

**Statement of Intent (SOI) for an International Standard of Actuarial Practice
Relating to IFRS S2 Climate-Related Disclosures (ISAP 8)**

Submitted by: The Actuarial Standards Committee (ASC)

(Approved by the Executive Committee on 17 October 2023 and ratified by Council on 20 November 2023)

1. Background

The International Sustainability Standards Board (“ISSB”), which is overseen by the IFRS Foundation, published IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2 *Climate-related Disclosures*, in June 2023. These standards will be effective for annual reporting periods beginning on or after January 1, 2024, depending on national adoption.

While IFRS S1 outlines general requirements for disclosures of sustainability-related financial information, IFRS S2 sets out specific requirements for identifying, measuring, and disclosing climate-related risks and opportunities to be included in general purpose financial reports, using the main categories of Governance, Strategy, Risk Management, and Metrics and Targets. The requirements of IFRS S2 build upon the disclosure requirements developed by the Task Force on Climate-related Financial Disclosures (TCFD) which also use this categorization.

Specifically, the objective of IFRS S2 *Climate-related Disclosures* is to require an entity to disclose information about its climate-related risks and opportunities, that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity. Climate-related risks and opportunities are defined in IFRS S2 Appendix A to refer specifically to the risks and opportunities of climate change, and this definition of climate-related risks is implicitly assumed throughout this SOI.

IFRS S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium, or long term (i.e., that could reasonably be expected to affect the entity’s prospects).

The scope of the IFRS S2 Standard is:

- a) Climate-related risks to which the entity is exposed, which are:
 - i. Climate-related physical risks; and
 - ii. Climate-related transition risks.
- b) Climate-related opportunities available to the entity.

Through their training and experience in performing quantitative and qualitative analysis to assess outcomes from contingent and uncertain events, actuaries are well-positioned to engage in work related to the identification, modelling, assessing and disclosure of climate-related risks and opportunities as required by IFRS S2.

An International Standard of Actuarial Practice (ISAP) in relation to the climate-related disclosure requirements of IFRS S2 would support actuarial standard setters implement globally consistent standards of practice, and perform a similar role to ISAP 4 on IFRS 17 Insurance Contracts, which supports global standards related to IFRS 17.

2. Purpose

The proposed ISAP is a model standard. It is intended to support standard setting organizations, in particular IAA member associations, implement globally consistent standards to support actuaries performing work related to IFRS S2 disclosure requirements for identifying, assessing and disclosing climate-related risks and opportunities. The proposed ISAP aims to support actuarial work to achieve more credibility and consistency, and facilitate professional leadership and collaboration with other disciplines and relevant authorities. This is expected to increase public confidence in the work of actuaries in this area and promote convergence within and across jurisdictions, thereby promoting the development of the actuarial profession worldwide.

3. Scope, Roles and Content

The proposed ISAP is intended to provide a model standard for actuaries providing services in relation to IFRS S2 pertaining to climate-related risks and opportunities. The scope of the proposed ISAP includes IFRS S1 to the extent it is relevant to work performed by actuaries in relation to IFRS S2.

The proposed ISAP will apply to work performed by actuaries for all entities, but may include additional requirements related to entities in the “Financials” sector as defined by the ISSB (“Industry-based Guidance on implementing Climate-related Disclosures”), which accompanies IFRS S2.

The proposed ISAP is intended to cover topics where the actuarial profession is uniquely positioned for, or otherwise highly qualified to provide and/or contribute to, the work required under IFRS S2. These topics may extend beyond those normally considered to be “typical” actuarial work in many jurisdictions, there is expected to be significant content on the quantitative aspects of IFRS S2.

3.1. The general focus of the proposed ISAP is expected to be:

- a. Assisting with ensuring that the objective of understanding an entity’s climate resilience is achieved (IFRS S2 paragraph 22), through disclosure of the entity’s assessment of its climate resilience as at the reporting date (IFRS S2 22 a), and disclosure of how and when the climate-related scenario analysis was carried out, including methodology and assumptions (IFRS S2 22 b).
- b. Enhancing the ability of the actuarial profession to play a more comprehensive role in identifying, assessing, and disclosing climate-related risks and opportunities across the four primary categories of IFRS S2: governance, strategy, risk management, and metrics and targets.

3.2. Specific focus is expected to include topics such as:

- a. Relevant knowledge requirements for performing work to support IFRS S2 disclosures.
- b. Development of climate-related scenario analysis:
 - i. Desirable characteristics and appropriate ranges for scenarios (i.e., to ensure scenarios are fit for purpose, recognise tail risks and tipping points, and are appropriate to the circumstances of the work).
 - ii. Specific considerations relating to data, assumptions, and modelling.
 - iii. Time horizons (short, medium, long term) and the implications of different timelines for development of underlying risks / opportunities.
 - iv. Macro assumptions – summarise key assumptions required or to be considered beyond direct climate related variables such as macro-economic trends, societal context (including policy ambition / change tolerance), national or regional-level variables, energy usage mix, and developments in technology.
 - v. Use and reliance on third-party expertise and sources for models, assumptions, and data.
 - vi. Role of qualitative analysis to supplement quantitative analysis (e.g., risks that are material from an information perspective but not necessarily quantitatively)
- c. Uncertainty in climate-related scenario analysis:
 - i. Timing and outcome of climate projections given dependence of pathways on multiple interconnected assumptions with uncertain outcomes, and the implications for quantitative work to assess the corresponding risks.
 - ii. Distinguishing between climate versus non-climate impacts given complex interdependent assumptions.
 - iii. Other sources of uncertainty – for example, data availability, parameters, scenarios and models, and implications for quantitative work.
 - iv. Addressing the IFRS S2 Paragraph 19 provision that quantitative information on a specific risk or opportunity need not be provided if the level of uncertainty in measurement is so high that the information is not useful or separable.
- d. Disclosure of climate-related scenario analysis results including communicating the uncertainty inherent in the analysis.
- e. Key considerations in the assessment of climate-related risks and opportunities under IFRS S2 (taking into account the papers published by the IAA’s Climate Risk Task Force).
- f. Standards related to IFRS S2 applicable to the Financials sector (insurers, banks and asset management), and including how pension funds should be treated, insofar as their specific features are not addressed in IFRS S1 or S2.
- g. Other topics as may subsequently be identified (while keeping within 3.1 above), for example considerations with respect to other quantitative areas where actuaries may be involved such as target setting and reporting, GHG emissions measurement, and topics related to governance and risk management.

4. Principle of Subsidiarity

The ASC considered whether the proposal for an ISAP conflicts with the principle of subsidiarity and concluded that it did not. The ASC confirms its intent that the proposed ISAP is to comply with the principle of subsidiarity.