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Comment Letter by The Global Steering Group for Impact Investment (GSG) to the March 2022 IFRS's ISSB Exposure Draft on General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1)

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Dear Emmanuel and Sue,

Let us begin by commending your leadership and remarkable efforts to publish such compelling, robust, and forward-looking exposure drafts, just a few months after the official kick-off of the ISSB and with its final board still in formation. The publication of both drafts, on general requirements for disclosure of sustainability-related financial information (IFRS S1) and on climate-related disclosures (IFRS S2), is a decisive step in the right direction to transforming the flows of information investors need - and, ultimately, our economic system for good. We at the GSG are enormously grateful both for your outstanding work and for your openness to consult with stakeholders from all over the world under such a well-structured and transparent process.

As a global organisation working to advance impact economies worldwide, we are deeply committed to the impact transparency agenda, which we deem as one of the key pillars to drive systemic change by transforming the quality and transparency of information on the impact of business and investment activity and decisions. With less than a decade until the deadline for achieving the SDGs the transparency agenda is as critical as it is urgent, with institutional investors, company leaders, government officials and other market participants called to cooperate to establish globally consistent standards to measure, value and account for impact. In this context, greater transparency and harmonised disclosure standards like the ones the ISSB is advancing, together with better data for decision-making, are amongst the foundational elements needed.

With a presence in almost 50 countries, organised in National Advisory Boards and Impact Investment Taskforces, the GSG is interested in, and strategically positioned to contribute to the global conversation on non-financial disclosure, specifically by ensuring that the voices of middle-income and emerging economies are heard and adequately integrated into any design process, for initiatives to launch and grow with a truly global identity.

Background

In the past year, the GSG has been a leading global advocate for impact transparency, including in prime international fora.

In mid-2021 we contributed an input paper to the **G20** Sustainable Finance Working Group (SFWG), in coordination with the IFRS Foundation, on the synergies between sustainability and financial reporting. In that document we:

i) Described how investor preferences are evolving over time, driven by a pressing need to account for social and environmental issues that matter to all stakeholders, and argued that to achieve the global roadmap for sustainable development, many investors want to do more than today's traditional capital providers are expected to do in their approaches to financial reporting, accounting and investment,

ii) Draw attention on key trends, including increasing behaviour informed by value-aligned preferences by today's capital providers and companies; changes in the scope of investor requests on sustainability reporting; and emerging pressure on accountability requirements to all stakeholders affected by capital provision, driven by government and civil society who act on their behalf, and

iii) Made the case for value-aligned preferences, multi-stakeholder accountability and estimations of enterprise value that incorporate relevant information about companies' impacts and dependencies on stakeholders as being core features of the growing "impact economy".

At the same time, we were mandated by the UK Presidency of the **G7** to establish an industry-led Taskforce uniting 120 leaders from the worlds of investment, finance, government and international organisations, to help answer a critical question for our time: "How can we accelerate the volume and effectiveness of private capital seeking to have a positive social and environmental impact?"

As you know, in December 2021, the Impact Taskforce (ITF) launched a series of ambitious, yet concrete and actionable recommendations, including to help transform the quality and transparency of information on the impact of investment decisions. Under the technical leadership of Douglas L. Peterson (President and CEO, S&P Global) and with contributions from leading experts from over 20 countries, we called on a wide range of stakeholders, from regulators and standard setters to investors and companies to work towards a future in which investment decisions, by companies and institutional investors are increasingly taken through the triple lens of risk, return and impact. The ITF:

i) Called on G20 and all governments to support and participate in consultations by the IFRS´ ISSB,

ii) Called for an urgent "build" on the ISSB´s reporting "baseline" to include any impacts on *all stakeholders*, understanding that focusing on single materiality affecting enterprise value is a good starting point but not enough to adequately account for aggregate impact in our economies,

iii) Defined mandatory accounting for impact as a destination, and

iv) Recommended that the G7 countries and partners collaborate with the private sector, standard-setters and academia on emerging approaches to impact valuation.

GSG comments to the ISSB March 2022 exposure drafts

Building on our engagement to date, and with input from our global organisation of impact leaders, we are delighted to respond to the ISSB consultation, by i) focusing on the general requirements for disclosure of sustainability-related financial information (IFRS S1), and ii) representing the view of the GSG exclusively (i.e. not reflecting positions or considerations from any of our partner organisations, including those in the Impact Taskforce, who may or may not submit their own comment letters).

In doing so we are following Questions and titles 1-17 in the IFRS S1 exposure draft, tackling those where we feel comparatively more able to provide unique input, organising responses by theme and indicating the questions, subsection, and/or paragraphs to which they relate, where appropriate.

OVERALL APPROACH (Q1 - a, c, d)

- (a) We consider the scope and purpose of the General Requirements presented in the exposure draft to be clear in general terms. However, we observe that greater clarity is needed in the definition of the limits / the extent past which a sustainability-related risk or opportunity becomes **"significant"** - and hence has to be disclosed under the standards/requirements.

- (b) While it is clearly stated that the General Requirements would be applied in conjunction with other thematic IFRS sustainability disclosure standards (SDS), any given process should not overlook the **inextricable connection between "green", "social", and "economic" impacts**. The eventual development of separate thematic SDSs over time, if not tackled appropriately, risks ignoring the inherent connection between the different dimensions of sustainability issues (e.g. climate-related issues affecting employment, human displacement, commodity prices, fuel prices, etc.), building "silos" of information. This would ultimately hamper comparability and usefulness for primary users of any given entity's general purpose financial reporting. In addition, it seems to us important to recognize that a sustainability issue can affect investor perceptions of enterprise value before affecting enterprise profitability, and thus becoming reportable under IASB. Much needed clarification of this point is required if we are to provide investors with all the relevant information they need in order to make effective decisions.

- (d) To enable adequate assuring of the information disclosed under these General Requirements, it would be pertinent that auditing bodies/entities have appropriate levels of access to information on *all* sustainability-related impacts of a reporting entity, whether these affect enterprise value (as defined by the ISSB) or not, so as to be able to consistently determine the risk of material misstatement or omission (which can, importantly, result in legal consequences in some jurisdictions). Hence, we recommend **greater transparency on, and visibility of, the materiality assessment processes and methodologies run/adopted by reporting entities** (e.g. stakeholder engagement, open consultations, etc.), in the view that this would enhance the completeness and relevance of reported information for primary users.

OBJECTIVE (Q2)

Without obscuring information required under the ISSB SDS S1, entities should be allowed to incorporate in their reports sustainability-related impacts affecting all stakeholders, whether the impacts (on profits) are financially material (in the terms currently defined by the ISSB) or not, since this information may be stock-price sensitive.

SCOPE (Q3)

- We welcome the fact that IFRS SDS are GAAP agnostic so they can coexist and be implemented alongside any given jurisdiction's accounting standards, which will in turn enable greater global adoption of the SDSs. Only **global, harmonised SDSs** will allow for comparable and reliable information to deploy capital with an impact lens where it is needed most. The fact that the SDSs are "born global" will be important for the future - corporate value chains and investment portfolios are global in nature, and harmonisation on standards must, therefore, also be global. We encourage the ISSB to double down on its commitment for truly global representativeness going forward.

CORE CONTENT (Q4)

- Having clear baseline information will be important to inform the disclosure of targets achieved by a given reporting entity while shedding light on "additional" progress over and above the entity´s departure point (which will necessarily differ amongst reporting entities).

  To incorporate this perspective in paragraph 32, a bullet point could be added (either as item "e" or in between the current points "c" and "d"), indicating that entities should also specify "*the baseline data, if available, to assess progress towards the targets*".

REPORTING ENTITY (Q5)

- The requirement for reporting entities to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain(s) can face significant challenges given the global nature of value chains and the disparities in size, capabilities and information available of/by the entities involved. In particular, we observe with concern that the requirements of the reporting standards can be excessive for SMEs, especially in middle-income and emerging economies, in relation to their resources and capabilities. Those same SMEs, which, according to the World Bank, account for up to 50% of total employment worldwide and 40% of national income in emerging markets, already face challenges to keep up with the production, logistics, financial, quality and other requirements of their (larger) clients. To avoid backlash and the risk of reporting requirements excluding SMEs from value chains (for example, through their difficulty in reporting Scope 3 emissions), an SME-friendly version of the IFRS-ISSB SDSs is paramount. If designed rightly, this need not lower the bar on the requirements or compromise on accuracy and completeness. As the G7 ITF recommends, "...*an SME-friendly version of the IFRS-ISSB SDSs, omitting topics that are not relevant for SMEs, simplifying the language and requiring fewer disclosures is a crucial step towards ensuring wider adoption of sustainability standards by SMEs. This will help make the costs of reporting and accounting for impact proportionate to the size and scale of SMEs*."

CONNECTED INFORMATION (Q6)

- **We see 'accounting for impact' as the destination** for systemic change in the world economies. This will ultimately require the **full integration of financial and sustainability reporting.** Even at this seminal stage, and not ignoring the scope and understandable limitations of the ISSB mandate, we consider that any effort strengthening the connections between financial and sustainability disclosures is a forward-looking step in the right direction, which can anticipate evolutions to come in the following years. The use of comparable metrics and measurement units among specific thematic and industry-based SDSs that at the same time facilitate the attribution of their effect on enterprise value can help in this path. Eventually, we are of the view that convergence towards **monetary valuation** of sustainability-related impacts, as a common measurement unit for different impacts and profits, will be key to satisfying investor needs to incorporate impacts into their financial analysis and the valuation of enterprises.

FAIR PRESENTATION (Q7)

- (a) We consider that fair presentation of sustainability disclosures cannot rely solely on the (material) judgement of reporting entities. Adequate stakeholder engagement in the materiality assessment of organisations is essential to guarantee the faithful representation of sustainability risks, opportunities and impacts (enriching and building on an entity's self-assessment).

  In line with this, we recommend that the exposure draft better explains what is meant by "representationally faithful" (paragraph 47a). This can be done, for example, by adding phrases such as: "*In order to ensure that the information disclosed is representationally faithful, an entity shall consider engaging stakeholders and/or their representative bodies, including those that are most affected by the entity's activities. The latter can also (positively or negatively) affect the entity's reputation, performance and prospects and, therefore, its sustainability-related risks and opportunities*."

  Moreover, we consider that SDSs will require strong mechanisms to ensure **integrity of data and analysis,** as well as guidance and standards for **assuring and auditing** such data**.** For this, the development of systems, principles and norms that build trust in the underlying data will be needed, alongside responsible stewardship of sustainability-related data, and the creation of constructive feedback loops with affected stakeholders.

MATERIALITY (Q8)

- (a) Overall, we consider the concept of materiality to be clear in the terms currently defined by the ISSB. However, it would be important to clarify if the sustainability-related standards will consider or not some degree of flexibility for materiality judgement to be "context-sensitive", varying across geographies (e.g. countries and/or regions).

- (b) We are encouraged to see that the General Requirements recognise that materiality is a dynamic concept (paragraph 59), by acknowledging that the scope of information required by primary users can evolve over time, since sustainability-related risks and opportunities that do not visibly affect enterprise value today might do so in the (near) future - for example, given changes in the physical environment, new regulations, technology and science developments, etc.

- In addition, we want to stress our view that building on the "Global Baseline" set by ISSB SDSs needs to remain an urgent goal. This will demand an expansion from requiring disclosure of sustainability-related risks and opportunities that affect the short-, medium- and long-term value of an enterprise to requiring disclosure of *all* impacts on people and the planet in order to address the information needs of investors and a broad range of other stakeholders. Achieving more equitable and sustainable economic systems requires that risks, opportunities and impacts of an entity's operations that might not affect an entity's value creation in the short, medium or long term, should be equally managed and disclosed.

FREQUENCY OF REPORTING (Q9)

- We support the proposal that sustainability-related financial disclosures are required to be provided at the same time as the financial statements to which they relate. Although this could result in some degree of stress for reporting entities (and auditors) in the short term, we believe that steps towards convergence of both types of disclosures, including on temporality and frequency, will enable greater integration of financial and sustainability information in the (near) future. This is consistent with our assessment that monetary valuation of impact(s) as a unifying, comparable unit of measurement and analysis, will continue to be a growing practice as technical and methodological efforts by leading organisations in the space continue to evolve in the coming years.

EFFECTIVE DATE (Q13)

- (a) As stated above, we see that transparency on sustainability-related impacts is a key lever for much-needed systemic change in the global economy. Greater transparency, with integrity, will allow investors to allocate capital to businesses that positively affect people and the planet, consumers to make informed decisions, governments to incentivise, tax and regulate more effectively, etc. This is crucial for the achievement of the SDGs, towards which private capital and business have a critical role to play. With less than 8 years to 2030, the urgency to drive the transparency agenda is huge. To this end, we encourage the ISSB to set an effective date for final standards to be established as soon as possible that are technically robust and global adaptable.

GLOBAL BASELINE (Q14)

- For the SDSs to become a comprehensive, truly global baseline for sustainability reporting, the ISSB will need to double down on its commitment to consider the varying realities, capabilities, data environments and institutional conditions across markets where reporting entities operate - being especially mindful that those in middle-income and emerging economies, may face barriers to access information, lack specific capabilities and/or develop their activities in imperfect data environments. Whilst we support the aspiration to "raise the bar" for all entities globally, this should be done with an eye to boosting the level of adoption beyond high-income countries. As mentioned in Q5 above, making disclosure requirements "SME-friendly" will be critical in establishing a global baseline across both developed and emerging economies.

COST, BENEFITS AND LIKELY EFFECTS (Q16)

Given our strong appreciation that the ISSB proposals represent a key milestone in achieving impact transparency globally, we see enormous benefit in achieving their worldwide implementation in the context of delivering a just transition to net-zero economies, which leaves no people or places behind. However, we want to urge the

ISSB and its technical advisors to pay special attention to the operational, institutional and economic implications (amongst others) of adoption for reporting entities in middle-income and emerging economies, as well as smaller companies globally.

GSG support going forward

We would like to conclude by praising, once again, the ISSB's efforts, and by thanking you both, as Chair and Vice-Chair, for the opportunity to comment on the exposure draft. We very much look forward to future developments, including new exposure drafts that build on S1 and S2.

We emphasise the commitment of our organisation across 50 countries, to contribute to the adoption of ISSB SDSs in local jurisdictions. We would be happy to take this conversation forward and contribute further insights within and outside structured consultation.

With our best wishes,

Sir Ronald Cohen

Chair, GSG

Cliff Prior

CEO, GSG