Association of International Certified Professional Accountants®

The unified voice of AICPA and CIMA

26 July 2022

Emmanuel Faber
Chair International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

Dear Emmanuel,

Please find attached our response to The International Sustainability Standards Board (ISSB) Exposure Draft (ED) IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information (General Requirements Exposure Draft) in **Annex One** and our response to The International Sustainability Standards Board (ISSB) Exposure Draft IFRS S2 Climate-related Disclosures Exposure Draft in **Annex Two**.

I would be very happy to discuss any aspect of response with yourself and your team in due course.

Faithfully,

Andrew Harding

Chief Executive – Management Accounting

Association of International Certified Professional Accountants®

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Annex One

AICPA-CIMA Response to The International Sustainability Standards Board (ISSB) Exposure Draft IFRS S1 - General Requirements for Disclosure of Sustainability-Related Financial Information (General Requirements Exposure Draft)

Introduction

AICPA & CIMA welcome the ISSB and the IFRS Foundation work in developing these timely proposals. We responded to the IFRS Foundation consultation on *'The Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*' in 2020 and have long believed that a global approach to corporate reporting is necessary for comparability and accountability purposes. We have always strongly supported the work of the International Integrated Reporting Council (IIRC)[1] and the Sustainability Accounting Standards Board (SASB)[2] to establish a corporate reporting framework and industry-based sustainability accounting standards that allow for reports that enable organisations to communicate how they create, preserve and minimize the erosion of value through their business models. We are delighted to see work progressing on international standards based on these previous initiatives and look forward to adoption of these new standards across the globe.

We are supportive of the process and governance surrounding standard setting that the IFRS Foundation has fostered over many years. We therefore believe that the Foundation is best positioned to take on the task of setting global sustainability standards. It is reassuring that the new sustainability standards will benefit from a similar due process to existing IFRS as this bolsters credibility and buy-in from stakeholders. Furthermore, we welcome the approach ISSB has taken in issuing this exposure draft and the opportunity to respond.

Overview

We support the ISSB's objective to *deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.*

The proposal is consistent with how preparers already organise financial statement information and we believe this should make its adoption much smoother. Disclosures published with the financial statements, once fully adopted, are likely to be given greater emphasis by investors than those issued separately and often at a later point than the annual financial reporting cycle. We appreciate

[1] https://www.integratedreporting.org/
[2] https://www.sasb.org/

that the proposal builds out from the Task Force on Climate Related Disclosures (TCFD)[3] recommendations which are already adopted within the UK and mandatory for private sector companies since 6 April 2022. We are also supportive of the standard as it builds on those used by the Value Reporting Foundation (VRF) and SASB. We believe that the ISSB standard will allow organisations to build on their quality of disclosures into the future while at the same time international adoption will lessen the burden of reporting by streamlining the requirements.

To meet the growing demands of investors, policymakers, and other key stakeholders, a reporting system that produces globally consistent, comparable, reliable, and measurable sustainability information is needed. We are therefore pleased to note that the Exposure Draft sets out disclosure requirements relating to sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's long-term enterprise value creation capabilities and decide whether to invest resources in that enterprise. To this end the recurring theme in the Exposure Draft that requires an entity to disclose material information about *significant risks and opportunities* to which it is exposed is of particular importance.

Scope

We believe that it is fundamental for sustainability reporting to be aligned with the United Nations' concept of sustainable development and related science-based initiatives such as the Intergovernmental Panel on Climate Change and the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, to facilitate any chance of creating a meaningful change toward a more sustainable world.

We believe that the standards should be demanding, but achievable, and should represent best practice as they continue to evolve. We support the scope of the standards being akin to the entity targeted for financial statement disclosures by the IASB or jurisdictional equivalents. The *General requirements* focus a lot on process, but as the individual thematic standards are developed, we would expect to see greater emphasis on specific issues.

AICPA & CIMA agree that the scope of standards should be sustainability-related financial information provided for the same reporting entity as the financial statements. We believe this will enable a more comprehensive understanding of the enterprise value of the reporting entity, as well as enabling connectivity between sustainability and traditional financial information. We are also pleased to see the ISSB standards take into account value chain reporting. While challenging, this should mean organisations take a necessarily wider view of their business and operational impact. This will in turn promote the importance of managing sustainability issues by smaller entities.

Materiality

It is undoubtedly more difficult to assess materiality of sustainability information than with financial information. The Exposure Draft defines material information in alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1. 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*'. We welcome this clarity. However, with such a similar definition it is unclear whether there is a difference between the IASB and ISSB disclosure requirements. If the information is material to financial statements,

[3] https://www.fsb-tcfd.org/recommendations/

then it will similarly be material within these standards. There may therefore need to be more specific information on how materiality is dealt with. In the absence of such specificity, a preparer might disclose too much extraneous information and obscure the usefulness of the disclosures.

Definitions

We very much welcome the work that ISSB has done in developing its definition of *enterprise value creation* within this exposure draft. The concept is now embedded in the materiality assessment process, and it brings in consideration of a wider group of stakeholders.

We think consideration should be given to providing a definition of sustainability that is based on the UN assessment. We believe that this would improve transparency in terms of scope and would also help build stakeholder trust by outlining the purpose of the disclosures. It is vital that the disclosures are based on management information that is of real value to the business leader and is not produced purely as a response to regulatory intervention. We believe that this approach will be best in driving the long-term success of the initiative.

AICPA & CIMA welcome the ISSB's focus on significant risks and opportunities that may affect enterprise value in the short, medium and long term, rather than all possible risks and opportunities. However, we think that this creates tensions with the materiality concept and raises practical challenges. It would be useful to give, for example, a non-exhaustive list of indicative risks and opportunities that a preparer may wish to include. It would also be helpful if the term 'significant' could be better defined through guidance. What is significant and what is material may conflict.

We welcome the extension of ISSB standards to include the value chain. In addition to sustainability impacts, recent global crises have exposed the risks and opportunities that arise from management of global supply chains in a way that may not have previously been focused on. The standards are an opportunity to harness this focus and ensure that organisations more fully understand the nature of their supply chains and their potential impact on enterprise value.

We also advocate for the use of industry-based disclosures derived from the SASB standards. SASB standards are comprehensive in nature, addressing ESG issues beyond climate change. Notably, the SASB standards enable companies to disclose financially material sustainability information to investors and may be used as a basis for suitable criteria in an attestation engagement. They also have practical application.

One further issue is that the ED assumes that companies have a detailed medium to long-term view. Asking companies to produce quantitative predictions on future impacts is speculative, and we have doubts around whether it can be auditable. The level of commitment in the future differs from financial and sustainability aspects. While we agree that future-looking information is useful, we would suggest that the ISSB consider further guidance on the timelines and information for disclosure. It may be that disclaimers are needed on this information. This information should also be tied to an appropriate risk assessment.

Risk Management

AICPA & CIMA support the objectives set out in the ED on Risk Management as these afford stakeholders a transparent view of organisational decision-making and board oversight. However, it should be noted that sustainability risks can be more challenging to quantify than traditional risks as they are often more generic and take longer to crystalise. The implementation of the ED should take account of this.

It is crucial that organisations have sound risk management procedures in place to monitor, assess and act on any risks as they arise because of the difficulties. The ED could additionally focus on disclosure of these decisions on sustainability risk management and their impact as this would give a more holistic view. It could also focus on the process used for the assessment of risks. The Committee of sponsoring organisation (COSO) Framework, widely adopted in the US and internationally, is useful for this purpose and we would encourage the ISSB to promote the use of such frameworks.

In our view the board should always be aware of significant risks and opportunities affecting the business. Our CGMA Business Model Framework[4] is one tool that can be used in making these assessments. Our research over recent times has identified a growing trend towards the purpose-driven organisation and the need for understanding an organisation's business model. How organisations define, create, deliver and capture value is key. This involves understanding the ecosystem within which an organisation operates and recognising that they are dynamically linked to markets and society. Organisations do not engage in value-adding activities in isolation but as part of their environment. These draft standards aim to expose that important dynamic.

Global Standard Setting

As the ISSB exposure draft acknowledges, consistent, comparable, reliable and therefore decision-useful information is critical to investors and the effective functioning of global capital markets. Such transparent and quality information enables all stakeholders to make informed judgments that maximise resource allocation for the benefit of key stakeholders and help ensure that prosperity is created in the public interest.

The AICPA&CIMA support ISSB efforts to align its standards with existing frameworks, such as the recommendations of the TCFD. TCFD recommendations have become the global standard for climate change disclosures, garnering notable endorsements from the G7 and G20[5], increasingly required by regulators around the world and widely endorsed by international companies.

Ultimately global standards should be used for measuring and disclosing sustainability information. In particular, the metrics and targets in this ED in paragraphs 30-35 are an excellent development as they provide a concrete guide for preparers to utilise.

We also recommend that ISSB continue to engage with other regional and national standard setters and regulators in order to develop a baseline set of standards that can be built upon by jurisdictions around the world.

Finally, we would recommend that the concept of planetary boundaries[6] should help frame the structure of IFRS S1 & 2 and all future sustainability-related financial disclosures.

[4] https://www.cgma.org/resources/reports/practical-guide-business-model-framework.html
[5] ''*According to the TCFD September 2021 Status Report, "12 governments and dozens of central banks, supervisors, and regulators have formally expressed support for the TCFD recommendations and over 2,600 organisations have endorsed them'*
[6] https://www.stockholmresilience.org/research/planetary-boundaries/the-nine-planetary-boundaries.html

Assurance & Audit

There is increasing recognition that sustainability disclosures need to be high quality for investors and other stakeholders to rely upon for their decisions. Independent auditors, in their public interest role, play a part in the provision of reliable information for decision-making. Third-party assurance from an audit firm can enhance the reliability of ESG information reported by companies, in a manner similar to the process that occurs with audits of financial statements. The audit profession (which provides a broad range of assurance and attest services) is well positioned to perform assurance engagements over sustainability information given existing knowledge of financial statements and associated information controls, their experience incorporating necessary specialists and their ability to understand the financial impact of ESG matters. The audit profession performs assurance engagements over sustainability-related financial information in accordance with existing professional standards which requires firms to be independent, have the appropriate competence and capabilities including sufficient knowledge of the subject matter, follow supervision and review requirements and maintain systems of quality management. In order to be assurable, the standards used to report sustainability-related financial information must have the characteristics of suitable criteria, including being objective, measurable, complete and relevant. ISSB should confer with IAASB to ensure that standards can be used as suitable criteria. Notably, one of the strategic objectives of the AICPA Auditing Standards Board is to converge its standards (including the AICPA attestation standards) with those of the IAASB.

Connected Reporting

It is imperative that the IASB and the ISSB develop or formally endorse the adoption of a robust corporate reporting framework that connects financial disclosures and sustainability-related financial disclosures. This will enable investors to evaluate how an organisation's sustainability performance and broader social and environmental impacts are affecting the creation of enterprise value. It will also provide investors with comparable and consistently prepared sustainability-related financial KPIs and metrics which will allow them to gauge when and how an organisation's response to sustainability-related risks and opportunities will influence its cash flow, income statement and balance sheet. We recommend that the IASB and ISSB embrace the International Integrated Reporting Framework as the corporate reporting framework best suited to meet these investor needs. The Integrated Reporting Framework has been adopted by over three thousand companies globally, including many of the Fortune 500, and provides investors and other significant stakeholders with the information and insights they require to assess short-term value creation by an organisation and how effectively it is positioned to sustain this over time in an objective manner. We welcome the recent commitment by the Chairs of the IASB and ISSB to a 'long-term role for a corporate reporting framework, incorporating principles and concepts from the current Integrated Reporting Framework' and we encourage the Chairs to consider how the current Integrated Reporting Framework could be further developed through the IFRS Foundation's due process.

The Role of Management Accountancy in Sustainability Reporting

Management accountants can support sustainable value creation by using their unique skills and competencies to make the business case for sustainability, analyse and report on relevant social, environmental and economic data and quantify the business benefits of this information. This includes development of relevant metrics, KPIs and targets that take into account both business efficiency and planetary boundaries.

Management accountants are also able to apply appropriate oversight and control to ESG data so that it is reliable and used effectively. The management accountant's role in the creation and publication of internal reports, the financial statements and accompanying reports means they are well positioned to support reporting in accordance with sustainability standards, including those on climate change. They have a unique focus on how organisations create and preserve value; through greater understanding of the value-creation process, linking this to the wider business ecosystem and performance management.

Sustainability-related financial disclosures should allow business to make better decisions, manage risk and take action. We believe the standards will improve efficiency within the finance function as they reduce the need for mapping across sustainability-reporting frameworks for those organisations working in multiple jurisdictions. In summary, the management accountant can use the skill of integrated thinking to bring together governance, measurement, management and reporting. We also welcome the announcement from the UK Government that they will enter into dialogue with the ISSB to help inform the UK transition plans to net zero.

Conclusion

In summary AICPA & CIMA welcome this initiative and believe that the standards will help organisations develop more sustainable and enduring business models for the benefit of all stakeholders. Businesses should be part of the solution for urgent sustainability crises, such as climate change, and longer-term sustainability challenges, such as social inclusion, and the disclosure of this information should support more informed investor decision making.

Annex Two

AICPA-CIMA Response to The International Sustainability Standards Board (ISSB) Exposure Draft IFRS S2 – Climate-related Disclosures Exposure Draft

Introduction

AICPA & CIMA welcome the ISSB and the IFRS Foundation work in developing these timely proposals. We responded to the IFRS Foundation consultation on *'The Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*' in 2020 and have long believed that a global approach to corporate reporting is necessary for comparability and accountability purposes. We have always strongly supported the work of the International Integrated Reporting Council (IIRC)[7] and the Sustainability Accounting Standards Board (SASB)[8] to establish a corporate reporting framework and industry-based sustainability accounting standards that allow for reports that enable organisations to communicate how they create, preserve and minimize the erosion of value through their business models. We are delighted to see work progressing on international standards based on these previous initiatives and look forward to adoption of these new standards across the globe.

We are supportive of the process and governance surrounding standard setting that the IFRS Foundation has fostered over many years. We therefore believe that the Foundation is best positioned to take on the task of setting global sustainability standards. It is reassuring that the new sustainability standards will benefit from a similar due process to existing IFRS as this bolsters credibility and buy-in from stakeholders. Furthermore, we welcome the approach ISSB has taken in issuing this exposure draft and the opportunity to respond.

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[7] https://www.integratedreporting.org/
[8] https://www.sasb.org/
[9] https://www.fsb-tcfd.org/recommendations/

To meet the growing demands of investors, policymakers, and other key stakeholders, a reporting system that produces globally consistent, comparable, reliable, and measurable sustainability information is needed. We are therefore pleased to note that the Exposure Draft sets out disclosure requirements relating to sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's long-term enterprise value creation capabilities and decide whether to invest resources in that enterprise. To this end the recurring theme in the Exposure Draft that requires an entity to disclose material information about *significant risks and opportunities* to which it is exposed is of particular importance.

Question 1—Objective of the Exposure Draft

AICPA & CIMA welcome the ISSB and the IFRS Foundation work in developing the Climate-related Disclosure exposure draft and the objectives behind it.

Question 3—Identification of climate-related risks and opportunities

Climate risks are more challenging to quantify than traditional risks as they are often more generic and take longer to crystalise. Nevertheless, the proposed identification and disclosure of risks and opportunities is an important component of the standard. It is particularly helpful that risk classification is based on the TCFD recommendations. The ISSB could however, go further in providing clarity on definitions of short-, medium- and long-term risks as well as on the difference between significant and material. The meaning of 'materiality' is widely understood but consideration should be given on whether the use of 'significant' simply adds unnecessary complexity. There should be clarification of when materiality and significant are used.

To support the risk analysis process, it is crucial that organisations have sound risk management procedures in place to monitor, assess and act on any risks as they arise. The COSO Framework, as referenced above, used in the US and internationally is useful for this purpose and we would encourage the ISSB to promote the use of such frameworks globally.

Question 6—Current and anticipated effects

The assessment of impact of future events on value is tricky as the requirements in the ED do not meet recognition criteria as detailed in financial reporting standards. It could be worth considering a 3-year trial period for this requirement so that organisations have time to develop best practice in adhering to this standard.

Question 8—Risk management

It is crucial that organisations have sound risk management procedures in place to monitor, assess and act on any risks as they arise. As noted above the COSO Framework, used in the US and internationally is useful for this purpose and we would encourage the ISSB to promote the use of such frameworks globally.

Question 9—Cross-industry metric categories and greenhouse gas emissions

Reporting indirect emissions from a company's value chain is complex and challenging at present, because they are outside the direct control of the company, making it difficult to collect quality data. Further, many entities value chains are comprised of non-public companies, many of which are not required to report greenhouse gas emissions data. Therefore, companies will need to rely on estimates and projections to calculate and report on their Scope 3 emissions. We would support consideration of providing exemptions for disclosures related to Scope 3 emissions in addition to forward-looking disclosures. We also support recognition of good faith efforts to comply with sustainability standards with the objective to empower companies to innovate while ensuring useful disclosures to investors.

Question 16—Global baseline

Ultimately global standards should be used for measuring and disclosing climate-information and any regulatory requirements introduced now should allow for subsequent alignment with regional or national standards in order to achieve consistent reporting and to enable benchmarking and comparisons of performance globally. We also believe that the regional and national standards being developed should leverage existing global standards as much as possible.

Equally important, we have concerns that ISSB and EFRAG standards are developing as competing standards which will create negative and significant consequences for both preparers and users. It is important that a global sustainability taxonomy is consistent across jurisdictions.

Question 17—Other comments

We would emphasise the importance of a systems thinking approach to this initiative.

We understand the reason for a building blocks approach to the creation of sustainability-related financial standards. However, in the short term it may promote siloed sustainability thinking. Our planet is being impacted by a three-fold crisis of a climate emergency, dramatic nature loss, and rising social inequality. Addressing this will require systems thinking as companies reallocate resources, reorientate production and reimagine their business models. We must recognise the possible unintended consequences of just focusing on climate-related disclosure reporting that does not address planetary boundaries.

This concept is dealt with in more detail by the Stockholm Resilience Centre10 which outlines the nine planetary boundaries currently emerging amongst leading economists in the sustainability field.

[10] Stockholm Resilience Centre

About the Association

The Association of International Certified Professional Accountants® (the Association), representing AICPA® & CIMA®, advance the global accounting and finance profession through its work on behalf of 696,000 AICPA and CIMA members, students and engaged professionals in 192 countries and territories. Together, we are the worldwide leader on public and management accounting issues through advocacy, support for the CPA license, the CGMA designation and specialised credentials, professional education and thought leadership. We build trust by empowering our members and engaged professionals with the knowledge and opportunities to be leaders in broadening prosperity for a more inclusive, sustainable and resilient future.

The American Institute of CPAs® (AICPA), the world's largest member association representing the CPA profession, sets ethical standards for its members and U.S. auditing standards for private companies, not-for-profit organisations, and federal, state and local governments. It also develops and grades the Uniform CPA Examination and builds the pipeline of future talent for the public accounting profession.

The Chartered Institute of Management Accountants® (CIMA) is the world's leading and largest professional body of management accountants. CIMA work closely with employers and sponsors leading-edge research, constantly updating its professional qualification[11] and professional experience
requirements to ensure it remains the employer's choice when recruiting financially trained business leaders.

[11] https://www.cimaglobal.com/Documents/Future%20of%20Finance/CIMA%20Syllabus%20Final.pdf