International Sustainability Standards Board
The IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf, London
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United Kingdom

29 July 2022

To Whom It May Concern:

RE: IFRS Sustainability Standards Exposure Drafts

We write regarding the two Exposure Drafts published by the International Sustainability Standards Board (ISSB) in March 2022, *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 Climate-related Disclosures*. We welcome the ISSB's commitment to "wide, transparent consultation with informed stakeholders" in order to enhance the quality of these IFRS Standards. This letter sets out thematic feedback in response to the Exposure Drafts as they are currently formulated.

Since our founding in 2002, the Business and Human Rights Resource Centre has sought to play a constructive role as a global non-profit organisation at the heart of the business and human rights movement. We collect and analyse data on the human rights impacts of 10 000 companies worldwide, tracking and monitoring good corporate practice as well as allegations of corporate human rights abuse, and providing the opportunity for companies to respond to these allegations – some 1,100 each year. Our approach is carried out by our 86 global team members in 23 countries, and is designed to be fair, objective, and data-driven. We use our research and other evidence to engage stakeholders, including investors, and to highlight the need to transform business models to promote human rights and environmental regeneration.

Common, robust sustainability standards are one mechanism by which such change is possible. The implementation of standardised, international sustainability reporting has the potential to both markedly increase the number of companies publishing relevant sustainability data, but also to ensure that this information is more consistent, complete, comparable, and verifiable. This will aid in enhancing both the utility and usability of sustainability information for capital market participants, with significant related benefits over time for other stakeholders. This includes workers, individuals, and communities along an organisation's value chain whose rights bear the brunt of irresponsible business practices. Indeed, the link between better corporate disclosures and improved corporate practice is clear.

The introduction of the ISSB's proposed standards thus offers significant opportunity for advancing sustainability reporting, as well as for the ability of investors to understand and act upon environmental, social, and governance (ESG) factors. In turn, we believe that this also has the potential to significantly reduce the rising incidence of 'green-washing', which flourishes in environments without clear, common, and mandatory reporting frameworks, and to improve corporate performance and accountability in respect of human rights.

As a stakeholder in the ISSB's effort to provide a comprehensive baseline of sustainability-related disclosure standards, we therefore welcome the publication of the two Exposure Drafts. To realise the full benefits of this proposed international sustainability reporting framework, we believe there several additional considerations for the ISSB Board to take into account in finalising these drafts. These are set out below.

1. Companies should be required to disclose a broad range of sustainability information, including human rights risks and impacts

As set out above, we believe that investors require a transparent, credible, and comparable reporting system to accurately assess risk, undertake proper valuation, and report to the public and to shareholders.

We recognise that investors manage a range of portfolio types, that in turn reflect a range of investment styles. However, we submit that current sustainability reporting frameworks fall short in respect of proper disclosure requirements on human rights in particular, and that this should matter for **all** investors. The failure of existing sustainability reporting arrangements to reflect current, established international human rights reporting standards, as set out by the UN Guiding Principles for Business and Human Rights and the OECD Guidelines for Multi-National Corporations, and reflected in the GRI, is also notable. Taken together, these failures have the effect of limiting the scope of investors' current risk assessments in critical areas, including in respect of corporate human rights risks and impacts.

The ISSB has an opportunity to help close this gap.

Further, it goes without saying that investors are not a homogenous group with a single set of information requirements. Many – and particularly those that manage highly-diversified and long-term portfolios – require more than a narrow set of datapoints focused on enterprise value risk. These investors likely require information on the sustainability-related risks that a company poses to the environment and society, whether or not such information is understood by the company to be material to its enterprise value. This information can then be used to inform investment and stewardship decisions, in the course of exercising fiduciary duties. It is worth noting the increase in regulations governing investment fiduciaries, across a range of jurisdictions, that reflect this approach.

As the widening inequality gap poses risks to communities, democracies – and businesses - across the world, a sustainability reporting framework that does not require companies to report on their underlying human rights and social risks and impacts, risks falling short. Disclosure of a wide range of information, including how a company's operations affect people and planet, is imperative.

Recommendations

- The ISSB should prioritse the inclusion of a wide range of information, explicitly including that related to human rights as defined by internationally established standards such as UNGPs and the OECD Guidelines, andreflected in the GRI.

- The ISSB should include sector-agnostic, mandatory disclosure requirements in its standards. At a minimum, this should include a mandatory disclosure on human rights and environmental due diligence. No company is free from human rights or environmental risk. Companies should be using this key tool for identifying risks and, importantly, improving outcomes. Investors, through corporate disclosures, should be able to hold them to it.

- To this end, the ISSB should continue to advance its thinking on adopting an impact approach to materiality, including regarding disclosures on human rights.

2. Guidance on materiality determinations should be strengthened, and mandatory human rights due diligence disclosure should be introduced

In Exposure Draft IFRS S1, the decision as to whether something qualifies as material is to be taken by companies alone, and there is no requirement in the standards for companies to explain how they have made a materiality determination. Missing, too, is a method of holding companies accountable for information they choose not to disclose. By leaving materiality determinations solely to companies, and without requiring them to set out how they make these assessments, investors may not be able to access information they deem material and are less likely to obtain important insight into how a company is approaching sustainability as a whole.

It is also the case that if a key objective of the ISSB standards is to promote comparable, consistent sustainability disclosures, the current formulation of the standard may have the opposite effect. Leaving materiality determinations to companies allows for subjective assessments of what information companies should be reporting. This will make data less comparable, and threatens to limit the value of the standards as a whole.

This is particularly important in the context of human rights, which have historically received less focus as part of the 'S' in ESG investment methodologies as a starting point, as compared with the 'E' and 'G'. Standardised materiality determinations including in respect of human rights will aid in what continues to be a significant transparency gap across a range of sectors, despite persistent allegations of corporate human rights abuse. Our work on monitoring and reporting on the human rights records of both transition mineral mining and renewable energy companies, as two examples, bears this out. At a minimum, universal disclosures on human rights due diligence, in addition to environmental due diligence, should be a requirement.

Recommendations

- The ISSB should require companies to explain how materiality determinations are made and provide clear guidance on how these assessments should be conducted.

- At a minimum, this should include the introduction of mandatory, universal disclosures on human rights and environmental due diligence, which could serve as the foundation for what information companies should report and demonstrate how they have made that assessment.

We believe that the ISSB standards can be an important tool in aiding investors to fully understand - and act upon - environmental, social and governance issues. This has the potential to materially influence corporate behaviour with respect to human rights, with significant benefit for a range of stakeholders across the business value chain.

Business and Human Rights Resource Centre
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