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## ***Subject: Open letter about the Materiality Debate***

The [Accountability, Sustainability and Governance Research Group](#) at the University of Bristol recently hosted an Academic Roundtable themed [“The ISSB and the Materiality Debate”](#) to discuss academic views on the recent formation of the International Sustainability Standards Board (ISSB) and the debate around different conceptualisations of materiality. The event was attended by 115 participants. The “Materiality Debate” is most notably exemplified by contrasting positions assumed by the ISSB which is adopting the *IASB Conceptual Framework* definition of materiality and the proposed EU Corporate Social Responsibility Disclosure Directive (CSRD) which is suggesting the adoption of a “double-materiality” perspective.

Inspired by the Academic Roundtable debate, the Organizing Committee of the event has drafted the following open letter which is endorsed by the Signatories below.

EFRAG and the IFRS Foundation, and their respective boards – **the EFRAG Sustainability Reporting Board (SRB) and the International Sustainability Standard Board (ISSB)** - are the two foremost financial reporting standard-setters entering the sustainability reporting standardization field. We would like to call on them to consider the following points.

**First, we call for the ISSB and the EFRAG SRB to acknowledge that an entity’s financial sustainability is interdependent with the sustainability of the planet and society.** The underpinning argument here is that the “outside-in” materiality perspective (also referred to as “financial materiality”) is inherently interdependent with the “inside-out” materiality perspective (also referred to as “impact materiality”). An entity’s value-creation activities are unsustainable if they simultaneously produce negative social and environmental externalities especially where these contribute to surpassing social and planetary boundaries, as these externalities may have subsequent implications for the entity’s enterprise value over the short, medium, and long terms. Relatedly, an entity’s ability to effectively and substantively address their negative externalities (and create more positive externalities) is ultimately dependent on the transformation of their business model(s). While the recognition of the interdependence of an entity with its social and natural environment in the *ISSB Prototypes* and the *Draft EU Sustainability Reporting Standards (ESRS)* is encouraging, we call for the ISSB and the EFRAG SRB to better articulate the interaction between the financial and impact materiality perspectives due to their inherent interdependency. In a poll conducted during the event, 65% [49/75] of the participants *disagreed* with the assertion that the application of financial materiality in the context sustainability reporting is well understood (in the same poll: 20% [15/75] of participants were *uncertain*, and 15% [11/75] *agreed*). We call for a better articulation of the “dynamic” nature of the two materiality perspectives to understand how sustainability matters can come to be considered as financial dependencies, risks, and opportunities over time and in alignment with the scientific evidence monitoring the environmental sustainability and social well-being of our planet and its inhabitants. We believe that the conceptualisation of financial and impact materiality perspectives as “dynamic” is more helpful than a “double-materiality” dichotomy which implies incommensurable differences.

**Second, we call for greater collaboration between the ISSB and the EFRAG SRB to create a complementary model of a global baseline and more progressive jurisdictional-specific requirements.** In a poll conducted during the event, the participants were split (29% [20/68] *agree*, 34% [23/68] *disagree*, and 37% [25/68] *uncertain*) on the notion that standard setters and regulators should aim to converge the different materiality perspectives. While there is no agreement on the need to converge the different materiality perspectives and although we acknowledge that the ISSB and the EFRAG SRB have different mandates, we believe that the usefulness of sustainability reporting will be enhanced by a collaborative standard-setting approach, building on other long-standing sustainability reporting standards and frameworks established by, among others, the CDP, Climate Disclosure Standards Board (CDSB), International Integrated Reporting Council (IIRC), Global Reporting Initiative (GRI), and Sustainability Accounting Standards Board (SASB). Concerns were raised that the ISSB standards could unintentionally come to be perceived as a “global ceiling” instead of acting as a “global baseline”, in the absence of a jurisdiction-led or market-led innovations to ensure that sustainability reporting remains progressive. Equally important, concerns were also raised about the ISSB and EFRAG standards developing as competing standards which will create negative and significant consequences for the preparers and users. A collaborative approach would enable the ISSB to use its “global baseline” to support other jurisdictions and private initiatives, thereby satisfying its public interest mandate. Likewise, it would support the EFRAG SRB to satisfy the objective of the proposed EU Corporate Sustainability Reporting Directive (CSRD) while also creating an effective regulatory model that could be emulated elsewhere to support existing and future national, international, and inter-governmental policies, such as the Paris Agreement.

**Third, we call for the ISSB and the EFRAG SRB to draw further guidance from leading-edge sustainability and social science research in developing the standards.** We believe that it is fundamental for sustainability reporting to be aligned with the United Nation’s 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 stand any chance of creating a meaningful change toward a more sustainable world. We are encouraged to see specific requirements for companies to disclose the conformance of their climate-related targets against *science-based targets* in both the *ISSB Climate-related Disclosure Prototype* and the *Draft ESRS E1 Climate Change Standard*. However, we would encourage the ISSB and the EFRAG SRB to go further and consider the broader socio-economic consequences of sustainability matters, including but not limited to climate change. Some notable suggestions made during the event include the incorporation of the elements of the UN Sustainable Development Goals (UN SDG) and a materiality determination approach aligned with the sustainability context principle. We believe that the consideration of this issue is necessary and would become even more critical as the ISSB and the EFRAG SRB begin to move beyond the initial focus on climate. Related to this point, we would encourage the ISSB and the EFRAG SRB to consider acquiring a wide-range of expertise at Board-level and beyond, particularly noting the importance of sustainability-related expertise in both academia and practice.

## Signatories

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