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International Sustainability Standards Board (ISSB)
Emmanuel Faber, ISSB Chair
Sue Lloyd, ISSB Vice-Chair

29 July 2022

Sent electronically via: submission form at https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/#consultation

Re: Response to the ISSB's Sustainability Disclosure Standards, Exposure Drafts

Dear Chair Faber and Vice-Chair Lloyd,

BMO Global Asset Management (comprised of BMO Asset Management Inc. and BMO Investment Inc. (IFM), collectively termed BMO GAM or we) appreciates the opportunity to participate in the consultation on the International Sustainability Standards Board's (ISSB) Exposure Draft *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* (General Requirements Exposure Draft or S1) and *IFRS S2 Climate-related Disclosures* (S2). We are firmly supportive of the ISSB's mission to establish a quality baseline of sustainability-related financial disclosures, which will enhance transparency, availability of investor-useful data, comparability across markets, and increase corporate accountability. We also believe that the global convergence of sustainability-related disclosure standards represents a tremendous opportunity to advance actual progress on systemic sustainability challenges such as climate change and social inequalities.

BMO GAM is a Canadian portfolio manager with approximately CAD$162 billion[1] in assets under management. Responsible stewardship of our investments is core to our approach and we use sustainability-related disclosures at various stages of our in-house investment processes across asset classes, including analysis and decision-making, monitoring, fund construction, issuer engagement and proxy voting.

We have amalgamated feedback for both S1 and S2. These are general comments and recommendations but also provide answers to S1 consultation questions 1, 4, 8 and 14 and S2 consultation questions.

General comments

BMO GAM fully supports the ISSB's direction to align General Requirement and climate-related standards in full with both the Sustainability Accounting Standards Board (SASB) and the Taskforce for Climate-related Financial Disclosures (TCFD) frameworks. We also welcome the announced collaboration between ISSB and the Global Reporting Initiative (GRI).

[1] Canadian assets, as of March 31, 2022

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Our views are largely aligned with those of the UN Principles for Responsible Investment (UN PRI), of which we are a long-standing signatory. We also note general alignment with comments as set out by the Canadian Coalition for Good Governance (CCGG) and the Responsible Investment Association (RIA) of Canada.

Our overarching constructive feedback on both S1 and S2 is that restricting the scope of sustainability-related disclosures to enterprise value would not sufficiently meet the current and evolving needs of primary users of general purpose financial reporting, including universal owners or diversified asset managers such as BMO GAM.

BMO GAM agrees that sustainability-related risks and opportunities can significantly influence enterprise value and as such is valuable information for investment-decision making. However, broadening the definition of materiality to ensure corporate impacts on environmental and social factors are included would better meet the evolving need of long-term investors. By minimizing harmful impacts caused by business models, practices, products and services, companies also minimize short and long-term systemic risks to financial systems and portfolios. As such, baseline sustainability reporting should include disclosure not only about material impacts to enterprise value from environmental and social factors but also information about the most salient impacts from company activities on stakeholders and the environment, to ensure proactive management of sustainability risks and opportunities that better aligns with longer investment horizons. Such an approach also better meets broad investor goals to address climate change, such as the Net Zero Asset Owner Alliance[2] consisting of 74 institutional investors representing USD $10.6 trillion in AUM and the Net Zero Asset Manager Initiative[3] consisting of 273 investors representing USD $61.3 trillion in AUM, of which BMO GAM is a founding signatory. Both groups have committed to reaching Net Zero across portfolios by 2050.

Second, we note that the investment landscape has evolved over time to the extent that a large proportion of asset managers and asset owners, including BMO GAM, are now highly diversified across asset classes, markets and indices. As such, the definition of a primary user of general purpose financial reporting extends beyond traditional investors preoccupied with risk assessment at the enterprise value level. Corporate impacts on broader social, environmental, political and economic systems impact beta risk by creating external economic costs (for example, by affecting GDP), which can affect diversified investors' ability to create stable and long-term value.[4]

Third, expectations of institutional investors are evolving. Investor clients increasingly demand information about the sustainability impacts of their investments, and regulators such as the European Union through the Sustainable Finance Disclosures Regulation (SFDR)[5] require investors to report on the positive and negative sustainability impacts of portfolio companies.

Lastly, we posit that the convergence of global sustainability-related standards represents a tremendous opportunity to advance actual progress on systemic and interlinked sustainability challenges such as climate change and social inequality in support of long-term value creation. We note that sustainability-

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[2] https://www.unepfi.org/net-zero-alliance/
[3] https://www.netzeroassetmanagers.org/
[4] https://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf
[5] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/sustainability-related-disclosure-financial-services-sector_en

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related disclosures that are informed by stakeholder input provide investors a better understanding of risks and opportunities. Specifically, stakeholders such as Indigenous Peoples, communities and human rights defenders are often on the forefront of flagging negative impacts of corporate behaviour well in advance of effects on enterprise value materializing and as such their voices represent a critical element in sustainability- and investor risk assessments. On the flip side, there are also emerging opportunities for partnerships specifically between companies and Indigenous Peoples, such as equity stakes in projects or the potential of Indigenous-led conservation to contribute to corporate offsets, that could have positive sustainability and investment outcomes and could solve for both climate change-related challenges and contribute to Indigenous reconciliation globally.

As investors who are active supporters of mandatory corporate human rights due diligence and support efforts to advance human rights at an industry level through ie. our membership of the Investor Alliance for Human Rights[6], we consider that corporate assessments on what should be considered material sustainability information have to begin at the stakeholder level and be grounded in human and environmental due diligence. International frameworks and guidance on conducting such due diligence already exist in the form of the UN Guiding Principles for Business and Human Rights[7], and the OECD Guidance for Multinational Enterprises[8]. Corporate disclosures of such due diligence processes in turn enables investors to conduct our own due diligence in assessing the robustness of a corporate issuers' sustainability disclosures and performance.

General recommendations

Considering the above, we summarize general recommendations:

- **We encourage greater consistency and clarification around definitions** of enterprise value, materiality and "significant" sustainability risks and opportunities, as these seemed to be used interchangeably throughout both S1 and S2.
- **We encourage definitions that consider materiality beyond enterprise value.** We agree that sustainability-related risks and opportunities can significantly influence enterprise value and as such is valuable information for investment-decision making. A broader definition of materiality would: address concerns that sustainability-related financial disclosures would not include impacts of companies on the environment and people and as such would better meet long-term and diversified investor needs; help investors meet evolving expectations and create consistency with oncoming mandatory sustainability disclosures in Europe through the Corporate Sustainability Reporting Directive,allowing for a more even playing field for companies globally.
- **Refine the standard's approach to assessing materiality**. Corporate reporting should include information on the process used to determine what is considered material, and such a process should be informed by stakeholder engagement and human rights due diligence. Reporting should clarify which issues identified by stakeholders were not deemed material for disclosure and provide a rationale.
- **Require disclosures on the governance of processes and procedures, corporate sustainability strategy and related metrics and targets**. This includes information on the skillset and experience of

[6] https://investorsforhumanrights.org/
[7] https://www.ohchr.org/sites/default/files/Documents/Issues/Business/Intro_Guiding_PrinciplesBusinessHR.pdf
[8] https://mneguidelines.oecd.org/mneguidelines/

representatives in governance oversight positions, disclosure of trade-offs between sustainability-related risks and opportunities and disclosure requirements on whether and how executive compensation is linked to reaching sustainability targets.

- **Relevant to S2 in particular: we strongly discourage equating "avoided emissions" with "offsets"** as they are not one and the same according to widely agreed upon carbon accounting standards[9]. Any use of avoided emissions in a company's carbon footprint is considered double counting. Instead we:
  - Encourage distinct categorization of carbon offsets from emissions reductions, carbon offsets from emissions removals, and avoided carbon. All three should be required to be disclosed separately to ensure reporting entities do not include avoided emissions as equivalent to emissions reductions.
  - Whether the offsets are part of a compliance framework, or voluntary, should also be disclosed, along with the certification body.

Other comments

BMO GAM acknowledges that while convergence of voluntary sustainability-related disclosure standards will hopefully ease reporting burdens for certain companies, smaller and less sophisticated reporting entities are not as far along in considering or disclosing on sustainability topics as larger reporting entities. As such we propose that the ISSB considers a phased-in approach or longer implementation timelines for smaller reporting entities, consistent with approaches considered for proposed regulatory climate-related disclosure regimens in Canada and the United States.

Lastly, BMO GAM is supportive of including 'safe harbour' provisions for climate-related disclosures to ensure that forward-looking information (FLI) disclosure regime requirements apply to material climate-related disclosures even if they are expected over the long term. This ensures issuers have shelter from liability arising from climate-related disclosures provided that such disclosures were made subject to transparent and adequate internal controls to prove rigour in reporting and ensures that investors receive disclosures that are useful rather than 'boilerplate'.

We thank the ISSB for providing the opportunity to comment on this significant development and for considering our feedback and recommendations.

Sincerely,

Rosa van den Beemt
VP, Stewardship, Responsible Investment
BMO Global Asset Management

[9] https://ghgprotocol.org/estimating-and-reporting-avoided-emissions