial performance.

It can be very difficult to understand the exact contribution of climate related risks and opportunities to financial performance outside of major climate events. To provide quantitative information on this would mean an entity would need to breakdown its financial performance attribution to a level that is potentially not possible to do. This will particularly be the case with investment funds where performance of these assets will be the result of many different factors including things like market volatility, regulatory or political environments and others.
Whilst there may be certain cases where performance can be attributed to directly to climate-related events, we believe that the default disclosure of this section should be focused on qualitative information with the option to provide quantitative if possible. Qualitive disclosures could explain that a specific climate-related risk may have impacted performance but would not require trying to breakdown the exact contribution.

<u>Breakdown of Asset Classes:</u>

In the Industry Guidance for Asset Management and Custody entities we are supportive of including the % of AUM that is included in financed emission calculations. This acknowledges that there are some asset classes where methodologies to determine financed emissions are not yet available.

In Paragraph 2 under Metrics, there is a breakdown of asset classes that includes: (a) equities, (b) fixed income, (c) cash equivalents/money market instruments and (d) other (e.g., real estate and commodities).
We would recommend adding an additional category for assets that cannot be linked to corporate entities (e.g., FX, some derivative positions, interest rate securities etc.). This would help explain why certain disclosures cannot be made for these asset classes.

[4] Including but not limited to mutual funds, UCITs, hedge funds and other alternative investment funds.
[5] https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/industry/issb-exposure-draft-2022-2-b15-asset-management-and-custody-activities.pdf

Barriers to Entry for Smaller Firms

It is our understanding that the expectation is that these disclosures will be audited in the same way that other information within financial statements are. Whilst this does provide comfort in the accuracy and reliability of the information this will be an additional cost to entities providing these disclosures. For many new or smaller entities this cost could be prohibitive especially at early stages of the entity's life. It is also important to note that many entities that are aiming to make a sustainability or climate-related impact are new and small companies.
We would recommend the ISSB consider an option for smaller entities (perhaps below a certain threshold) to report this information unaudited providing this is clearly disclosed.

Recommended Guidance for Asset Managers as Corporate Entities:

Per the above point, while asset managers would not be expected to complete these disclosures for investment funds, they may complete them at the level of the asset manager's corporate entity. In the Exposure Draft, the ISSB cites several potential sources of guidance to assist entities with completing these disclosures. Our Responsible Investment Working Group has published industry guidance in the form of a Responsible Investment Policy Framework for asset managers which contains details of disclosures on strategy, risk management and governance of responsible investment, including sustainability, in the investment process.
We would suggest the ISSB might like to cite this as an additional piece of guidance for asset management entities completing these disclosures.

Extension to Investment Funds

Through our discussions in our Responsible Investment Working Group, we note a desire for global consistency in climate-related disclosures. While the current Exposure Draft is aimed at corporate entities, we envision that an adapted version of this framework for investment funds could be possible in the future. We also note that the FCA's Discussion Paper on its proposed Sustainability Disclosure Regime (SDR)[6] indicates that it would like to be at least consistent with this framework when it releases the regime for asset managers. While there are areas of overlap between disclosures a corporate entity would make and those that would be made by an investment fund, there are also many disclosures and definitions that would not be suitable. We have provided some examples of this in the appendix to this response for information, but it is not an exhaustive list. Should the ISSB decide to adapt this framework for investment funds at any point in the future, the SBAI would be happy to assist.
We strongly recommend that the current framework not be extended to Investment Funds as it is. The SBAI would be willing to aid the ISSB if they choose to adapt the framework to be suitable for investment funds.

Should you wish to discuss any elements of our response we would be more than happy to oblige. For further information please contact our Research and Content Director Maria Long (maria.long@sbai.org).

Yours Sincerely

Thomas Deinet
Executive Director
Standards Board for Alternative Investments (SBAI)

[6] https://www.fca.org.uk/publication/discussion/dp21-4.pdf

Appendix: Examples of areas where Framework is not suitable for investment funds

We have noted above that there are many disclosures in this framework that would be suitable for an investment fund – particularly in the governance section. There are, however, disclosures and elements that would not be suitable. We have provided a non-exhaustive list of examples below that underline our recommendations that the scope of the framework be clearly defined in the published standard and that the framework is not applied to investment funds in the future in its current form.

- Asset Managers invest in many different asset classes outside of equity and debt positions that can be directly linked to corporate issuers. Currently industry guidance on climate-related metrics for other classes is in its infancy and any framework would need to have flexibility to account for this.
- “Enterprise Value” would not be the appropriate denominator for investment funds. Net Asset Value of the investment fund would likely be more suitable.
- The impact of climate-related risks and opportunities on an investment fund would not be explainable in terms of “cash flows” and “value chain” – different factors would need to be considered.
- The framework currently calls for the impact on future financial performance to be disclosed. In many jurisdictions there are financial promotion or marketing rules that would prohibit an investment fund from making predictions about future performance.
- Any framework for investment funds to include these disclosures with their financial statements would need to become effective at a later point than disclosure requirements for corporate entities. Asset managers would be dependent on these underlying disclosures to complete their own disclosures for investment funds.

We would be happy to discuss applicability to investment funds in more detail with the ISSB.