

**ICGN**International Corporate Governance Network
Inspiring good governance & stewardship

Emmanuel Faber, Chair
Suzanne Lloyd, Vice-Chair
International Sustainability Standards Board
IFRS Foundation
7 Westferry Circus
Canary Wharf
London, E14 4HD, UK
commentletters@ifrs.org

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Dear Mr. Faber and Ms. Lloyd,

[Draft] IFRS S1 Exposure Draft: General Requirements for Disclosure of Sustainability-related Financial Information

As a strong supporter of the International Sustainability Standards Board (ISSB), the International Corporate Governance Network (ICGN) welcomes your consultation and request for comment on a standard for General Requirements for Disclosure of Sustainability-related Financial Information. In parallel with this letter, we are also submitting a comment letter with regard to [Draft] IFRS S2 Exposure Draft: Climate-Related Disclosures. Because of the complementary nature of these two consultations, we will be employing in some of the same language as in our response to the other consultation.

Led by investors responsible for assets under management of around \$70 trillion, ICGN is a leading authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 45 countries and includes companies, advisors, and other stakeholders. ICGN offers an important international investor perspective on corporate governance and investor stewardship to help inform public policy development and the encouragement of good practices by capital market participants. For more information on the ICGN, please visit www.icgn.org.

ICGN wishes to underscore that in addition to the ISSB, regulators in major markets are also working towards establishing climate-related and general sustainability disclosure requirements. This presents a unique and historic opportunity for coordination to establish a truly global set of requirements that can meet the needs of both local and international markets. We urge the ISSB to continue to observe these developments and work with regulators and standards-setters to achieve this vision of a 'global baseline.'¹

In the context of this global baseline, ICGN strongly supports the decision of the ISSB to base its standards for sustainability-related financial disclosures and climate-related disclosures on the requirements specified in the Task Force on Climate-Related Financial Disclosures (TCFD).² We note that regulators in major markets also propose climate-related disclosures based on the TCFD. ICGN believes the direction of travel is clear, rapid, and accelerating. TCFD-aligned reporting is where the world is going, and the speed of regulatory developments will increase in 2022 and beyond.

¹ See the statement issued by the [World Business Council for Sustainable Development, the International Federation of Accountants and the Principles for Responsible Investment](#)

² [Task Force on Climate-Related Disclosures, 2021 Status Report](#), October 2021.

ICGN has responded to similar climate reporting consultations opened by the US Securities and Exchange Commission (SEC)³ and the Canadian Securities Administrators (CSA).⁴ In the very near future we will also be responding to the European Financial Reporting Advisory Group (EFRAG) consultation on European sustainability reporting standards. Five key themes govern our overall approach, and we wish to underscore those here.

1. **Regulatory fragmentation.** Standards-setters and regulators have a unique opportunity to achieve a global benchmark in sustainability reporting. A key threat to this is regulatory fragmentation which we see today: sustainability reporting standards varying by jurisdiction adding to the costs of corporate compliance and investor analysis. It is critical for the ISSB, the European Union and the United States (through the SEC) to work together to ensure a coherent global alignment — and to avoid fragmented standards.
2. **Fiduciary Duty.** In the first instance, institutional investors are motivated by fiduciary duty to their clients and beneficiaries. With regard to sustainability reporting, it is entirely appropriate that climate reporting relate to matters that affect enterprise value— including a company’s financial performance, cash flows, strategy and business model— all with a view to promoting sustainable value creation for investment beneficiaries. At the same time, we recognise that climate risk — and other sustainability factors — present clear systemic risks, not only for individual companies, but on the health of markets, economies, and society more broadly. In this context we believe it is important to recognise that investor fiduciary duty also extends to addressing systemic risks such as climate change.
3. **Materiality.** In the case of climate risk, as well as other systemic risks, we believe that sectoral factors are critical in the assessment of material risks for businesses. Hence, we support the application of the SASB criteria in helping to differentiate climate and other sustainability risks sector by sector. We appreciate that the ISSB is building from the single materiality framework in IASB financial reporting standards, with a focus on enterprise value and relevance to investment decision-making.

At the same time, we note that this consultation is silent on the issue of ‘single’ versus ‘double’ materiality. We understand that the ISSB is fully focused on establishing robust sustainability reporting standards on a single materiality basis building from the IASB framework. But even though the ISSB framework is investor focused, it is our experience that many institutional investors have a growing interest on the ‘second perspective’ on materiality, looking at company impacts on its stakeholders and society more broadly. This is particularly true for long term pension investors who are concerned with systemic risks and on company impact/externalities— if nothing else as potential longer-term indicators of enterprise value and the health of markets and economies more generally.

We are encouraged in this context by the Memorandum of Understanding between the IFRS Foundation and the Global Reporting Initiative to align capital market and multi-stakeholder standards to create an interconnected approach to sustainability disclosures, using a ‘building blocks’ approach. If double materiality is not to be part of the ISSB approach, it is critical to build this interconnectivity to meet the full information needs of investors.

4. **Climate versus other sustainability factors.** The systemic urgency of climate risk justifies an initial focus on climate relative to other sustainability factors. Many elements of climate risk are more readily quantified and measured than other sources of risk. But it is important that the ISSB also develop its standards in other key areas of sustainability including

³ [ICGN Letter to SEC: The Enhancement and Standardization of Climate-Related Disclosure for Investors, June 2022](#)

⁴ [ICGN Letter to CSA on Climate Disclosure Reporting Canada, January 2022](#)

natural and human capital.

5. **Linking climate reporting to financial accounting.** Many investors are looking beyond climate reporting as part of a sustainability report and are looking to link climate risks to financial reporting as well, relating to issues that affect asset values, profits, and cash flows.⁵ It is critical for climate reporting standards to develop that will allow material climate risks and planning to be reflected in financial statements. This development carries with it more potential for meaningful change by companies— and brings greater protections to investors.

We set out below our responses to those consultation questions where we are best positioned to comment.

Overall Approach (Question 1)

We believe the approach is clearly laid out, linking sustainability-related disclosure to enterprise value, however the details are far from clear. In order for a company to be required to disclose a metric, it must be material information about a ‘significant’ sustainability-related risk or opportunity. There is no definition for ‘significant’, nor its juxtaposition to materiality. ISSB should take care here not to create a multi-tier level of analysis.

One can debate whether the given definition of enterprise value is the best metric. But it is a fair starting point. We would observe, however, that ICGN’s focus is not only on enterprise value at a moment in time, but also in sustainable value creation over time, reflecting the long-term perspectives of our investor members, particularly those funding pensions or other forms of long-term saving. So, there is a dynamic dimension to this notion of enterprise value that your definition may not fully capture.

We appreciate that the ISSB approach to materiality of sustainability factors will be made in the context of its linkage to enterprise value and look forward to seeing how this is built out. This ‘single materiality’ approach may be relevant for certain investors and their financial interests in companies — and also builds from the SASB principles and the potential links of sustainability factors to financial performance and reporting.

At the same time, we wish to note that many investors globally— and, in the case of the European Union, regulators — are beginning to expand concepts of materiality to include second materiality dimension: that is, the environmental and social impacts of the business on its stakeholders. This ‘double materiality’ standard represents a significant shift in how we approach disclosure and indicates that companies will likely be required to report internal impacts of sustainability issues on the company’s financial performance as well as the company’s external impacts on society and the environment. It is our view that shareholders, the main users of financial reporting, are increasingly interested in both forms of materiality and both types of information. This is particularly relevant in the impact investment community.

While it is clear that the ISSB is focused on single materiality sustainability standards, it would be helpful for the ISSB to at least more explicitly acknowledge the concept of double materiality and how it might link with the ISSB initiative. We are encouraged in this context by the Memorandum of Understanding between the IFRS Foundation and the Global Reporting Initiative to align capital market and multi-stakeholder standards to create an interconnected approach to sustainability disclosures.

⁵ SEC letter, op. cit.

Objective (ISSB Question 2)

We believe the proposed objective of disclosing sustainability-related financial information is in line with expectations, and we look forward to working with you on building it out. The statement of objective does refer to the dynamic nature of sustainability risks over the 'short, medium and long term.' However, we would suggest that the single materiality approach may focus more in practice on short term, or possibly medium term, sustainability risks— and less so on the long term.

Scope (ISSB Question 3)

We think it is important that the Exposure Draft proposals were developed to be applied by companies preparing their general purpose financial statements. The linkage of the standards to individual country GAAP standards (and IFRS Accounting Standards) is key to making sustainability disclosures central to corporate reporting and decision making by both investors and companies. In the area of climate reporting, and potentially in other areas of sustainability, investors are also looking to link sustainability issues to financial statements themselves — how sustainability risks might affect asset valuation, cash flows, capital adequacy and other financial issues of relevance to the end game. The linkage of sustainability factors to the IASB financial accounting standards is a critical consideration here, and we hope that this area is built out as well.

As an additional dimension to scope, ICGN believes that the ISSB and other standards-setters and regulators operating in the sustainability reporting space should provide some accommodations for small to medium-sized companies, both public and private. (See response to Question 13 below) These accommodations will be particularly important for those companies operating in emerging economies, sometimes referred to as the Global South. These businesses often face greater resource constraints than the large, publicly traded companies listed on major stock exchanges. But they are critically important for the sustainable development of local economies and for the transition to a low-carbon energy system. ISSB, along with regulators and other standards-setters, should provide for longer periods of transition to allow those firms with greater resources to establish pathways for reporting, establish the demand for services and expertise that can lower costs and ease the way for smaller enterprises. ISSB may wish to consider other forms of accommodation in consultation with these companies, investment institutions and other relevant capital markets participants.

Core Content (ISSB Question 4)

We are pleased to see the Exposure Draft building upon the established work of the TCFD, and its most recent guidance. It is very encouraging to see the TCFD framework emerging as a common denominator to sustainability reporting standards not only at the ISSB, but also in the European Union and US SEC. The TCFD builds from logical pillars of governance, strategy, risk management, and metrics and targets, and is generally applicable to all sustainability risks, not just climate risk. This linkage to TCFD is arguably necessary, but possibly not alone sufficient, to build the global baseline that investors are looking for.

Reporting Entity (Question 5)

We agree that the disclosure of sustainability-related information should be for the same entity as for general purpose financial statements. In particular, for group companies, this should be on a consolidated basis. It is appropriate for this reporting to link to a company's associates, joint ventures and other dimensions of its value chain.

Connected information (Question 6)

We agree that establishing connections between sustainability related risks and financial statements is critical. For many investors linking sustainability risks to financial accounts is one of the endgames. We appreciate this is not easy to do, particularly for all sustainability risks. We are

aware of the need for rigorous due process. But it is an important aspiration to build upon, and the TCFD framework should prove useful in this context.

Fair presentation (Question 7)

We support the language in the Exposure Draft relating to fair presentation of sustainability risks to ensure that disclosure is relevant to report users. We believe that sustainability considerations and their materiality can vary significantly from sector to sector. Therefore, in addition to the IFRS Sustainability Disclosure Standards we also support the use of sector-based disclosures identified by the SASB Standards to provide a fair assessment of key sustainability risks by sector.

Materiality (Question 8)

It is clear that the ISSB will focus on single materiality. Single materiality is a relevant perspective for investors as primary users of sustainability reporting, and we appreciate the importance that this definition of materiality aligns with the IASB Conceptual Framework for General Purpose Financial Reporting and IAS1. We support this definition, but we also note that materiality can be a fluid concept. We have flagged the dynamic nature of materiality elsewhere in our comment letter, along with the concept of 'double materiality' that is being championed in the EU. We also believe this concept has relevance for investors concerned with externalities or systemic risks, as well as impact investors.

Frequency of reporting (Question 9)

We agree with the proposal that sustainability disclosures should be reported at the same time as financial disclosures. It is important to understand the 'integrated reporting' of financial performance and sustainability performance. Otherwise, investors and other users might have a disjointed understanding of how these factors interconnect. There would not seem to be a logical reason to not have these disclosures come out at the same time, except for historical timing purposes. We believe adjustments to this timing can be made easily in most cases.

Location of information (Question 10)

Linked to Question 9, we agree with the proposal for sustainability-related information to be disclosed as part of a company's general purpose financial accounting. It is important for investors to view and understand how sustainability reporting integrates with financial reporting. The best way to do that is to include this in the same overall reporting; separating financial and sustainability reporting runs the risk of some investors paying less attention to sustainability reporting.

Comparative information, sources of information and outcome uncertainty, and errors (Question 11)

We support this requirement regarding comparative information, sources of information and outcome uncertainty, and errors and that this approach is linked to IAS 1 and IAS 8. It is also critical that financial information and information in sustainability related disclosures correspond with financial data and assumptions in a company's financial statements.

Statement of compliance (Question 12)

We support the proposal for a company to state compliance with the IFRS Sustainability Disclosure Standards. It must explicitly confirm its compliance with the proposals in the Exposure Draft and the requirements of applicable IFRS Sustainability Disclosure Standards. We hope that instances of local laws limiting specific sustainability standards will be minimal, but in such cases, we accept the suggestion for companies to claim compliance as long as they meet all the other reporting requirements. We are also interested in the location of such statement and how compliance will be enforced.

Effective date (Question 13)

As with our response to the climate reporting consultation, ICGN is hopeful that the ISSB standard can be finalised in 2022 and launched in early 2023. Large companies, in our view, should be asked to report in 2024. Smaller companies and those based in emerging economies should be asked to disclose governance and management arrangements in 2024 with a transition to more complete reporting (including scenario planning) in 2025.

Global Baseline (Question 14)

Establishing a global baseline in sustainability reporting is a fundamental goal that ICGN supports, as do our investor members. We believe this will require constructive interaction with other regulators and standard setters in sustainability reporting. In this context, we think it is entirely appropriate for ISSB to draw from other standard setters' requirements, where relevant and rigorous. At the same time, we also believe it will be important for other standard setters to draw from IFRS Standards and for individual jurisdictions to mandate these standards.

Conclusion

ICGN again thanks the ISSB for undertaking this consultation. We are hopeful that our recommendations can help establish an international disclosure regime that is robust, yields globally comparable information for investors, is effective for addressing climate risks and positively incentivises ambition. Should you wish to discuss our comments further please contact Robert Walker, ICGN's Sustainability Policy Manager (rwalker@icgn.org).

Yours faithfully,



Kerrie Waring
Chief Executive Officer, ICGN
kerrie.waring@icgn.org

CC: George Dallas, ICGN Policy Director: george.dallas@icgn.org
James Andrus, Co-chair ICGN Financial Capital Committee: James.Andrus@calpers.ca.gov
Nga Pham, Co-chair ICGN Financial Capital Committee: nga.pham@monash.edu