



# Response to ISSB Request for Information Consultation on *Agenda Priorities*

The below is IIGCC's submission to ISSB's [agenda consultation](#).

## **Executive Summary**

IIGCC welcomes the opportunity to respond to the International Sustainability Standards Board (ISSB)'s consultation on its strategic priorities for the next two years.

IIGCC sees the publication of the General Requirements for Disclosure of Sustainability-related Financial Information and Climate-related Disclosures as an important step towards promoting consistent and comparable climate-related disclosures globally. Investors urgently need reliable, consistent and decision-useful information to reorient capital in line with net zero, and the standards will provide a useful foundation on which jurisdiction-specific reporting frameworks can build.

To this end, IIGCC sees the successful adoption and consistent implementation of the S1 and S2 at the national-level as the most important priority. This will support the ISSB's objective for the standards to serve as a global baseline for climate disclosures, and help investors with global investment horizons to meaningfully compare the sustainability credentials of their holdings across multiple jurisdictions. Interoperability with wider standards, including those developed in the EU, UK and elsewhere, should remain a primary focus, and we welcome the ongoing dialogue with standard setters in these jurisdictions to promote compatibility.

While the finalised standards represent an important step in the right direction, targeted enhancements would help to further cement their usefulness to investors. In particular, we continue to emphasise the need to integrate a double materiality lens to the reporting requirements. To fully assess the credibility of investee transition plans, investors need access to information that sets out the impacts of companies' activities on the climate, as well as the impacts of climate change on the financial performance and strategy of the company. Additionally, we encourage the ISSB to take stock of transition plan disclosures to ensure they provide investors with the specific information needed to credibly assess their alignment with net zero goals. This should include reporting of core disclosure indicators that align with the latest market developments and best practice, including the disclosure indicators established by the Climate Action 100+ Net Zero Company Benchmark, and relevant disclosures under the

Disclaimer: All written materials, communications, surveys and initiatives undertaken by IIGCC are designed solely to support investors in understanding risks and opportunities associated with climate change and take action to address them. Our work is conducted in accordance with all relevant laws, including data protection, competition laws and acting in concert rules. This response was developed by collaboration between IIGCC and some of its members but does not necessarily represent the views of its entire membership. IIGCC's materials and services to members do not include financial, legal or investment advice.

Paris Aligned Investment Initiatives' Net Zero Investment Framework. Lastly on this priority, we believe that further enhancements are needed to establish full connectivity between disclosures made in the narrative report and the financial statements.

IIGCC recommends that the next thematic standard that the ISSB should prioritise is on biodiversity and nature, given the fundamental interdependencies between climate and the wider environment. To promote interoperability, reporting should build on existing frameworks and standards, including the work of the Taskforce on Nature-related Financial Disclosures and the European Financial Reporting Advisory Group's biodiversity standards.

We would be happy to discuss our positions with you in more detail and answer any questions you may have.

## Question 1—Strategic direction and balance of the ISSB's activities

(a) From highest to lowest priority, how would you rank the following activities?

Please drag and drop to rank, where 1 is the highest priority and 4 is the lowest priority.

1. supporting the implementation of ISSB Standards (IFRS S1 and IFRS S2)
2. researching targeted enhancements to the ISSB Standards
3. beginning new research and standard-setting projects
4. enhancing the Sustainability Accounting Standards Board (SASB) Standards

(b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritise within each activity.

**Priority 1:** Delivering a global baseline for companies to disclose decision-useful climate-related information should be the primary focus for the ISSB in the near-term. Investors urgently need access to comparable climate-related disclosures across the jurisdictions they invest, to assess the credibility of their holdings' transition plans and inform capital allocation, voting and engagement strategies net zero. Many companies and investors have made net zero commitments and are now familiar with (and often actively disclosing against) the TCFD framework on which the standards are built. Supporting the implementation of these standards, including clarifying the underpinning concepts and producing guidance that assists preparers and users to navigate them, will build capacity

and ensure the standards are applied effectively and implemented on a consistent basis. In addition, proportionality must be embedded at the heart of the framework. Entities operating in carbon-intensive sectors should provide more detailed disclosures to reflect their relatively greater exposure to climate-related risks and opportunities, and the more urgent need to transition. Conversely, smaller companies operating outside high impact sectors could be subject to streamlined or otherwise appropriately scaled reporting requirements to reflect their reduced exposure to climate-related risks and more limited capacity to report and manage them. Related to this point around proportionality, it will be important for the ISSB to provide implementation support and guidance for emerging markets to mitigate the risk of regional biases and to facilitate widespread and timely adoption.

As part of the implementation process, it will be essential for the ISSB to engage with policymakers, regulators and standard-setters at the national and jurisdictional levels to promote interoperable and consistent implementation of the standards. This should also include engagement with global bodies such as the International Organization of Securities Commissions (IOSCO). IIGCC sees the standards as having most impact as part of a 'building blocks' approach, where they can serve as a global baseline on which jurisdiction-specific reporting frameworks can build with additional disclosures.

To this end, we stress the importance of ensuring consistency and interoperability between the standards and those developed by the European Financial Reporting Advisory Group (EFRAG) and the UK's Transition Plan Taskforce (TPT). We would also like to see the ISSB's approach to materiality evolve over time. With many investors setting ambitions to align their portfolios with the goals of the Paris Agreement<sup>1</sup>(Paris-aligned) the need to move beyond looking at individual company balance sheet impacts, by capturing the impact of investors' holdings on the climate (i.e. 'double materiality'), is critical. This will help to ensure investors have access to all the information they need to inform investment decisions and reorient capital in line with net zero. A growing number of investors are looking to understand how companies are addressing the impacts of their activities on the climate, noting that these impacts often have financial, reputational and increasingly legal implications over the medium- to long-term. IIGCC welcomes the ongoing dialogue between the ISSB, EFRAG, TPT and others to ensure

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<sup>1</sup> Article 2.1(a) of The Paris Agreement states the goal of "Holding the increase in the global average temperature to well below 2°C above preindustrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;". [https://unfccc.int/sites/default/files/english\\_paris\\_agreement.pdf](https://unfccc.int/sites/default/files/english_paris_agreement.pdf).

coherency between EU and wider international standards, and we encourage this to continue.

**Priority 2:** We welcome the recognition of the central role of transition plan disclosures within the climate standards, building on the high-level TCFD recommendations with which corporates and investors across the globe are now familiar. However, we remain concerned that the standards do not set out the key elements of a credible and comparable transition plan in sufficiently granular detail. To this end, IIGCC strongly recommends that the ISSB incorporates within the climate disclosure requirements the disclosure indicators established by the Climate Action 100+ Net Zero Company Benchmark, and relevant disclosures under the Paris Aligned Investment Initiatives' Net Zero Investment Framework. We recognise that the standards are designed for international use, and that not all jurisdictions are moving at the same pace. However, for jurisdictions that are seeking to decarbonise more quickly, it will be important to ensure that disclosures support users' assessments of a reporting entity's capacity to align with a 1.5 °C world and reflect the best practice guidance and expectations.

Alongside enhanced transition plan disclosure requirements, we emphasise the importance of ensuring full connectivity between the ISSB standards and the International Accounting Standards Board (IASB requirements). See our responses below for more information.

Finally, IIGCC would encourage the ISSB to incorporate prudence (caution when making judgements under conditions of uncertainty) as a core reporting principle underpinning the standards. The inherent uncertainty related to climate change, and the risks associated with it, arguably necessitate a more prudent approach in the context of sustainability standards.

**Priority 3:** Given the deep interdependencies between climate and nature, and the role of nature in supporting climate change mitigation and adaptation, IIGCC suggests that the next thematic standard that should be explored by the ISSB is biodiversity. We acknowledge the constraints on the ISSB's capacity to take forward new work and stress the need to focus on the implementation of existing standards in the first instance. However, the work of the Taskforce on Nature-related Financial Disclosures (TNFD) should help to provide a comprehensive and comparable basis for nature-related reporting that meets investors' information needs. We recommend that the TNFD framework form the basis of any planned standard on biodiversity in the interest of global interoperability. Additionally, the ISSB should seek to ensure any forthcoming standards are compatible with the European Sustainability Reporting Standards E4 (biodiversity and ecosystems) that have been developed by EFRAG.

(c) Should any other activities be included within the scope of the ISSB's work? If so, please describe these activities and explain why they are necessary.

No.

## **Question 2—Criteria for assessing sustainability reporting matters that could be added to the ISSB's work plan**

(a) Do you think the ISSB has identified the appropriate criteria? Please explain your response.

Yes.

The criteria identified by the ISSB are broadly sensible and supported by IIGCC.

(b) Should the ISSB consider any other criteria? If so what criteria and why?

No.

## **Question 3—New research and standard-setting projects that could be added to the ISSB's work plan**

(a) Taking into account the ISSB's limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?

More than one project.

Please explain:

*For the avoidance of doubt, IIGCC interprets the "Integration in reporting" project to mean interconnectivity between the ISSB and IFRS financial reporting standards.*

A particular concern for investors is ensuring consistency (sometimes referred to as connectivity) between the information being provided in sustainability reporting and financial statements. In particular, increasingly we expect climate factors to have a material bearing on companies' financial performance and position. Any differences between narrative and financial reporting could be evidence of material misstatement in the accounts and/or greenwashing.

With regards to climate change, IIGCC has supported an effort with investor members calling for company financial statements to ensure they are properly reflecting material climate impacts. Investors have also made clear that they wish to have visibility of the financial consequences of a 1.5C (and higher warming) pathway through sensitivity disclosures in the Notes to the financial statements.

In 2020 global investors released a [public statement](#) calling for financial statements to reflect climate-related risks in financial reporting. In November 2020 IIGCC published a more detailed "[Investor Expectations for Paris-aligned Accounts](#)", including specific asks for company Audit Committees and for auditors. These expectation were sent to 36 companies along with a letter signed by 38 investors who collectively represented \$9.3 trillion in assets under management or advice. Investors are often presented with different pictures of a company's economic position and plans in the front and back end of an annual report and so a key expectation was a confirmation of consistency between narrative reporting on climate risks and the accounting assumptions, or an explanation for any divergence. Investors also set out expectations to see an affirmation that climate change (including associated transition and physical risks) and the goals of the Paris Agreement are considered in drawing up the accounts.

Since then, while company financial disclosures have been improving with investor engagement and further clarity from regulators and standard setters, progress has been slow, as highlighted by the Carbon Tracker assessment of companies in the CA100+ benchmark 'Accounting and Audit' alignment assessment. In some cases, existing accounting standards are not being upheld, and therefore the priority should be for existing standards to be reinforced.

As company strategies to decarbonise become more detailed, and climate risks more acute, the need for consistency becomes more pressing. Despite increasing guidance from regulators and standard setters on the issue, clear guidance from the IASB on interoperability between ISSB and IFRS would be welcome.

We, therefore, welcome the new project launched by the IASB in March on the inclusion of climate considerations in financial statements, and specifically its focus on ensuring complementarity with ISSB standards<sup>2</sup>. It will be important that investors are involved in this project to ensure expectations on disclosures that matter to investment decision-making are considered. We look forward to contributing to this work.

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<sup>2</sup> <https://www.ifrs.org/news-and-events/news/2023/03/iasb-initiates-project-to-consider-climate-related-risks-in-financial-statements/>

As highlighted in previous responses to the consultation, another priority for the ISSB should be the development of biodiversity standards, building on existing and planned frameworks including the TNFD and EFRAG's biodiversity standards (E4).

## **Question 4—New research and standard-setting projects that could be added to the ISSB's work plan: Biodiversity, ecosystems and ecosystem services**

(a) Of the subtopics identified in paragraph A11, to which would you give the highest priority?

- Freshwater and marine resources and ecosystems use
- Land-use and land-use change
- Pollution (including emissions into air, water and soil)
- Resource exploitation (for example, material sourcing and circular economy)
- Invasive non-native species
- Other—please specify

Of the subtopics identified in paragraph A11, to which would you give the highest priority? Please select as many as applicable.

Each of the listed subtopics are crucial to address. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) identified these four drivers, along with climate change, as the five drivers of biodiversity loss. Determining which driver to prioritise will depend on several underlying factors, including the ecosystem and sector. However, according to IPBES, changes in land and sea use and the over-exploitation of natural resources have historically had the largest impact on land, freshwater and marine ecosystems. Freshwater and marine resources and ecosystem use, land use and land-use change, and resource exploitation should therefore be given the highest priority if it is not possible to focus on all subtopics.

(b) Do you believe that sustainability-related risks and opportunities related to biodiversity, ecosystems and ecosystem services are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and

opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Yes.

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

IPBES explains how the most prevalent activities contributing to drivers of biodiversity loss differ based on ecosystems. For example, agriculture expansion and infrastructure development are some of the most widespread causes of land-use change while fishing is one of the largest contributors to the biodiversity loss in marine ecosystems. Different business models and the activities they implement will therefore vary in their contribution to biodiversity loss and their associated risks and opportunities will too.

Furthermore, IPBES also makes clear that:

“[The] five direct drivers [of biodiversity loss] result from an array of underlying causes – the indirect drivers of change – which are in turn underpinned by societal values and behaviours that include production and consumption patterns, human population dynamics and trends, trade, technological innovations and local through global governance. The rate of change in the direct and indirect drivers differs among regions and countries.” (p. 12, [IPBES Global Assessment Report](#))

It is therefore crucial to consider the specificities of different national and regional contexts when identifying nature-related risks and opportunities.

(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB’s focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A13 should be utilised and prioritised by the ISSB in pursuing the project? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors.

- The Taskforce on Nature-related Financial Disclosures (TNFD)
- The Science Based Targets Network



- The European Financial Reporting Advisory Group (EFRAG)
- The World Benchmarking Alliance
- The United Nations Declaration on the Rights of Indigenous Peoples

Other—please specify

- Nature Action 100 (NA100)

NA100 is a global investor engagement initiative focused on promoting greater corporate ambition and action to reverse nature and biodiversity loss. The initiative will engage companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. A key ask of companies will be the assessment and public disclosure of nature-related dependencies impacts, risks and opportunities. Frameworks such as the Science Based Targets Network and TNFD should help to provide a basis for measuring and reporting on progress as part of the initiative and inform actions to manage nature-related risks and opportunities.

## **Question 5—New research and standard-setting projects that could be added to the ISSB’s work plan: Human capital**

N/A – IIGCC engages primarily on climate-related issues on behalf of its members.

## **Question 6—New research and standard-setting projects that could be added to the ISSB’s work plan: Human rights**

N/A – IIGCC engages primarily on climate-related issues on behalf of its members.

## **Question 7—New research and standard-setting projects that could be added to the ISSB’s work plan: Integration in reporting**

(a) The integration in reporting project could be intensive on the ISSB’s resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realise the full value of the IFRS Foundation’s suite of materials. How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity,

ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB's new two-year work plan?

Refer to our response to Question 3 for further information on why we consider Integration in reporting project (understood as outlined in our answer) as a high priority.

(b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)?

- Formal joint project.

(c) In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from:

(i) the IASB's Exposure Draft Management Commentary?

Yes.

(ii) the Integrated Reporting Framework?

Yes.

(iii) other sources?

Yes: [Investor Expectations for Paris-aligned Accounts](#).

(d) Do you have any other suggestions for the ISSB if it pursues the project?

No.

## Question 8—Other comments

Do you have any other comments on the ISSB's activities and work plan?

No.