



July 29, 2022

Emmanuel Faber (Chair)

Suzanne Lloyd (Vice-Chair)

IFRS Foundation's International Sustainability Standards Board (ISSB)

Re: Exposure Drafts: IFRS Sustainability Disclosure Standards (General Requirements for Disclosure of Sustainability-related Financial Information and Climate-related Disclosures)

Chair Faber and Vice-Chair Lloyd:

The U.S. Impact Investing Alliance ("the Alliance") is pleased to write in support of the exposure drafts put forth by the International Sustainability Standards Board ("ISSB") through the IFRS Foundation related to General Requirements for Disclosure of Sustainability-related Financial Information and Climate-related Disclosures ("exposure drafts").

The Alliance is an organization committed to catalyzing the growth of impact investing in the United States. We define impact investing broadly to include those investments that create financial returns alongside measurable and positive social, economic or environmental impacts across asset classes. Members of our boards and councils include high-net-worth individuals and institutional investors collectively owning hundreds of billions of dollars of invested assets, in addition to asset and fund managers collectively managing over one trillion dollars in assets.

We also take an active interest in international developments that will lead to a more robust and effective global impact investing ecosystem. The Alliance serves as the U.S. National Advisory Board to the Global Steering Group for Impact Investment ("GSG"), which is a consortium of nearly 40 country representatives seeking to grow the practice of impact investing globally. In addition to our own comments, the Alliance also supports the points made in the letter submitted by the GSG in response to the General Sustainability Standards exposure draft.

In 2020, the Alliance publicly supported the creation of the ISSB, writing the following:

The events of 2020 have highlighted in stark detail the critical importance of developing consistent and comparable sustainability reporting standards. Investors faced with the task of making investment decisions are loudly and urgently calling for increased transparency and accountability on issues ranging from climate change to workforce sustainability to diversity, equity and inclusion. The IFRS Foundation has the opportunity to meaningfully meet this moment. We applaud the steps taken to-date, and we encourage the IFRS Foundation Trustees to adopt the proposed role in advancing harmonized and streamlined sustainability reporting standards.¹

¹ U.S. Impact Investing Alliance Comments to IFRS Foundation Trustees, December 2020, <https://static1.squarespace.com/static/539e71d9e4b0ccf778116f69/t/5fec1d40f96794605650643/1609355732472/USIIA+Comment+to+IFRS+Foundation.pdf>.

We are pleased to support the exposure drafts and the ISSB’s effort to advance global, harmonized corporate disclosure standards around sustainability and climate-related issues. Investors require clear, comparable and timely data on sustainability factors, such as those related to environmental, social and governance (“ESG”) issues. A growing body of evidence points to the fact that many ESG factors are financially material. Unfortunately, investors must currently contend with incomplete and inconsistent data – which can be costly and ineffective – and a lack of commonly accepted standards – which can be confusing and inefficient. For these reasons, the ISSB’s exposure drafts represent a pivotal step forward toward more transparent, accountable and efficient capital markets globally.

Importance of global alignment and interoperability

Regulators and standard setters must strive toward global convergence wherever possible in pursuing new rules and standards so there that there will be maximum efficiency and comparability across jurisdictions. Multinational companies will need to ensure compliance across multiple jurisdictions, and so it is of paramount importance to ensure data can be collected and disclosed consistently across jurisdictions. In turn, investors rely on this consistency and comparability in information in evaluating their global investment decisions. Fortunately, we already see important connections between global regulatory and standard setting efforts.

First, we are encouraged by the formation of ISSB’s working group of jurisdictional representatives to enhance compatibility across international efforts.² We encourage the ISSB to continue the consultative process undertaken through the working group on an ongoing basis to ensure maximum interoperability as various rules and regulations are developed and finalized.

Second, we are supportive of the “building blocks” approach taken by the ISSB in promoting a global baseline onto which individual jurisdictions can then add other disclosure requirements based on local jurisdictional needs and priorities.

Third and more specifically to the U.S. context, the U.S. Securities and Exchange Commission (“SEC”) is pursuing a parallel rulemaking to mandate standardized corporate disclosures on climate-related factors. Importantly, both the SEC and the ISSB propose adapting the Task Force on Climate-Related Financial Disclosures (“TCFD”) and the Greenhouse Gas (“GHG”) Protocol frameworks, which are widely used and endorsed by investors, asset managers, companies and regulators. Additionally, in our comments to the SEC, we shared our support for a provision proposed by the SEC that would allow foreign private issuers to adapt future ISSB climate disclosure standards as an alternative reporting method in the United States.³ The Alliance encourages ongoing communication between U.S. regulators and the ISSB. We specifically call on the ISSB to consider how to expeditiously resolve possible

² IFRS Foundation, ISSB establishes working group to enhance compatibility between global baseline and jurisdictional initiatives, April 2022, <https://www.ifrs.org/news-and-events/news/2022/04/issb-establishes-working-group-to-enhance-compatibility-between-global-baseline-and-jurisdictional-initiatives/>.

³ U.S. Impact Investing Alliance, Impact Investors Support SEC’s Leadership on Climate Transparency, May 2022, <http://impinvalliance.org/news-updates/2022/5/26/impact-investors-support-secs-leadership-on-climate-transparency>.

jurisdictional conflicts or overlap, similar to the provision included in the SEC’s climate disclosure proposal.⁴

In addition to our general support and emphasis on the importance of global alignment, we also offer responses to some of the specific questions included in the exposure drafts below.

General Standards, Question 1 – Overall approach

In general, the Alliance finds the reporting requirements included in the exposure drafts to be clear. That said, the exposure drafts require an entity “disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed.” The term “significant” has not been adequately defined in the exposure drafts. This could cause confusion and inconsistencies across reporting entities and potentially lead to gaps in disclosures related to material sustainability-related risks and opportunities. We recommend removing the term “significant” and instead focusing on factors material to enterprise value creation.

General Standards, Question 3 – Scope

Applicability across jurisdictions is critical for promoting consistent and comparable sustainability reporting globally. The Alliance is therefore encouraged by the ISSB’s efforts to ensure the IFRS Sustainability Disclosure Standards can be implemented alongside a jurisdiction’s accounting standards, whether it be the IFRS Accounting Standards or other generally accepted accounting principles (“GAAP”). As mentioned earlier, we encourage the ISSB to maintain regular engagement with other jurisdictional representatives to ensure cohesion in implementation.

General Standards, Question 8 – Materiality

First, the Alliance is supportive of the investor-focused definition of materiality within the exposure drafts as sustainability-related financial information that could “reasonably be expected to influence the decisions” of investors and other primary users. More generally, we endorse the deep thinking around materiality concepts conducted by the leading sustainability and integrated reporting organizations related to topics that are material to enterprise value creation, in addition to reporting already reflected in financial accounts.⁵ The ISSB should leverage these well-tested concepts throughout the exposure drafts to ensure a clear and consistent view of materiality. Taken a step further, we believe “dynamic materiality” – the idea that what is and is not material changes over time – is an important concept for reporting entities and investors to consider, and we are encouraged by the ISSB’s reference to this general idea in the materiality section.

Second, we are concerned that leaving the materiality assessment to the reporting entity without appropriate audit and oversight will ultimately result in inconsistent disclosures of information investors would deem material and decision-useful. Instead, the ISSB should consider identifying a core set of IFRS Sustainability Disclosure Standards and accompanying metrics as a baseline set of material factors on

⁴ U.S. Securities and Exchange Commission, The Enhancement and Standardization of Climate-Related Disclosures for Investors (S7-10-22), Question 189, March 2022, <https://www.sec.gov/rules/proposed/2022/33-11042.pdf>.

⁵ Impact Management Project, World Economic Forum and Deloitte, Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, September 2020, <https://29kijwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>.

which all entities must report, in addition to any supplemental entity- or industry-specific material factors. At a minimum, reporting entities should be required to disclose to auditing bodies on how the materiality of each factor was determined.

Climate Standards, Question 1 – Objective of the exposure draft

The Alliance is supportive of the objective to require entities to disclose material climate-related risks and opportunities to investors. Climate change poses significant and systemic risks to financial stability and the capital markets, and investors require clear, comparable and consistent reporting from companies on related factors. However, we would again recommend either clarifying or removing the term “significant,” to avoid confusion regarding what is considered “significant” and how that differs from “material.”

Climate Standards, Question 9 – Cross-industry metric categories and greenhouse gas emissions

As previewed above, the Alliance is supportive of the ISSB’s adaptation of the TCFD framework and the GHG Protocol, which aligns well with the approach taken by the SEC in its recent proposed enhanced disclosures for U.S.-listed companies on climate-related factors. We agree the cross-industry requirements will help provide a common set of core climate-related disclosures applicable across sectors and industries. Lastly, we agree that entities should be required to report on their Scope 1, 2 and 3 greenhouse gas emissions based on the GHG Protocol. The SEC’s aforementioned climate disclosure proposal included reporting requirements for Scopes 1 and 2, whereas Scope 3 disclosures are only required if an issuer classifies them as material. We have called on the agency to remove this materiality threshold for Scope 3 in the final rule, given that Scope 3 emissions often represent the largest proportion of a company’s emissions,⁶ as is pointed out in the exposure draft’s basis for conclusions (“BC”) document.

Climate Standards, Question 12 – Costs, benefits and likely effects

We agree with the assertion in the BC document that building upon widely used sustainability frameworks and standards will help minimize any costs for reporting entities to implement the requirements included in the exposure draft. Many companies are already voluntarily tracking and disclosing information related to their net-zero and other climate-related targets and commitments. The exposure draft will help organize and standardize these activities for companies, as they strive to meet investor demand for information.

In addition to the anticipated benefits listed for reporting entities, we would encourage the ISSB to more concretely delineate expected benefits for investors. Without streamlined disclosure standards on climate-related risks and opportunities, investors bear the costs and burdens associated with tracking this information based on inconsistent, incomplete and unverified public information. Standardizing corporate disclosures on climate-related factors will improve transparency and accountability for all stakeholders across the capital markets.

⁶ Leslie Hook, Financial Times, Companies grapple with Scope 3 emissions climate challenge, May 2021, <https://www.ft.com/content/0c6aa679-7061-4ddd-b9d8-a6b01c0c979a>.

Conclusion

To briefly conclude, the Alliance believes the exposure drafts represent a significant step forward in terms of the ISSB's founding mission to promote standards that provide a comprehensive global baseline for consistent, comparable and high-quality sustainability reporting for the benefit of investors. Thank you for the opportunity to provide comments in response to the exposure drafts.

Sincerely,

A handwritten signature in black ink that reads "Fran Seegull". The signature is written in a cursive style with a large, prominent "F" and "S".

Fran Seegull
President
U.S. Impact Investing Alliance