

**Draft: ICMAI Sustainability Standard (ISS2 )**

**for Climate risk disclosures**

The following is the ICMAI Sustainability Standard (ISS2) for Climate risk disclosures

**1.Introduction**

This standard deals with the principles and methods of identification, classification, measurement and disclosure of information about an entity’s climate-related risks their likely impact and opportunities that could reasonably be expected to affect the entity’s performance, prospects and cash flows, over the short, medium or long term and how the entity manages these climate risks, their impacts,and opportunities that is useful to the stakeholders assessment of performance and prospects of the entity including providing resources

**2.Objective**

The objective of this standard is to bring uniformity and consistency in the principles and methods of identification, classification, measurement and disclosure of information about an entity’s climate-related risks their likely impact and opportunities that could reasonably be expected to affect the entity’s performance, prospects and cash flows, over the short, medium or long term with reasonable accuracy.

**3.Scope**

This standard should to be applied to Business Responsibility and Sustainability Reporting – Principle 6 disclosures which requires identification, classification, measurement and disclosure of information about an entity’s climate-related risks their likely impact and opportunities.

###### This Standard applies to:

###### 3.1 Climate - related risks to which the entity is exposed, which a

###### 3.1.1 Climate - related physical risks; and

* + 1. **Climate** - related transition risks; and

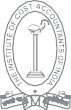
###### Climate - related opportunities available to the entity.

**4.Definitions**

The following terms are being used in this standard with the meaning specified.

**4**.**1** **Air Pollution:** Air pollution means the presence in the atmosphere of any air pollutant.

**4.2 Air Pollutant:** Means any solid, liquid or gaseous substance (including noise) present in the atmosphere in such concentration as may be or tend



to be injurious to human beings or other living creatures or plants or property or environment.

###### 4.3 Business model – An entity’s system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity’s strategic objectives and purposes and create value for the stakeholders.

###### 4.4 Value chain – A value chain comprises of full chain of an entity’s activities in creating a product or service -- from initial receipt of materials through its delivery to market. The value chain framework encompasses entire range of interactions, transactions, resources and relationships connected with reporting entity’s business model and strategic objectives encompassing inbound operations, operations, outbound logistics, marketing and sales, and service intertwined with procurement, human resource management, technological development, infrastructure and the financing, in the context of geographical, and regulatory environments in which the entity operates.

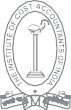
###### 4.5 Climate-related physical risks – Means risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk).

###### 4.6 Climate related Transition Risks - Transitioning to a lower-carbon economy may require and involve comprehensive and radical policy, legal, technology, and market changes to deal with mitigation and adaptation requirements and efforts related to climate change. These risks may carry financial implications for an entity, due possibly to increased operating costs or asset impairment due to new or amended climate-related regulations, shifting consumer demands and the development and deployment of new technology.

###### 4.7 Climate-related risks and opportunities – Means Climate-related risks relating to the potential negative effects of climate change on performance, prospects and cash flows of an entity over short, medium and long term. These risks are categorized as climate-related physical risks and climate-related transition risks. Climate-related opportunities refers to the positive effects and impacts arising from Efforts to mitigate and adapt to climate change.

###### 4.8 Climate-related transition plan – Means an entity’s overall strategy that lays down the entity’s objectives, targets, actions or resources for its transition towards a lower-carbon economy.

**4.9 CO2 equivalent -** CO2 equivalent refers tothe universal unit of measurement to indicate the global warming potentialof each greenhouse gas, expressed in terms of the global warming potential of one unit of carbon dioxide.



**4.10 Environment:** Environment includes water, air and land and the inter-relationship which exists among and between water, air and land, and human beings, other living creatures, plants, micro-organism and property

**4.11 Environment Pollution**: Environmental pollution means the presence in the environment of any environmental pollutant.

**4.12 Environmental Pollutant:** Environmental Pollutant means any solid, liquid or gaseous substance present in such concentration as may be, or tend to be, injurious to environment.

**4.13 Pollution Control:** Pollution Control means the control of emissions and effluents into environment. It constitutes the use of materials, processes, or practices to reduce, minimize, or eliminate the creation of pollutants or wastes. It includes practices that reduce the use of toxic or hazardous materials, energy, water, and / or other resources

**4.14 Greenhouse gases -** The seven greenhouse gases listed in the Kyoto Protocol are carbon dioxide (CO2); methane (CH4); nitrous oxide (N2O); hydro fluorocarbons(HFCs); nitrogen tri fluoride (NF3); per fluorocarbons (PFCs) and sulphur hexafluoride (SF6).

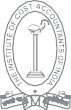
**4.15 Scope 1 greenhouse gas emissions-** Means direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity.

**4.16 Scope 2 greenhouse gas emissions-** Means Indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity. Scope 2 greenhouse gas emissions physically occur at the facility where electricity is generated.

###### 4.17 Scope 3 greenhouse gas emissions – Means Indirect greenhouse gas emissions that occur in the value chain of an entity, including both upstream and downstream emissions. Scope 3 greenhouse gas emissions include the Scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

**4.18 Scope 3 categories -** Scope 3 greenhouse gas emissions are categorized into15 categories—as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011):

* + 1. purchased goods and services;
    2. capital goods;
    3. fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions;
    4. upstream transportation and distribution;
    5. waste generated in operations;
    6. business travel;
    7. employee commuting;
    8. upstream leased assets;
    9. downstream transportation and distribution;



**4.18.10** processing of sold products;

**4.18.11**use of sold products;

**4.18.12** end-of-life treatment of sold products;

**4.18.13** downstream leased assets;

**4.18.14** franchises; and

**4.18.15** investments.

**4.19 Soil Pollution:** Soil pollution means the presence of any soil pollutant(s) in the soil which is harmful to the living beings when it crosses its threshold concentration level.

**4.20 Soil Pollutant:** Soil Pollutant is a substance which is the source of soil contamination.

**4.21 Water pollution:** Water pollution means contamination of water or alteration of the physical, chemical or biological properties of water as may, or is likely to, render such water harmful or injurious to public health or safety, or to the life and health of animals or plants or of aquatic organisms.

**5.Principles of identification and measurement**

The principles, taken together, are designed to assist organizations in identification, classification and measurement of climate related risks, their impact and opportunities.

**5.1 Assessing the circumstances**

The approach used by an entity for climate-related disclosures shall be commensurate with its context and circumstances as at the time the entity provides climate-related disclosures

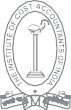
**5.1.1** To assess its context and circumstances the entity shall consider:

the entity’s exposure to climate-related risks, their impact and opportunities ,and

* + 1. the skills, capabilities and resources available to the entity for the climate-related disclosures

### **5.2 Exposure to climate-related risks and opportunities**

###### An entity shall consider its exposure to climate-related risks , their impact and opportunities in its assessment of its context and circumstances while providing climate-related disclosures. This provides facilitates for determination of relevant and appropriate approach to climate-related disclosures which may be quantitative, non –quantitative.



###### 5.3 Assessing Impacts - Each type of sustainability risk exposure shall be treated as a distinct activity, if material and identifiable. The process for determining material sustainability risk exposure shall be as under:

* + 1. Understand the entity’s context and circumstances
    2. Identify actual and potential risks and their likely impacts
    3. Assess the significance of the risks and their impact
    4. Prioritize the most significant risks and their impacts for Sustainability reporting

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###### 5.4 Time frame- Entities should consider the time frames used to conduct their assessments. Of Risks, Their impact and opportunities. The impacts and opportunities associated with some of the sustainability- related risks may manifest and have implications for an entity over a longer period. It is, therefore, important for entities to consider the appropriate time frames when assessing sustainability- related risks.

### **5.5 Selecting inputs-** The inputs selected for climate risk disclosures shall be relevant to the entity’s context and circumstances, for example, to the particular activities the entity undertakes and the geographical location of those activities taking into consideration the entity’s sustainability-related risks, their impact and opportunities

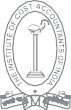
**5.6 Resources Consumption Model (RCM) -** A resource consumption model is a decision support methodology and a tool that can facilitate assessment of   resource effectiveness, Identifying areas for improvement, minimizing resource usage and waste, and Enhancing environmental viability of an entity.

**5.7 Resources to Value Mapping -** Resources Value Mapping aims to map and classify activities and related energy/resource consumptions including estimation of the total resources and reuse potential available, as well as their financial values.

###### 5.8 Impact Analysis - Impact Analysis is a structured approach for looking at a proposed change,with a view to identifying its impact on environmental. Social and financial performance , prospects and cash flows of the entity over the short, medium and long term.

###### 5.9 Environmental Cost Analysis - Environmental cost-benefit analysis (CBA) is the application of Cost Benefit Analysis to projects or policies that are aimed at environmental protection, improvement or actions that affect and impact the natural environment as an indirect consequence. Environmental costs can be classified in four categories - prevention cost, detection cost, internal failure cost and external failure cost.

**5.10 Activity Based Management -** Activity-based management (ABM) facilitates identification and evaluation of activities that an entity performs, leveraging  [activity-based costing](https://en.wikipedia.org/wiki/Activity-based_costing), [value chain](https://en.wikipedia.org/wiki/Value_chain) analysis or a re-engineering initiative to improve strategic and operational decisions in an entity.



1. **Process of Identification and Measurement**

**6.1 The Entity and Its Environment:**

**6.1.1**.Describe the nature of the entity, including its operations covering Business processes, major inputs, Joint & By-Products and Wastages and major inputs etc.

**6.2**.**1** Describe the entity’s ownership, relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework.

**6.1.3**.Description of entity’s internal control systems

**6.1.4** Description of IT Architecture, Systems and programs in use in the entity;

**6.2 Governance**

**6.2.1**.Describe the governance body(s) (which can include a board, committee ) responsible for oversight of climate-related risks, their impacts and opportunities.

**6.2.1** Describe how responsibilities for climate -related risks, their impacts and opportunities are reflected in mandates, role descriptions

**6.2.2** Describe the process how the body(s) or individual(s) determines whether appropriate skills and competencies are available to respond to climate - related risks, their impacts and opportunities

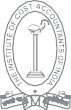
**6.2.3** Provide information about how the controls and procedures are applied to the management of climate-related risks, their impacts and opportunities and their integration with governance strategies, performance, and prospects.

**6.2.4** Describe the process by which the body(s) or individual(s) takes into account climate - related risks, their impacts and opportunities when overseeing, reviewing and guiding the entity’s strategy, major plans of action, risk management policies, annual budgets, setting the entity’s performance objectives, monitoring performance and progress against goals and targets, and overseeing major capital expenditures, acquisitions, and progress against goals and targets.

**6.2.5** Describe the Process for delegating authority from the highest governance body to senior executives and other employees for dealing with Climate risks, their impacts and opportunities.

**6.2.6** Describe the Processes for consultation between stakeholders and the body(s) or individual(s) on Climate risks, their impacts and opportunities.

**6.2.7** Describe the process by which the body(s) or individual(s) reviews and approves the entity’s climate risk disclosures and ensures that all material topics are covered.



**6.3 Strategy**

###### The objective of climate-related financial on strategy is to enable stakeholders to understand an entity’s strategy for managing climate-related risks, their impact and opportunities.

###### Specifically, an entity shall disclose information to enable the stakeholders to understand:

**6.3.1**The climate-related risks, their impact and opportunities that could reasonably be expected to affect the entity’s performance, prospects and cash flows over the short, medium and long term,

**6.3.2**The current and anticipated effects of those climate-related risks, their impacts and opportunities on the entity’s business model and value chain.

**6.3.3**The effects of climate -related risks, their impact and opportunities on the entity’s strategy about adaptation, mitigation and / or its sustainability -related transition plan

**6.3.4**The climate resilience of the entity’s strategy and its business model to climate-related changes, taking into consideration the entity’s identified climate-related risks, their impact and opportunities.

**6.3.5** Information about how the entity has responded to, and plans to respond to, climate -related risks and opportunities in its strategy and decision-making, including the entity’s plans to achieve climate -related targets it has set internally / required to meet by law or regulation.

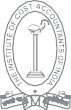
**6.3.6** Current and planned direct or indirect climate risk mitigation and adaptation efforts (for example, through changes in production processes or equipment, relocation of facilities, workforce adjustments, and changes in product specifications);

**6.3.7** Quantitative and qualitative information about the progress of plans disclosed in previous reporting periods.

### **6.4 Climate-related risks and opportunities**

An entity shall disclose information that enables stakeholders to understand the current and anticipated effects of climate- related risks, their impact and opportunities on the entity’s business model, strategy and value chain. Specifically, the entity shall provide:

**6.4.1** A description of the current and anticipated effects of climate-related risks, their impact and opportunities on the entity’s business model, strategy and value chain; and the key assumptions the entity made in the analysis, including assumptions about climate-related policies in the jurisdictions in which the entity operates.



**6.4.2** A description of current and anticipated direct and indirect mitigation and adaptation efforts (for example, through working with customers and supply chains);

**6.4.3** A description of any climate-related transition plan the entity has made, including information about key assumptions used in developing its transition plan, and dependencies on which the entity’s transition plan relies;

**6.4.4** A description of current and anticipated changes to the entity’s business model, including its resource allocation, to address climate-related risks, their impact and opportunities.

**6.4.5** The entity’s capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long term, including; the availability of, and flexibility in action to address climate-related risks, their impacts and to take advantage of emerging climate-related opportunities by the entity’s ability to redeploy, repurpose, upgrade or decommission existing assets.

# **6.5 Risk management**

The objective of climate-related disclosures on risk management is to enable stakeholders to understand an entity’s processes to identify, assess, priorities and monitor climate-related risks, their impact and opportunities, including whether and how those processes are integrated into and inform the entity’s overall risk management architecture:

To achieve this objective, an entity shall disclose information about:

**6.5.1** The processes and related policies the entity uses to identify, assess, prioritize and monitor climate -related risks and their impact in the context and circumstances in which the entity operates including information about the inputs and parameters and the activities and processes the entity uses.

**6.5.2** A description of how the entity assesses the nature, likelihood, magnitude effects and impacts (such as the qualitative factors, quantitative thresholds and other criteria used); associated with climate related risks and their impact.

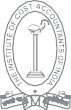
**6.5.3** A description of how the entity identifies and monitors sustainability -related risks in the context and relative to other types of risk;

**6.5.4** Describe how, the architecture and processes for identifying, assessing, prioritizing and monitoring climate-related risks, their impact and opportunities are integrated into the entity’s overall risk management architecture and process.

### **6.6 Performance, prospects and cash flows**

An entity shall disclose information about :

### **6.6.1** The effects of climate-related risks, their impact and opportunities on the entity’s performance, prospects and cash flows.



**6.6.2** A description of how climate -related risks and opportunities are included in the entity**’**s business model and business planning

### **6.6.3** A description of how the entity expects its performance , prospects and cash flows to change over time, given its strategy to manage climate-related risks, their impact and opportunities, taking into consideration: its investment and disposal plans (for example, plans for capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas, and asset retirements)

# **6.7 Metrics and targets**

### The objective of climate-related disclosures on metrics and targets is to enable stakeholders to understand an entity’s performance, prospects and cash flows in relation to its climate-related risks, their impact and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

### To achieve this objective, an entity shall disclose:

**6.7.1** A description of targets set by the entity/ required to meet by law or regulation, to mitigate or adapt to climate -related risks and their impact over the short, medium and long term or take advantage of climate -related opportunities,

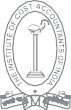
**6.7.2**.A description of industry-based metrics that are associated with particular business models, activities and circumstances.

**6.7.3** Metrics, including Scope 1, 2 and 3 emissions, and targets used to assess and manage climate related risks and opportunities;

**6.7.4** A description whether the targets the entity has set to manage climate-related risks their impact and opportunities have been validated by a third party;

**6.7.5** In describing their targets, organizations should consider including the following

|  |
| --- |
| * whether the target is absolute or intensity based, |
| * time frames over which the target applies, |
| * base year from which progress is measured, and |
| * key performance indicators used to assess progress against target * description of the methodologies used to calculate targets and measures     **7. Presentation**  Information relating to climate risk shall be presented as per PRINCIPLE 6: Businesses should respect and make efforts to protect and restore the environment, prescribed in the Business Responsibility and Sustainability Reporting framework as per following components ( Appendix 1) |



**8. Disclosures**

**8.1** Disclosures shall be made only where material and significant

### **8.2**. Disclosures should be presented in sufficient detail to enable stakeholders to

### assess the entity’s exposure and approach to addressing climate-related risks and their impact.

### **8.3** Disclosures should be presented using standardized and consistent formats, language, and metrics from period to period to allow for inter-period comparisons.

**8.4** Key assumptions used for future-oriented data should be clarified.

**8.5** Terms used in the disclosures should be explained or defined for a proper understanding by the shareholders.

**8.6** Disclosures should be defined, collected, recorded, and analyzed in such a way that the information reported is verifiable to ensure it is high quality.

**8.7** Where estimates are made of future / expected climate related risks and their impact , the basis of estimate shall be disclosed separately.

**8.8** Any change in the methods applied for the Identification and measurement of climate related risks and their impact during the period covered by the BRSR report which has a material effect on the performance, prospects and cash flows shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.