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)

Exposure Draft - 23 June 2023

1. Background

The International Sustainability Standards Board ("ISSB"), which is overseen by the IFRS Foundation, is expected to publish IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2 *Climate-related Disclosures, in 2023*. These standards are likely to be effective for annual reporting periods beginning on or after January 1 2024. These standards will incorporate feedback the ~~IASB~~ ISSB obtained from their Exposure Drafts in March 2022. This draft SOI is based on the March 2022 Exposure Drafts of IFRS S1 and IFRS S2. Updates, as deemed necessary, will be considered to the final SOI based upon the final versions of IFRS S1 and IFRS S2.

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 statements, 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 exposure to significant climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting to:

a) Assess the effects of significant climate-related risks and opportunities on the entity's enterprise value;

b) 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 significant climate-related risks and opportunities; and

c) Evaluate the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities.

The Scope of the IFRS S2 Standard is:

a) Climate-related risks the entity is exposed to, including but not restricted to:

i. Physical risks from climate change (physical risks); and

ii. Risks associated with the transition to a lower-carbon economy (transition risks); and

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, managing and disclosure of climate-related risks and opportunities as required by IFRS S2.

~~An actuarial standard~~ The proposed ISAP 8, which is a model standard, would~~to~~ support the work of actuaries in relation to the climate-related disclosure requirements in IFRS S2 and would help ensure consistency of practice, and perform a similar role to ISAP 4 on IFRS 17 Insurance Contracts, supporting the work of actuaries related to IFRS 17.

Commented [HG1]: It is important to highlight in the SOI that ISAPs are model standards

2. Purpose

The proposed International Standard of Practice 8 (ISAP 8) is intended to encourage relevant actuarial standard-setting bodies to maintain a standard or set of standards that is substantially consistent with ISAP 8 to the extent that the content of ISAP 8 is appropriate for actuaries in their jurisdiction and thereby supporting actuaries in their jurisdiction performing work related to IFRS S2 disclosure requirements for identifying, measuring and disclosing climate-related risks and opportunities as required by IFRS S2. The proposed ISAP aims, through actuarial standard-setting bodies, to allow actuaries to achieve more credibility and consistency in this work and facilitate their leadership and collaboration with other disciplines and 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.

3. Scope, Roles and Content

The proposed ISAP is intended to provide a model standard~~s~~ for actuarial standard-setting bodies and through these bodies for actuaries providing actuarial 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 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 IFRS S2 defined "Financials" sector (IFRS S2 categories B15-B19 of Appendix B "Industry-based disclosure requirements", which is an integral part of the standard with the same authority as the other parts of the standard).

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. There is expected to be relatively more content on the quantitative aspects of IFRS S2.

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

a. Assisting with ensuring that the objective of understanding an entity's climate resilience is achieved (IFRS S2 paragraph 15), through disclosure of the impact of the results of the climate-related scenario analysis (IFRS S2 15 a), and disclosure of how the analysis has been conducted, including methodology and assumptions (IFRS S2 15 b).

b. Enhancing the ability of the actuarial profession to play a more comprehensive role in identifying, measuring, 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 topics may include:

a. 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 economic trends, societal context (including policy ambition / change tolerance), and technological developments.

   v. Use of and reliance on third-party expertise and sources for model, assumptions and data.

b. Uncertainty in climate scenario analysis

   i. Timing, likelihood 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.

c. Disclosure of climate scenario analysis results

   i. Ranges versus point estimates in the context of reporting financial positions, financial performance and cash flows.

   ii. Communicating the uncertainty inherent in the analysis.

d. Additional specific considerations for work related to financial sector entities (e.g., Enterprise value [IFRS S2 1(a) in an insurance context]).

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 Appendix B "Industry-based disclosure requirements" related to the financial sector (insurers, banks and asset management), and including how pension funds should be treated, insofar as their specific features are not addressed in IFRS S2 Appendix B.

Commented [HG2]: This seems too vague for the purpose of the SOI. Perhaps it should say: shall include subject to the final versions of IFRS S1 and S2

Commented [HG3]: This is a key aspect of scenarios and 17(b)(i) requires disclosure "how it assesses the likelihood and effects associated with such risks"

Commented [HG4]: Too narrow.
Perhaps: an any context where actuarial services are applied

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g. Other topics as may subsequently be identified.

Commented [HG5]: Again, this gives a blank permit for anything.
Suggestion: … identified in light of the final versions of IFRS S1 and S2

4. ***Principle of Subsidiarity***

The ASC considered whether the proposal for a model ISAP 8 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.

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