

29 July 2022

ICMA's response to the consultation on the ISSB's first two exposure drafts for general requirements and climate-related disclosures

The International Capital Market Association (ICMA) welcomes the opportunity to provide feedback on the proposals by the IFRS Foundation's International Sustainability Standards Board (ISSB) - Exposure Drafts of General Sustainability-related Disclosure Requirements ("General Requirements") and Climate-related Disclosure Requirements ("Climate-related Requirements"), published in March 2022 - to create a comprehensive global baseline of sustainability standards for the capital markets and to later on develop a digital taxonomy to enable electronic tagging of disclosures.

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include private and public sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has around 600 members located in over 65 jurisdictions. See: www.icmagroup.org.

This feedback is given on behalf of ICMA and its constituencies representing, among other, issuers and investors in the global debt capital markets for whom corporate sustainability reporting is important as part of their strategy, financial planning and analysis. Specifically, it is also important to the global sustainable bond market underpinned by the voluntary product standards represented by the [Principles](#) supported by ICMA.

The key points that we are making in our response are in summary:

- **Governance and structure:** We support the ISSB's intention to connect sustainability reporting with financial reporting and the incorporation of the (2021) TCFD framework in both the general requirements and the climate exposure drafts.
- **Materiality:** We recommend that ISSB further explain how significant risks and opportunities are meant to be identified through application of the IFRS Sustainability Standards and SASB industry standards. ISSB Sustainability Standards should encourage over time all companies to specifically disclose their impact on the environment with the objectives of (i) providing a more comprehensive picture to investors, (ii) promoting transparency to all other stakeholders and (iii) converging with other international sustainability standards.
- **International operability and usability:** The cross-jurisdictional working group created in April 2022 and the more recently established IFRS Sustainability Standards Advisory Forum (SSAF) should work on the development of a globally consistent baseline. We recommend further that ISSB considers carefully how equivalency between sustainability standards can be promoted to avoid duplication, for example, by minimizing the need for additional mandatory TCFD reporting as the relevant data is largely provided under the ISSB requirements. We otherwise suggest that the ISSB exactly defines what a company should

include when it comes to its value chain and in any case to allow for a phased in approach, starting with a company's direct customers and suppliers.

- **Climate-related reporting and transition:** Transition plans are critical and a key tool for investors to assess the related strategy of companies, especially those in hard to abate sectors. Carbon offsets should be fully disclosed to investors in a granular manner disclosing both gross and net GHG targets to provide transparency and to help investors distinguish, for example, if the offset is achieved by carbon removal or avoidance.

Our attached response has been directly submitted to the comment letter section on the IFRS website.

Yours faithfully,

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Governance and structure

We agree that the IFRS Foundation which through its international accounting standards board (IASB) already sets the IFRS Accounting Standards for financial reporting, is ideally placed to also provide sustainability standards through the newly established international sustainability standards board (ISSB). This is further supported by IFRS Trustees being overseen by a Monitoring Board of Public Sector authorities led by IOSCO which is also involved in assessing a future assurance framework aimed at ensuring the integrity of reported data.

We support the ISSB's intention to connect sustainability reporting with financial reporting and the incorporation of the (2021) TCFD framework in both the general requirements and the climate exposure drafts. Regulators across the world are set to continue aligning with the TCFD recommendations and in 2022, many countries across the world have implemented national climate-related disclosure rules or have them under development. Most of these national regulations are largely inspired by the TCFD recommendations with several countries having started to or being about to make TCFD reporting mandatory.

We also think that an important first step to establishing a global baseline has been made by the ISSB's effort to reduce complexity in the market by simplifying the current reporting landscape through consolidation of the Climate Disclosure Standards Board (CDSB) and soon the Value Reporting Foundation (VRF) into the IFRS Foundation.

While priority has been given to climate-related reporting, we appreciate that IFRS sustainability reporting is open to other aspects through the general requirements standard which encourages companies to report on all significant risks and opportunities including beyond climate as well as the building blocks approach for companies to consider, if no specific IFRS sustainability disclosures are required. In a next step, for example, the recommendations of the TNFD on nature and biodiversity which in structure and language follow the TCFD, should also be incorporated in an Exposure Draft for Nature-related Disclosure Requirements.

International operability and usability

We understand that since the ISSB does not have the authority to compel disclosures, it is up to jurisdictional authorities to decide whether to require the application of IFRS Sustainability Standards and if not, up to companies in each jurisdiction to choose whether to apply them. It will therefore be critical that jurisdictions recognize disclosures made pursuant to other jurisdictions' rules.

To address this and general interoperability, we see the creation of a cross-jurisdictional working group in April 2022 and the more recently established IFRS Sustainability Standards Advisory Forum (SSAF) which includes the US SEC and EFRAG among others, as well as the agreement with the GRI, as vital actions to achieving a global baseline. These forums should not just serve as a platform for discussion and exchanges but also practically work on the development of globally consistent standards – starting with climate and then to covering other ESG aspects. An obvious area would be the key indicators that companies should report on as a baseline. Since EFRAG, for example, will not be using SASB but rather deciding itself as to which KPIs will be relevant for different industries, this should be discussed in the SSAF. At a minimum there should be equivalence for certain areas such as, for example, biodiversity and nature. On social matters this will arguably be much more difficult to achieve between different jurisdictions.

The comparison document on the draft IFRS S2 Climate-related Disclosures with the TCFD recommendations is very helpful and we encourage the ISSB to also make investors (and other stakeholders) aware of any differences between the various jurisdictions that are implementing ISSB standards, as well as major

differences with other international reporting initiatives such as those under the US SEC and EFRAG¹. With various reporting initiatives being proposed, we have concerns, however, about the burden of disclosure and the risk of duplication. In the future, will companies in certain jurisdictions have to disclose data according to IFRS Sustainability Standards, ESRS, TCFD etc.? We recommend that ISSB consider carefully how equivalency between sustainability standards can be promoted. This would involve, for example, minimizing the need for additional mandatory TCFD reporting as the relevant data will be largely provided under the ISSB requirements.

Another challenge could be the sector classification. Not only is that different between, for example, ISSB which is using SASB and EFRAG which is based on NACE, many companies also have complex business models which don't fit neatly into a single classification. It would therefore be helpful to get a mapping between different classification systems and for ISSB specifically to further elaborate on how it could improve international applicability of SASB.

Finally, ISSB is proposing for a company to make any disclosures across its entire value chain. However, this might pose significant operational challenges to obtaining the right data. We therefore suggest that the ISSB exactly defines what a company should include when it comes to its value chain and in any case to allow for a phased-in approach, starting with a company's direct customers and suppliers.

Materiality

We appreciate the ISSB clearly stating that its focus is on meeting investors' needs for a material assessment of a company's enterprise value. However, the difference between what is significant and what is material is not fully clear from the proposals. We understand that "significant" refers to all risks and opportunities that a company is assessing and managing, i.e. not just climate-related which seems to leave what is considered "significant" to the subjectivity of each company. It would therefore be helpful, if the ISSB could further explain how significant risks and opportunities are meant to be identified through application of the IFRS Sustainability Standards and how to then deduce material information from those.

Moreover, since IFRS cannot mandate ISSB standards across jurisdictions, it leaves materiality to the interpretation by users and regulators. It would therefore be helpful if ISSB could provide further examples as to what would be "significant" and what would be "material" information perhaps with reference to the SASB industry standards.

While the ISSB proposals do not explicitly mention the concept of "double materiality" (a cornerstone of the EFRAG Sustainability Standards), we support the ISSB in making a step in that direction by saying that "information that could be relevant to the assessment of enterprise value...includes information about a company's impacts and dependencies on people, the planet and the economy when relevant to the assessment of the company's enterprise value". It can be assumed that companies already voluntarily applying the GRI standards, will continue some form of double materiality reporting in addition to the ISSB global baseline. Over time, ISSB Sustainability Standards should therefore encourage all companies to specifically disclose their impact on the environment with the objectives of (i) providing a more comprehensive picture to investors, (ii) promoting transparency to all other stakeholders and (iii) converging with other international sustainability standards.

Climate-related reporting and transition

We fully support the ISSB's proposal to require disclosures on financed or facilitated emissions by the financial sector in terms of scope 1,2 and 3. On Scope 3 specifically, we agree with the ISSB to require Scope

¹ EFRAG, for example, in Appendix V is providing a reconciliation table between IFRS Sustainability Standards and ESRS.

3 emissions to be reported on the basis of the various categories in the GHG protocol. Moreover, we understand that the SASB standards have guidance related to Scope 3 emissions which preparers can look to.

We agree that transition plans are critical, and they are a key tool for investors to assess whether companies, especially those in hard to abate sectors, have a strategy and detailed plan for their necessary transition. It is important to note that several jurisdictions (e.g. EU; UK) are developing official standards for transition plans. ICMA's [Climate Transition Finance Handbook](#) also provides voluntary guidance applicable to transition plans. ISSB should consider how such official and market-based guidance can be referenced in its standards.

Relatedly, we also very much support the ISSB requiring disclosure on aspects of carbon offsets to help investors assess the nature, extent and ultimately the credibility of those and to help them evaluate the role that carbon offsets play in a company's transition plan to achieve its emission reduction targets. Carbon offsets should be fully disclosed to investors in a granular manner disclosing both gross and net GHG targets to provide transparency and to help investors distinguish, for example, if the offset is achieved by carbon removal or avoidance.