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August 19, 2022

Emmanuel Faber
Chair
International Sustainability Standards Board
IFRS Foundation
Columbus Building
Canary Wharf
London, UK E14 4HD

Re: General Sustainability-Related Disclosures Exposure Draft (Draft IFRS S1)

Dear Chair Faber:

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council (CDPC),[2] welcomes the opportunity to comment on the International Sustainability Standards Board's (ISSB's or Board's) *General Sustainability-Related Disclosures Exposure Draft* (Exposure Draft S1or Draft IFRS S1).[3] This response should be read in connection with our response to the ISSB's *Climate-Related Disclosures Exposure Draft* (Exposure Draft S2 or Draft IFRS S2).[4]

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures—and the related independent audits—provided to investors and other end users are reliable and of high quality. Our advocacy position is informed by our global membership who invest both locally and globally and in consultation with the CDPC.

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1 With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Shanghai; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 181,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is composed of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

3 IFRS - Exposure Draft and Comment Letters: General Sustainability-Related Disclosures (https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/)

4 IFRS - Exposure Draft and Comment Letters: Climate-Related Disclosures (https://www.ifrs.org/projects/work-plan/climate-related-disclosures/exposure-draft-and-comment-letters/)

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PERSPECTIVE THAT INFORMS OUR RESPONSE

Securities Analysis and Selection

We have responded to the Exposure Draft S1 from the perspective to which we respond to all corporate disclosure consultations—that of an analyst or buy-side long-equity investor with a long-term value discovery perspective. CFA Institute and the CFA Program's history is rooted in the provision of information for investment decision-making.

In 2020, CFA Institute responded to Accountancy Europe's publication/consultation *Interconnected Standard Setting for Corporate Reporting*. In that letter, we set forth a number of important foundational principles with respect to our views on sustainability and environmental, social, and governance (ESG) disclosures. Overall, in that commentary, we noted that our objective is to ***focus on information that is value-relevant for investment decision making*** and that considers the ***audience for the information***, the ***objective of the communication,*** as well as the ***location of the information***. Our response herein is crafted with these foundational principles and the aforementioned history in mind, which is rooted in security analysis and selection and the discovery of long-term value.

We recognize that some investors seek to invest not only based upon long-term value creation but also based upon their values. While many times these objectives operate in concert, this is not always the case. CFA Institute members have a fiduciary responsibility to their clients. As such, we need and seek information that is sufficiently disciplined that allows us to discern value-relevant information and to make a distinction, when important, between values-relevant information such that we have the ability to advise investors when there may be a trade-off between value and values in their investment decision-making.

As such, our views here are not developed from a public policy or civil society objective, but rather with the desire for investors to have the information they need to make value-relevant investment decisions.

As Investing Is Global, We Support Global Convergence of Sustainability Disclosures: Global Baseline Remains Elusive, Major Markets Developing Different Standards Simultaneously

As an organization, CFA Institute has long supported[5] global convergence of accounting and auditing standards given that investing, like our membership, is global, and comparability is the lifeblood of investment analysis. Similarly, we have supported[6] the creation of the International Sustainability Standards Board for these same reasons.

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[5] See CFA Institute support for global convergence of accounting standards: "IFRS: International Financial Reporting Standards" (https://www.cfainstitute.org/advocacy/issues/international-finance-reporting-stds#sort=%40pubbrowsedate%20descending).

[6] See the CFA Institute Comment Letter to IFRS Foundation with respect to its Consultation Paper on Sustainability Reporting (January 2021) (https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20210210-1.pdf).

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We have responded[7] to the US Securities and Exchange Commission's (SEC's or Commission's) Proposed Rule *The Enhancement and Standardization of Climate-Related Disclosures for Investors*[8] (the SEC Proposal, SEC Proposed Rule, or SEC Proposed Update).[9]

We provided overall perspectives in our comment letter related to the European Sustainability Reporting Standards (ESRS) being developed by the European Financial Reporting Advisory Group (EFRAG).

In our response to Draft IFRS S2, we highlight the differences in the objectives between the SEC, EFRAG and the ISSB's efforts. These are important distinctions which informed our views in the aforementioned Accountancy Europe response regarding audience (investors or other stakeholders), objective (value- vs. values-relevant decision making), and location (securities filings or general purpose reports) of disclosures.

In our response to Question #14 (Global Baseline) in **Appendix 1**, we note our Draft IFRS S2 comment letter is crafted as a comparison between the SEC's Proposed Rule on climate disclosures and the ISSB's climate disclosures in Draft IFRS S2. We made this comparison to evaluate and assess the possibility of achieving a global baseline on climate disclosures. Regrettably, this comparison was more time consuming and challenging than we would have thought from the outset and there are a significant number of differences.

At this stage, we struggle to see the manifestation of a global baseline at a level that will yield comparable data for investors. The challenge, in very simple terms, is that multiple jurisdictions are working on the same disclosures at the same time that do not reference each other and have basic differences.

We recognize the ISSB recently announced cooperation through formation of a working group (the ISSB Jurisdictional Working Group), including the SEC and EFRAG, to increase

[7] In addition to our full comment letter, we have provided the following summaries or excerpts:

- For a short two-page summary see:
  CFA Institute Responds to SEC Proposal on Climate-Related Disclosures: 5 Key Takeaways | CFA Institute Market Integrity Insights

  (https://blogs.cfainstitute.org/marketintegrity/2022/07/07/cfa-institute-responds-to-sec-proposal-on-climate-related-disclosures-5-key-takeaways/)

- For the seven-page Executive Summary contained within the comment letter see:
  CFA Institute to SEC Proposal on Climate-Related Disclosures: Executive Summary

  (https://www.cfainstitute.org/-/media/documents/policy/CFA-Institute-SEC-Climate-Letter-2022FinalExecutive-Summary7182022.pdf)

- For the table within the letter that represents a Summary of Positions see:
  CFA Institute to SEC Proposal on Climate-Related Disclosures: Summary of Positions
  (https://www.cfainstitute.org/-/media/documents/policy/CFA-Institute-SEC-Climate-Letter-2022FinalSummary-of-Positions7182022.pdf)

[8] See also the Federal Register version 2022-06342.pdf (govinfo.gov).

[9] The Proposal is supplemented and augmented by the SEC's 2010 Guidance (Press Release: SEC Issues Interpretive Guidance on Disclosure Related to Business or Legal Developments Regarding Climate Change, 27 January 2010) (https://www.sec.gov/news/press/2010/2010-15.htm)

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dialogue and enhance comparability of ongoing jurisdictional initiatives. We support this joint working groups efforts. We believe there is much work to do by the ISSB's Jurisdictional Working Group to iron out the differences. Most importantly, we believe the ISSB, and the various regulators/standard setters, need to define more specifically what they mean by a global baseline and how it would operate.

Overall, we are supportive of the global baseline concept – as investors would be the most significant beneficiary. However, this needs to be a shared pursuit by standard setters and regulators. This is not something the ISSB can achieve on its own.

ORGANIZATION OF OUR RESPONSE

Our response herein to the ISSB's Draft IFRS S1 considered all 17 questions. Our detailed responses are provided in the appropriately numbered section in **Appendix 1**[10] and summary observations emerging across the questions are included in the body of this letter in the section *Summary Considerations from Responses to Specific Questions*.

Several cross-cutting issues and overarching themes (i.e., not necessarily related to specific questions) emerged as part of our response, and we have incorporated them in the *Overarching Considerations* section that follows in the body of this letter.

Additionally, as we note earlier, our response to the ISSB's *Climate-Related Disclosures Exposure Draft* should be read in connection with this letter.

OVERARCHING CONSIDERATIONS

Support for Development of ISSB Standards

We are very supportive of the ISSB's Draft IFRS S1 and, broadly, the IFRS Foundation's goal of establishing the ISSB and issuing sustainability standards that are connected to general purpose financial reporting. That said, we have observations included herein about the proposed disclosures and comments related to improvements we believe are necessary.

Leveraging Industry-Based SASB Standards: Essential to Investor Support

In our January 2021 comment letter in response to the IFRS Foundation's Consultation Paper on Sustainability Reporting we set forth our support for the establishment of the ISSB. We noted there that our support was heavily dependent upon the "how" of the new board. One key element of the "how" was the integration of the SASB standards and their industry-based versus general standards focus.

In CFA Institute's SEC Climate Comment Letter, we highlighted that the ISSB industry-based metrics – related to climate –were essential for investors because:

- they provide the first materiality lens for disclosure,

[10] Appendix 1 can be found via a link at the page following the signature page of this letter or at: https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/ISSB IFRS S1 Sustainablity Letter 2022082322 Appendix

- they provide investors with a more forward-looking assessment of climate-related risks,
- they create greater comparability between companies,
- investors are organized by and make asset allocation decisions by industry,
- climate risk (or any sustainability risk) impacts industries differently,
- the approach provides better engagement opportunities for companies and investors with the ISSB, and
- industry-standards will likely produce more proportionality in disclosures.

The industry-based standards and the resulting metrics also provide – as we highlight in Exhibit 1 to CFA Institute's SEC Climate Comment Letter (See Page 26) – an essential link to the disclosures they are proposing in the financial statements as they will facilitate understanding regarding how these more forward-looking metrics manifest themselves in the financial statements.

While we do not oppose consideration of additional cross-industry metrics to ensure comparability across industries, we believe industry-based metrics must be the starting point. This is more effective and efficient for investors as these industry-based standards are integral to making the disclosures more decision-useful to investors in ascertaining the effects on the enterprise of sustainability-related risks.

What we think needs to be clearer to investors is how themes such as climate in Draft IFRS S2 that become IFRS Sustainability Disclosure Standards will evolve together with the SASB industry-based standards. Will IFRS Sustainability Disclosure Standards theme-based standards ultimately overtake the existing SASB standards to become theme-based rather than industry-based standards? Or will the industry-based SASB standards persist and be referenced and continually integrated in these standards?

In sum, our support for the ISSB and IFRS Sustainability Disclosure Standards is conditioned on the ISSB's integration of the industry-based nature of the SASB standards.

An Investor Perspective is Essential: Due Process
Whose Feedback Will Be Considered & How Will it Be Weighted?

The ISSB's disclosures are meant to provide investors with value-relevant information for investment decision-making. While we highlight above that investors have different investment objectives (value vs. values), we also note that our members have a fiduciary duty to their clients that means they need to understand when value-relevant and values-relevant investment decision-making may not overlap and that the location of the information may inform the objective and audience (i.e., not investors) of the disclosures.

That said, there are a plethora of stakeholders – other than investors – who will likely comment on the ISSB's Draft IFRSs S1 and S2 that do not, however, have an investor perspective, or even be engaged in the preparation of general purpose reports for investors. Instead, they may have a civil society objective or an ideological agenda they are seeking disclosures to highlight, pursue or achieve. We believe the ISSB needs to develop an approach for considering and weighing

feedback on this standard and Draft IFRS S2 – as well as on future standards from stakeholders who are not pursuing an investor focused enterprise value objective[11].

Further, we also believe the ISSB needs to be very clear and precise with stakeholders regarding the use of the term enterprise value and how materiality assessments are to be made based upon enterprise value. We are concerned that stakeholders who are not primary users as defined in Draft IFRS S1 will seek to include information based upon a colloquial meaning and broad interpretation of enterprise value or with such significant degrees of separation from investors interpretation of enterprise value that it is a stretch to consider such information as value-relevant.

We highlight these important considerations because as an organization long engaged in promoting the information needs of investors, we have experienced the situation with accounting standard setters where the primacy of investors – as the end users of the data – is lost in the consideration of public feedback on consultations. And this has occurred when only preparers and the accounting profession have been the principal contributors of feedback other than investors.

This is often the case as investors generally respond with fewer comment letters. However, their feedback is foundational to the determination of the decision-usefulness and value-relevance of the disclosures or accounting being considered for revision – as they are the users of such information and the ultimate arbiters of decision-usefulness.

It has been our experience that because the number of respondents from the preparer or accounting community are greater than the number of responses from the investment community that investor views are underweighted. Preparer and the accounting profession responses are overweighted in the decision-making of the IASB not only because they submit more letters, but because those summarizing the letters are more familiar with their views. Further, investors generally comprise a non-significant minority of the board.

As it relates to sustainability standards, the ISSB will receive feedback, likely in a similar disproportionate weighting toward preparers and accountants, but the ISSB will also likely receive commentary and feedback from stakeholders with other objectives and agendas as noted above. Our question to the ISSB is: How will this input be considered and weighted if it is from organizations who do not have a direct interest in the preparation or use of general-purpose financial reporting for investors?

This is a topic of keen interest to investors. We believe it must be addressed as part of the consideration of the feedback on this standard and the due process of the new board.

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[11] We have seen in the SEC's Proposed Rule footnote references to commentary from organizations with a solely civil society, political or ideological agenda-based focus that does not represent an investor-focused enterprise value-relevant perspective. We believe this has confused and politicized the SEC's authority and objectives and we want to ensure the intended user of the data to be created by the ISSB standards is not obfuscated.

Important Factors Outside of ISSB's Control

As we consider the ISSB's Draft IFRS S1 and S2 and the concept of sustainability standards more broadly, there are many things outside the control of the ISSB which will impact the efficacy of its standards. And while this is also true of financial reporting, that information is more generally accepted, included in a single-location with presentation of attestation in a manner that makes it clear as to the completeness and cohesiveness of the disclosures and auditors and regulator responsibilities associated with them.

For sustainability standards the location of the information; connectedness of the disclosures to financial statements; types of attestation and location of attestation reports; the regulators endorsement, adoption and enforcement are all very much in play and will impact the quality of the reporting and usefulness of the information to investors – and this does not consider the fact that such information is based upon a different materiality determination and there is pressure to include information that is impact or values rather than value-relevant by some stakeholders in various jurisdictions. Further, the manner and quality of company implementation is an additional layer.

Considering the influence of such factors on the usefulness and efficacy of Draft IFRS S1 makes preparing a response to this draft standard even more challenging, because one must visualize what will be the end result in advance of the resolution of many of the aforementioned uncontrollable factors. Likely this standard will need multiple iterations to address how the standard is actually used in practice.

A Standard Meant to Accomplish a Great Deal: Timely, Continuous Review Will Be Necessary

The fact that the Draft IFRS S1 is meant to accomplish a great deal – and the fact that it is theoretical at this stage, having not yet been implemented – makes responding more challenging.

The standard includes elements of items included for financial reporting in the *IFRS Conceptual Framework for Financial Reporting* as well as IAS 1, *Presentation of Financial Statements*. We endeavored to consider elements of each and how they might or should be incorporated into sustainability standards. With the time we had, we are not sure we can consider all of these items – for example, the *Qualitative Characteristics of Useful Sustainability-Related Financial Information* included in Appendix C of Draft IFRS S1 relative to similar characteristics in the *IFRS Conceptual Framework for Financial Reporting*.

The efficacy of the provisions of Draft IFRS S1 will take time – and the implementation of various standards, such as Draft IFRS S2 for all stakeholders, including standard setters– to assess. There is much to be learned along the way that stakeholders cannot possibly visualize or anticipate in advance. Forward thinking through the provisions of this foundational standard, how it will be implemented through standards on climate in Draft IFRS S2, and what that means to the quality of actual disclosures, where they will be located, the nature of the attestation, the nature of the metrics disclosed and whether there will be an effective connection to the financial statements is challenging to foresee.

Because sustainability standards broadly and Draft IFRS S1 are so new we believe the ISSB must be open to an iterative and learning based process in the development of this standard. We

are very supportive of post implementation reviews, but we believe this standard may need a more contemporaneous assessment than a post-implementation review in 3-5 years in order to ensure that it is evolving and improving in-line with the development and implementation of new standards.

Interrelationship and Collaboration of ISSB and IASB

Our consideration of Draft IFRS S1 has reemphasized the importance of the ISSB and IASB (the Boards) working together and establishing a protocol for interaction between the Boards. As we considered Draft IFRS S1 and S2 several matters come to mind:

- ***ISSB Sustainability-Related Risks Should Be Evident in Financial Statements*** – As we note in our response to Question #2 (Objective), #4 (Core Content) and #6 (Connected Information) in **Appendix 1**, and the consideration of conceptual framework matters in the following section, we believe the development of ISSB standards requires hand and glove consideration by the IASB. Investors need to understand how sustainability-related risks and opportunities and the anticipated and actual financial effects will manifest themselves in financial statements such that investors can confirm the usefulness of the sustainability disclosures over time. Draft IFRS S1 presents challenges in making that connection which we elaborate on in the responses to the aforementioned questions.
- ***Balancing Sustainability and Financial Reporting Priorities*** – We noted in CFA Institute's SEC Climate Comment Letter that we were concerned with the ability to balance financial reporting and sustainability reporting priorities in the US. The same concern exists for the Boards. The IASB undertook an agenda consultation in 2021 and has just recently reported on their results and go forward priorities. We worry that improvements in financial reporting will be back seat to those related to sustainability disclosures. We need to understand how projects will be managed and prioritized between the IASB and ISSB because the challenge is not likely the ability of the standard setters to develop standards, but companies to implement such changes.
- ***Maintaining Focus on the Importance of Financial Reporting*** **–** We believe it is important for the IFRS Foundation not to lose focus on the importance on financial reporting, not only in the balancing of standard setting projects as noted above, but in the composition of the IFRS Trustees, the Advisory Committee, and key staff appointments. The credibility of the IFRS Foundation has been built on financial reporting standards and investors care deeply that the quality of standards is maintained and improved and that the principal focus of the financial statements stays with investors. We do not want the IFRS Foundation to be distracted from that priority or for other stakeholders with priorities other than investors and erode the quality and integrity of financial statements.

SUMMARY CONSIDERATIONS FROM RESPONSES TO SPECIFIC QUESTIONS

Overall

As we undertook our consideration of Draft IFRS S1 and completed the detailed question responses in **Appendix 1**, we observed themes that cut across specific questions. Those included conceptual framework type issues, considerations related to disclosure content and location, more mechanical reporting matters and then other matters. So as to synthesize our views, we have summarized our detailed comments to Questions #1-17 in **Appendix 1** by such themes in the sections that follow.

Conceptual Framework Considerations

As we attempted to respond to the questions posed within Questions #1-3 on Overall Approach, Objective and Scope, we found we needed to consider them collectively noting several conceptual issues in those questions and in several others – Question #8 on Materiality, Question #4 on Core Content, specifically financial effects, and Question #17 on Other Comments where we address reference to other standards – that impacted our ability to assess whether the overall objective and scope, as articulated in Paragraph #9, of Draft IFRS S1 could be met.

Sustainability-Related Risks & Opportunities Require More Definition & Refinement (Questions #1-3)

Observations and Challenges

Lack of Definition of "Sustainability-Related Risks and Opportunities"

As we note in our response to Question #2(b), the terms "sustainability-related disclosures" and "sustainability-related financial information" are defined terms in Appendix A to Draft IFRS S1 – though we find it challenging to discern between the two at times as we describe more there. More importantly, however, we noted that the extensively used term "sustainability-related risks and opportunities" is not defined in Draft IFRS S1.

We note that Paragraphs 17 and 51 – as well as related Paragraphs 16, 18-19 and 52-55 – provide guidance on identifying such sustainability-related risks and opportunities, but there is no definition per se. We believe this lack of definition presents a conceptual, scope and objective issue for the IFRS Sustainability Disclosure Standards. Without a clear definition of this term the scope of the ISSB's work (remit/mandate) and standards is unclear and the ability to achieve the objective of Draft IFRS S1 may be a challenge. More specifically, we see this as a concern for the following reasons:

- *Sustainability Risks vs. All Risks* –
  - Without such definition of "sustainability-related risks and opportunities", investors and other users of the standard can't discern how the traditional risks already incorporated into the measurement of financial statement elements are not scoped in by the definition in Paragraph 17. Nor is it clear how risk disclosures included within financial statements (i.e., for example those required under IFRS 7, *Financial Instruments: Disclosures*) are differentiated from sustainability-related risks. Or, how risks required to be disclosed under securities regulatory frameworks would be distinguished from sustainability-related risks.

  - As an investor organization focused on sustainable business models there are many risks which can be said to be sustainability-related under a broad or colloquial definition as in Paragraph 17.
  - Without a precise definition of sustainability-related risks and opportunities we believe this definition could include every risk an enterprise encounters.
- *Broad Remit to Search for Sustainability-Related Risks Defined by Others* – We also believe that the requirements in Paragraphs 51-55 with respect to the identification of sustainability-related risks, that reference to recent pronouncements of other standard-setting bodies – not necessarily sustainability standard-setting organizations – and to disclosures made by other entities in similar industries or geographies provides a broad scope for inclusion of risks and metrics. This language seems like an open scope to include anything an entity believes is relevant, possibly including impact-related items as we address below.
- *Significant vs. Material Risks and Opportunities* – We also note that Paragraphs 16, 17 and 19 refer to "significant" sustainability-related risks and opportunities. Many have noted that there needs to be clarification regarding the inclusion of "significant" rather than "material" sustainability-related risks and opportunities. See discussion of materiality in Question #8.

Language That May Connote Impact or Double Materiality Interpretations
As we considered language regarding identifying sustainability-related risks and opportunities, and how to identify them, in Draft IFRS S1, we noted the existence of paragraphs within the standard that may connote an impact-based rather than enterprise value-relevant based perspective or interpretation thereof.

For example, Paragraph 17 provides a broad definition of how sustainability-related risks and opportunities might arise …. *any resource, dependency or impact the business might face* – including seemingly all external impacts that the entity may generate that affect its reputation, brand, and recruitment.

We also note in our response to Question #2(a) that Paragraph 6(c) seems to be very all encompassing and connotes, in part, impact rather than enterprise value-oriented interpretations. The description that notes it could be items that affect an *"entity's reputation, performance and prospects"* is very broad, particularly reputation. Further, the concluding part of the sentence that states *"and relationships with people, the planet, and the economy, and its impact and dependencies on them*" is very, very broad and impact focused.

We also note similar language in Paragraph 40 (Question #5) and Paragraph 44(a) (Question #6).

Overall, as we considered Draft IFRS S1 we found language that connotes very broad interpretations and impact-based assessments in the identification of sustainability-related risks and of enterprise value. Without a foundational, conceptual understanding and consistent interpretation of these terms, Paragraph 9 on scope cannot be achieved. Paragraph 9 of Draft IFRS S1 which defines scope states:

> *Sustainability-related risks and opportunities that cannot reasonably be expected to affect assessments of an entity's enterprise value by primary users of general purpose financial reporting are outside the scope of this [draft] Standard.*

Recommendations

We have the following recommendations to address our concerns:

Provide Definition & Interpretative Guidance – We believe there needs to be a formal definition of "sustainability-related risks and opportunities" and greater interpretative guidance or a practice statement that facilitates: i) identification of these risks, ii) how they are distinguished from more traditional business risks, and iii) how the ISSB will make determinations of what it considers in scope for its remit. We do not believe the Illustrative Guidance to Draft IFRS S1 is sufficient.

Explain Distinction Between Disclosures and Financial Information – Additionally, it would be helpful if the ISSB clarified the distinction between sustainability-related disclosures and sustainability-related financial information.

Move Paragraphs Related to Scope Up – It would be helpful if the information in Paragraphs 16-20, on sustainability-related risks and opportunities within the Strategy section in Draft IFRS S1, and Paragraphs 50-55, in Fair Presentation, were moved up to an earlier section in Draft IFRS S1 in the Objective or Scope section (Paragraphs 1-10). The identification of such risks and opportunities is foundational to the scope and objective of Draft IFRS S1 and the ISSB's mandate.

Resolve the Difference Between Significant and Material Risks and Opportunities – The ISSB needs to resolve differences between the inclusion of significant versus material sustainability-related risks and opportunities.

Enterprise Value and Related Materiality Assessment Require More Clarification (Question #8)

Interpretation of materiality is linked to the aforementioned identification of sustainability-related risks and opportunities. At a conceptual level, the assessment of materiality under Draft IFRS S1 – and the difference in materiality assessment made within financial reporting and sustainability reporting – presents challenges in the application of Draft IFRS S1 which we consider more extensively in our response to Question #8.

Because sustainability-related financial information is to be included in the same location as the related and identified general purpose financial statements, we made a comparison of materiality, and related, definitions in financial and sustainability reporting in **Appendix 2**[12].

Observations and Challenges

We made several observations based upon that comparison:

An Assessment of Materiality Based Upon Enterprise Value

- *Sustainability Standards Refer to Enterprise Value, Financial Reporting Standards Do Not* – The assessment of materiality under IFRS Sustainability Disclosure Standards is to be made in the context of the information necessary for primary users of general purpose financial

[12] Appendix 2 can be found via a link at the page following the signature page of this letter or at: https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/ISSB IFRS S1 Sustainablity Letter 2022082322 Appendix

reporting to assess enterprise value when making their decisions. The concept of enterprise value is not a concept within IFRS financial reporting standards. As such, the need to connect financial disclosures to enterprise value for financial reporting is not, per se, required.

Investors' wonder: Will the materiality assessments for sustainability information be broader or narrower using a materiality assessment based upon enterprise value? Or do investors always make decisions based upon enterprise value so this should be inferred for a financial reporting materiality assessment?

We believe the ISSB and IASB need to compare and contrast these definitions and how they impact materiality assessments. This distinction and its interpretation are important to clarify as it will likely have a bearing on differences in disclosures between the two and the efficacy of the connection and disclosure of sustainability-related financial effects. There may be a mismatch in the assessment of materiality between financial statements and sustainability related information – both presented in general purpose financial reporting.

- *How Direct Does the Link Between Sustainability-Related Risk & Enterprise Value Have to Be?* – As we touch on in our response to Question #2, we are very concerned that the use of the term enterprise value may be used colloquially and very broadly or loosely by some to include disclosures that are more impact than enterprise value related thereby opening Pandora's disclosure box.

  More specifically, our concern is that some may assert that sustainability-related risks have an impact on enterprise value though this may be a very superficial or spurious connection. Said differently, there may be many degrees of separation between the sustainability-related risk and the ultimate effect on enterprise value. Those seeking to include sustainability disclosures based upon an ideology other than value-relevance will, we believe, seek to draw a connection that may have a very weak link to enterprise value. This is a particular concern given the financial effects disclosures are likely to be mostly qualitative and there is no requirement to make disclosures within financial statements where the effect on enterprise value would be more demonstrable over time.

  We believe the ISSB will face a challenge in establishing a link to enterprise value when they need to and highlighting a spurious link when they need to rebuff risks they perceive as out of scope.

An Expansion in the Decisions Made Based Upon General Purpose Financial Statements: *Voting Decision Are to Be Considered for Sustainability Reporting, Not for Financial Reporting*

We also note from our comparison in **Appendix 2** that the definition of general purpose financial reporting has been expanded to include there being used by primary users in making voting decisions. This is not included in the definition of their usage for financial reporting.

Our concern with its inclusions is that voting decisions may not be directly linked or linkable to enterprise value. We are concerned that those stakeholders focused on impact or ideology-based voting decisions may not be clear and that those voting decisions need to be value-relevant, enterprise value-based voting decisions.

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Description of Material Risk Determinations
In our [Draft IFRS S2 comment letter] we noted that the SEC in its Proposed Rule is now requiring companies to describe how it determined a climate-related risk was material. This is a new requirement as generally material items are included without any description of how that materiality was determined. Given the aforementioned challenges related to the assessment of materiality based upon enterprise value we note in the Draft IFRS S2 comment letter that we believe this is a description that should be included in the requirements of IFRS S2 as it relates to climate risks

Recommendations
Provide Definition & Interpretative Guidance – As it relates to the two items under the first observation, we propose the ISSB issue interpretive guidance illustrating how to make materiality assessments for sustainability-related risk disclosures using an enterprise value assessment, something similar to IFRS Practice Statement 2 for financial materiality decisions. We would propose this include not only making assessments based upon enterprise value but also examples that contrast the assessment to financial reporting materiality assessments.

Explain Basis for Including Voting Decisions for Sustainability, But Not Financial Reporting – We believe the ISSB needs to specifically clarify why voting decisions are being included for sustainability reporting but not for financial reporting.

Require Description of Material Risk Determinations – Given the aforementioned challenges related to the assessment of materiality based upon enterprise value we note in the Draft IFRS S2 comment letter that we believe this is a description that should be included in the requirements of IFRS S2 as it relates to climate risks

Overall
Overall, our point in undertaking this comparison exercise is that we believe the audience, objective and location of financial reports and sustainability reports – as well as their materiality assessments – need to be consistent if the ultimate objective of the disclosures is to provide investors with value-relevant information for investment decision-making. Over time, the sustainability-related risks need to be demonstrably linked or connected to enterprise value. This is our litmus test.

Financial Effects: May Be Qualitative and Hard to Connect to Financial Statements (Question #4)
As we note in the preceding section, the identification of sustainability-related risks and opportunities and the related materiality assessment based upon enterprise value are very important because we believe the ultimate test of the efficacy of sustainability disclosures in the long-term is their manifestation in the financial statements. As such, our next conceptual consideration was the assessment of the financial effects disclosures within Question #4 on Core Content.

We have several concerns with respect to the efficacy of the financial effects disclosures in Draft IFRS S1 as we note below:

- *Disclosure Will Likely Be Mostly Qualitative, Because Allowed* – We believe the discussion of financial effects under the standard will likely be mostly qualitative, because this will be allowed. Qualitative disclosures lack the efficacy of quantitative disclosures for investors. A qualitative discussion of financial effects means management has not or cannot assess the effects which diminishes the usefulness of the disclosures.
- *Differing Definitions of Materiality for Financial Reporting & Sustainability Reporting* – As we note in the preceding discussion, the different definitions of materiality for financial statements/financial reporting and sustainability disclosures to be made outside of the financial statements are likely to result in a lack of consistency and timing of disclosures inside and outside of financial statements.
- *Sustainability Reporting Terminology Does Not Exist in Financial Reporting* –Sustainability reporting definitions and terminology does not necessarily exist within the respective financial reporting standards (i.e., US GAAP or IFRS). As such, how the sustainability-related risks manifest within financial statements may not be captured, recorded, or reported in a manner that lends themselves to a disclosure of financial effects that can be connected to sustainability disclosures outside financial statements.
- *Lack of Disclosure Requirements & Risk Appropriate Disaggregation in Financial Statements* – The principles-based disaggregation requirements of IFRS likely mean there will not be disclosures within financial statements that can be linked to sustainability-related risk disclosures outside financial statements. That said, this challenge extends beyond terminology and disaggregation, there will likely be measurement and recognition differences – particularly due to extended time horizons and more uncertainty measurements for sustainability-related risks and reporting than for financial reporting purposes. This makes disclosure of financial effects outside the financial statements even more challenging.
- *The Sustainability Disclosures in Draft IFRS S1 Say They Include Cash Flow Effects, But They Do Not* – In our review of the financial effects disclosure provisions in Draft IFRS S1, they are meant to include a discussion of effects on financial position (balance sheet), financial performance (income statement) and cash flows – as stated in the lead-in sentence in Paragraph 22. However, within the actual disclosure requirements (e.g., Paragraph 22(c) and (d)) there are no cash flow specific requirements. We support disclosures of cash flow effects because they are the most meaningful effects to investors, they are truly confirmatory to the disclosures outside the financial statements, and they are comparable irrespective of the accounting standards utilized.
- *Financial Effects Disclosure May Not Be Decision-Useful, Financial Statements Likely Will Lack Confirmatory Value, and Connected Information May Be Challenging to Achieve* – As a result of the above, we are not convinced the financial effects disclosures in Draft IFRS S1 will be decision-useful. They will likely be qualitative and there will be a challenge to link them to the financial statements because of differences in terminology, disaggregation, recognition, measurement, and materiality decisions.

Overall, we believe achieving a linkage of these financial effects disclosures to the financial statements (and ultimately enterprise value) in current or future periods will be challenging for these reasons. As a result, using the financial statements for their confirmatory value to assess, over time, the quality of the sustainability disclosures may be challenging.

> Without the ability to ascertain whether the financial effects described actually manifest in the financial statements, investors, auditors, and regulators may be challenged to evaluate the efficacy of the core content disclosures. This lack of linkage reduces the efficacy of the sustainability disclosures in the long run.

As we note in the section of this letter entitled, *Interrelationship and Collaboration of Work of ISSB and ISSB,* we believe the IASB needs to consider how each of the risks subject to sustainability disclosures standards issued by the ISSB manifest themselves within the financial statements. The ISSB and IASB then need to work together to ascertain the need for changes in definitions, terminology, recognition or measurement, disaggregation principles or disclosures within the financial statements to make them work in concert with the sustainability disclosures.

See also next section on *Content and Location Considerations.*

Definitions: Sustainability Glossary Needed

As we noted in CFA Institute's SEC Climate Comment Letter, there will be many new terms and definitions brought into the financial reporting lexicon that do not exist within the US GAAP lexicon. The same will be true for the ISSB as it relates to its IFRS sustainability disclosure standards and IFRS financial reporting standards. As we highlight under the discussion of financial effects above, the terminology between the two is not likely sufficiently consistent to be able to measure the financial effects of the sustainability-related disclosures. As we note in the *Interrelationship and Collaboration of Work of ISSB and IASB* section elsewhere in the body of this letter, we believe the IASB must work closely with the ISSB as new standards are issued to assess how the financial effects disclosures in the sustainability standards can be achieved. This is the case with existing IFRS standards not only as it relates to terminology, but also with respect to recognition and measurement, disclosure disaggregation principles, and materiality assessments. Related to this we believe a separate sustainability standards glossary of terms needs to be created by the ISSB in conjunction with the IASB. This too will be essential for effective digital reporting.

ISSB Needs to Establish Parameters for Reference to Standards Developed by Others (Question #17)

While we note the reference in Paragraphs 50 to 55 to other standards in the search for fair presentation of sustainability-related risks and opportunities, what isn't specifically addressed in Draft IFRS S1 is the use of and reference to other standards outside of IFRS Sustainability Disclosure Standards that become foundational elements of their specific standards. For example, in Draft IFRS S2 there is reference to the Greenhouse Gas Protocol (GHG Protocol).

When financial reporting standard setters such as the IASB and FASB adopted the use of fair value, they did not have a fair value measurement standard, this resulted in many interpretive issues. The same will likely be true for use of underlying third-party standards such as a the GHG Protocol.

An additional challenge that presents itself is that these third-party standards may include different conceptual underpinnings (e.g., reporting entity) and be developed by standard setters who may lack the same investor focus, the same definition of materiality, and a standard setting

process that includes independent funding, a public due process, and the inclusion of a diverse set of stakeholders in the decision-making process. We believe the ISSB needs to address in Draft IFRS S1 the parameters for use of such third-party standard setters and the conditions they must meet to be incorporated by reference into IFRS Sustainability Disclosure Standards.

Content and Location Considerations

In addition to conceptual issues addressed above, we noted matters related to core content, location, and connectivity of disclosures which we describe below.

Core Content (Question #4)

- *Governance* – We noted the SEC's governance disclosure requirements were a bit more specific than those of the ISSB's, particularly as related to management where we preferred the SEC's specificity.
- *Strategy* – As it relates to strategy, we make the following observations:
  - *Sustainability-Related Risks and Opportunities: Need Separate Disclosure of Effects & Transition Plans* – As it relates to sustainability-related risks and opportunities see our commentary above. We noted in our review of the climate disclosures in Draft IFRS S2 that the discussion of sustainability-related risk effects on strategy was more of a discussion of the transition plan. In our view, there needs to be more explicit separation of the discussion of risk effects and then the transition plan. We prefer this approach because investors need to understand the effects of the risks first such that they then can evaluate the efficacy of transition plans. We see the same issue in the general standard.
  - *Financial Effects* – See discussion in previous section on *Conceptual Framework Considerations.*
- *Risk Management* – We did not have any major objections to the risk management disclosures other than noting that transition planning was a component of risk management disclosures in the SEC requirements but included within Strategy – rather than a strict discussion of the effects – section. In our review of the Draft IFRS S1 requirements in the context of climate disclosures in Draft IFRS S2, we noted comparability challenges between the SEC and ISSB in detailed language and attempted our comparison by key elements: a) identification (including the process, likelihood and effects, and prioritization), b) management and monitoring and c) integration of risks. This lack of similarity in language highlights the challenge with establishing a global baseline at the most basic level.

  We noted in our Draft IFRS S2 that in CFA Institute's SEC Climate Comment Letter that disclosure of opportunities, because the disclosure is optional, may be sparse. We also note that it does not appear that the ISSB has made the disclosures optional. This is a rather important difference, and we are curious to see whether opportunities will actually be disclosed under IFRS Sustainability Disclosure Standards.
- *Metrics and Targets*
  - *ISSB Developed Metrics* – As it relates to metrics developed and proposed by the ISSB we note our support for the industry-specific metrics in the *Leveraging Industry-Based SASB Standards: Essential to Investor Support* section in the body of this letter. As it relates to the cross-industry metrics we noted in our comment letter on Draft IFRS S2 that we supported their disclosure, but favored inclusion of these metrics within the

discussion of governance, strategy and risk management such that they are better contextualized.

- *Entity Developed Metrics* –We recognize that there may be instances where entity developed metrics may be necessary, but we believe the disclosures in Draft IFRS S1 appear to provide a broad opening for the inclusion of many metrics. And while the standard notes that they should be related to sustainability-related risks and opportunities we are concerned they could include other metrics that, for example, include impact items. Further, as we have seen with non-GAAP metrics, definitions of metrics and their preparation and measurement change and lack of comparability over time ensues. These provisions of Draft IFRS S1 seem to provide entities with broad latitude to create a swath of company specific metrics that will lack comparability over time both within a company and between companies. We worry that these will be challenging to verify and enforce. The ability to provide these entity-developed metrics should come with a requirement to disclose the demonstrable link to enterprise value.
- *Non-Financial Metrics* – Metrics such as GHG emissions are non-financial. We note there is no requirement to translate such a non-financial metric to a financial consequence. We believe all non-financial metrics must have a demonstrable connection to enterprise value. Without that, the connection to the definition of sustainability-related risk or opportunity or enterprise value is spurious, and the metric appears more impact oriented and may move the ISSB away from its scope.
- *Targets* – We are very supportive of target disclosures as we believe they have a focusing effect on risk management and strategy. We have no problems with the disclosures proposed as long as the targets have a link to enterprise value.

Connected Information (Question #6) & Aggregating Risk Disclosures (Questions #6 and #10)

Connectivity to General Purpose Financial Reporting, Including the Financial Statements (Question #6) – Draft IFRS S1 in the section on Connected Information indicates that information on sustainability-related risks and opportunities shall be provided to enable users to assess how the information about these risks and opportunities links to general purpose financial statements. What it does not provide is a description of how that is to be done. As we note above under the discussion of financial effects in the *Conceptual Framework Considerations* section, we believe there are real challenges to achieving this connection.

Connectivity Between Various Sustainability-Related Risks and Opportunities (Question #6): Risk of Muddling Disclosures Believe Requirement Needs to Be Included in Core Content – We agree with the requirement in Draft IFRS S1 to link the narrative information regarding the governance, strategy and risk management to the metrics and targets on a particular risk. We noted previously, the importance of this in our desire to have cross-industry metrics contextualized.

Draft IFRS S1 Paragraph 42 (i.e., with additional information in Paragraph 44) related to connected information also notes the need to…*assess the connections between various sustainability-related risks and opportunities*. While we believe this is a reasonable pursuit and objective, it seems particularly challenging to describe and certainly quantify in a meaningful way in an aggregated fashion. We also note that we did not see evidence of this requirement in

Draft IFRS S2 on climate with respect to its relationship to other risks. This requirement likely needs to be more explicit there.

We also believe it is necessary to highlight that we do not believe an aggregated discussion of effects from sustainability-related risks should override individual descriptions. Investors need to understand the effects by risk and then their interconnection – not simply in an aggregated fashion.

Separate vs. Combined Disclosures:
We Are Concerned Disclosures Will Be Overly or Improperly Aggregated (Question #10) – In addition to the discussion of aggregating disclosures in Paragraphs 42-44 related to connected information and Question #6 above, Draft IFRS S1 states in Paragraph 78 related to the location of information that disclosures should avoid unnecessary duplication and uses governance disclosures as an example. We note, however, that Question #10(d) explains that this combining of disclosures could apply to the description of risks, strategy, or risk management. We are concerned – as we were in the immediately preceding paragraph and Question #6 – that this will result in a conflation of risks, effects, and their management and an overall muddling of disclosures.

Further, this requirement in Paragraph 78 and the requirements in Paragraph 42-44 related to the aggregated discussion of risks should not, in our view, be included in the location or connected information provisions of Draft IFRS S1 but in the Core Content section. This aggregation is not a location or connected information issue per se, but a completeness of core content or a fair presentation issue. We worry that inclusion in these other sections will result in investors overlooking this requirement and failure to understand or comment on how it may reduce the quality of the information they receive.

Location of Information (Question #10)
We are ***very concerned*** with the disclosure location approach as outlined in Draft IFRS S1 for several reasons:

- *No Single Location of Disclosures or Cross-references* – Draft IFRS S1 does not include a requirement that there be a single location where the sustainability-related disclosures that comprise those meeting the ISSB standards are included or cross referenced from – and to which the statement of compliance should apply – such that investors can ascertain the completeness of management's sustainability-related disclosures.
- *Mechanics, Ease of Access, and Specificity of Cross References* – Paragraph 77(a) which allows for cross referencing simply states that…*how to access the information*…needs to be explained and Paragraph 77(b) states… *the cross reference shall be to a precisely specific part of that location.* The level of ease and specificity of cross references is not, in our view, sufficiently articulated. For example, will this cross reference include a link to a specific document, a page number within a document or specific disclosures on a page with a variety of other disclosures? Will information included within the cross reference be solely related to ISSB standards? Draft IFRS S1 does not, in our view, provide sufficient specificity. This is likely to require investors to go on a search for the disclosures.
- *Cross Referencing to Documents Prepared for Other Audiences or Users* – Draft IFRS S1 allows cross referencing to sustainability-related disclosures in various reports which may

have objectives, audiences, and locations that are not consistent with general purpose reporting. We are concerned that the requirement will allow information to be included in reports where the audience for the report is not the same as the users of general purpose financial statements and where the objective may be impact-related and not enterprise value-relevant. Such reports may also not be subject to consistent or similar regulatory enforcement. Further, while the ISSB can state the location of the sustainability disclosures must be part of general purpose financial reports, regulators may have different interpretations of what constitutes general purpose financial reporting, and whether cross references are appropriate.

- *Attestation & Enforcement* – We are concerned that the scattered location of the disclosures will make the completeness of the disclosures and the degree and level of attestation difficult for auditors to assess and communicate and for investors to ascertain. This also has the potential to create confusion for investors regarding which disclosures are attested to and the level of the attestation. Similar to attestation, we are concerned with this multi-location approach when it comes to enforcement. It is not clear that the information being cross-referenced, for example, will be subject to the same level of enforcement by securities regulators.

In sum, we have significant reservations about the location provisions of Draft IFRS S1 and whether it will be easily accessible to investors. We believe the ISSB needs to reconsider these provisions.

Statement of Compliance (Question #12)

We support the inclusion of a Statement of Compliance if all the IFRS Sustainability Disclosure Standards have been complied with. As noted above, however, we are very concerned regarding the location of information and the ability of investors to ascertain the completeness of sustainability disclosures. This translates into whether the statement of compliance will be an effective communication device. If investors can't ascertain the location of the information, how can they ascertain the information to which the statement of compliance applies?

Similarly, we expressed above our concern regarding the ability to discern the level and location of related attestation information. We believe any attestation report should be immediately preceding or following the statement of compliance to make this evident. While we note the ISSB cannot control this, we believe the ISSB should advocate with regulators that this is best practice.

Overall, investors need a section that includes the sustainability-related ISSB disclosures or a section with a complete set of cross-references to such disclosures which is accompanied by the statement of compliance and any related attestation report. This will provide a complete picture of the disclosures and their verification.

Reporting Considerations

Reporting Entity (Question #5)

We agree with the requirement to provide sustainability-related financial information for the same reporting entity as the related financial statements, that those financial statements should be specifically identified and disclosed, and the currency used in such disclosures should be consistent with those presented in the related financial statements. We are concerned that: 1)

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Paragraph 40 related to disclosures in the value chain may be difficult to implement as we note relative to Scope 3 climate disclosures in our Draft IFRS S2 comment letter, but even more so for other risks which may not be as readily reported in the value chain, and 2) Paragraph 41 may result in different reporting of sustainability-related risks and opportunities for associates, joint ventures and other financial instruments across specific sustainability-related risks and standards (i.e., it may not be consistent across risks for the same reporting entity.)

Fair Presentation (Question #7)
In our response to Question #7 we question why Paragraphs 50-55 are presented under Fair Presentation as they are related to the identification of sustainability-related risks and opportunities which are more related to scope as we detail under Question #2. We also note there that the language in Paragraphs 45-49 (and 50-55) seemingly provide more capacity for preparers of sustainability-related disclosures to provide additional disclosures to achieve fair presentation. And, though we note similar language related to financial reporting standards in IAS 1, *Presentation of Financial Statements*, we question whether these provisions may result in the inclusion of more impact-related metrics and a muddling of enterprise value versus impact or values-based measures.

Frequency of Reporting (Question #9)
Broadly, we agree with the requirements in Paragraphs 66-71 related to the reporting period; the frequency and timing of the reporting; interim reporting requirements; and the subsequent events reporting. In **Appendix 1** we note that while we believe the reporting period for sustainability-related financial disclosures should be the same as the general purpose financial statements, we in CFA Institute's SEC Climate Comment Letter, would accept a three-month reporting period lag (e.g., a twelve-month period ending, for example, 30 September for a 31 December reporting company).

Comparative Information, Sources of Estimation & Outcome Uncertainty, and Errors (Question #11)
Comparative Information – We support the requirements related to the provision of comparative information and the need to provide a comparative metric prepared on the revised basis and the reason for the change. We query how impracticable something needs to be to declare it is impracticable to provide a revised comparative period metric and note this may require interpretative guidance.

Sources of Estimation & Outcome Uncertainty – We agree with the view that even a metric with a high degree of measurement uncertainty can provide useful information and with the requirement to include disclosures that enable to understand the probability and impact of sustainability-related risks. We are fully supportive of the view that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements. This consistency is essential to meaningful disclosures of financial effects and for the financial statements to have confirmatory power.

We believe the language in Paragraph 83, related to discussion of future assumptions and other sources of uncertainty, is a bit general given how important such disclosures should be. It is also

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not clear where precisely this requirement manifests itself in Draft IFRS S2. We believe this disclosure should include a look back provision that helps investors assess the reliability of previous estimates as this goes to the credibility of future estimates. This should be quantitative not just qualitative.

Errors – We support the provisions in Paragraph 84-90 on errors. We make the same observation with respect to impracticability as we do estimates, and assumptions as noted above.

Effective Date (Question #13)
We generally support rapid adoption of standards for all types of companies without staggering or without size exceptions. In CFA Institute's SEC Climate Comment Letter, we, however, took – uncharacteristically – a more layered and staggered approach. In that letter we noted that we believe one year should be sufficient for certain disclosures while other disclosures could be staggered for later adoption. In our comment letter to Draft IFRS S2 we noted that disclosures related to the description of risks and opportunities, governance, risk management and effects (possibly other than financial effects) along with Scope 1 and Scope 2 emissions could be made in the first full fiscal year following the release of the final standard as many of the largest companies will already have this information. As it relates to Scope 3 emissions, we noted a further delay may be appropriate as well as for industry metrics. In **Appendix 1**, we provided an illustrative example of a staggered adoption approach from CFA Institute's SEC Climate Comment Letter. We would not oppose a similar staggering of disclosures within all the ISSB standards.

Also, uncharacteristically we support a prospective (i.e., no comparatives) versus retrospective adoption approach for ISSB standards. That said, we believe Draft IFRS S1 needs to be adopted simultaneously with the first disclosures under IFRS Draft IFRS S2.

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Other Considerations

Suitable Basis for Auditors and Regulators (Question #1(d)) – In our comment letter to Draft IFRS S2 we note considerations related to verifiability and enforceability including that the ISSB does not control key provisions of verifiability and enforcement. We also noted that investors are willing to trade perfect reliability for the provision of relevant information and that auditability should not deter the provision of relevant information. We believe that is an important consideration for the ISSB as they review comment letters received on the proposed standard. We also note that investors do not appreciate the uneven level of enforcement of IFRS financial reporting standards across the globe – which will be even more prevalent with sustainability standards. The efficacy of ISSB standards will be highly dependent upon enforcement. As we considered the provisions within Draft IFRS S1 we noted a variety of factors which will make the IFRS sustainability standards challenging to verify and enforce including the following which we describe in more detail in **Appendix 1**:

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- The lack of a true definition of sustainability-related risks and opportunities.
- How to distinguish sustainability risks from existing risk disclosures.
- Parsing impact, ideology-based, and value-relevant disclosures.
- How to make materiality assessments based upon enterprise value and different materiality definitions for sustainability and financial reporting.
- How to assess the accuracy of time frames initially and management's credibility over time.
- The impact of the reference to standards other than those developed by the ISSB.
- How to evaluate disclosures based upon a global baseline.
- How application in non-IFRS jurisdictions may present challenges in connecting financial and sustainability reporting.
- The application of disclosures to an entity's value chain and the potentially different disclosure approaches for invested assets.

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- How to evaluate the efficacy of core content disclosures given:
  - Their likely qualitative and forward-looking nature;
  - The likely qualitative discussion of risk effects and articulation of transition;
  - The challenge in connecting financial effects to financial statements;
  - The need for validation over time and back testing;
  - The existence of ISSB industry, entity-developed, and non-financial metrics; and
  - The possible conflation of risk effects due to interconnected reporting.
- The lack of a requirement to have a single location for disclosures (completeness, cohesiveness, verification, statement of compliance and enforcement)
- The need to develop consistency in structured data & digital reporting given the probability of a highly qualitative set of disclosures and the evolving definitions and terminology.

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Use By Non-IFRS Jurisdictions (Question # (3)) – Broadly, we think these standards could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS financial reporting standards. That said, it is hard to assess this specifically without evaluating each related sustainability proposal. We would observe the following which could lead to a lack of comparability. They are more fully explained in **Appendix 1**.

- Inconsistent terminology between IFRS and the jurisdictional GAAP.
- Lack of comparability stemming from differences in recognition and measurement in underlying accounting standards between IFRS and the jurisdictional GAAP.
- Differing conceptual frameworks between IFRS and the jurisdictional GAAP.
- Differing location of information between IFRS and the jurisdictional GAAP.

We believe those not following IFRS need to communicate that the application of different underlying accounting principles could result in a lack of comparability of sustainability disclosures as investors need to understand these differences.

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Digital Reporting (Question #15)
In our Draft IFRS S2 comment letter we noted investors need to be able to consume sustainability disclosures in a digital form and trace data to source to help overcome issues associated with trust, reliability and comparability that exists in many of the surveys and alternative data sources that populate ratings and ESG data available today. For this reason, we believe disclosures should be tagged using Inline XBRL (i.e., we do not support different structured data languages). And, while we don't generally support custom tags – as it belies the point of a standard taxonomy – we support some custom tagging for items that cannot be highly standardized given the evolving nature of the disclosures

The lack of a global baseline as we describe at the outset of this letter presents a real challenge to the ultimate efficacy of digital reporting for sustainability-related information.

The challenge for digital reporting manifests itself even more vividly in Draft IFRS S1 where, for example, information may be cross-referenced from other reports which may not be tagged, where entity-developed metrics may not be included in a taxonomy and where different sustainability-related risk and opportunities may be identified. Further, the highly qualitative nature of the core content, particularly financial effects, may make block tagging the most significant, but less effective, result for investors.

Cost, Benefits and Likely Effects (Question #16)
We note in **Appendix 1** that we believe the ISSB should be mindful of traditional standard setting cost vs. benefit analysis traps as they consider this proposal. We also note the ISSB needs to be mindful that sustainability standards have not been as broadly or extensively implemented and a variety of challenges in implementation may affect their traditional cost-benefit analysis differently. We highlight matters such as the qualitative nature of the standards, the lack of consistency of standards globally, the lack of definition of sustainability-related risks and opportunities and the potential for broadening of the scope of the standards, the addition of new definitions to be added to the financial reporting and sustainability reporting lexicon, and the challenge arising from a desire of other stakeholders to include additional information – to name a few of the items we touch on in **Appendix 1**.

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Thank you for your consideration of our views and perspectives. We welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact me by email at sandra.peters@cfainstitute.org or by phone at +1.347.413.0774.

Sincerely,

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cc:
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Sue Lloyd, Vice Chair, International Sustainability Standards Board
Andreas Barckow, Chair, International Accounting Standards Board

Gary Gensler, Chair, US Securities and Exchange Commission
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Renee Jones, Director, Division of Corporation Finance, Securities and Exchange Commission

Jean-Paul Gauzes, Acting EFRAG Sustainability Reporting Board Chair, EFRAG President

Martin Moloney, Secretary General, International Organization of Securities Commissions

APPENDICES
ISSB DRAFT IFRS S1 COMMENT LETTER

Appendix 1 and **Appendix 2** form an integral part of this comment letter response to the International Sustainability Standards Board's Draft IFRS S1 Exposure Draft. The appendices are provided via a link at:

https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/ISSB IFRS S1 Sustainablity Letter 2022082322 Appendix

Appendix 1 represents responses to specific questions within the ISSB's IFRS S1 Exposure Draft. The chart therein is an inventory of the specific questions and the paragraphs and topics to which they relate. The body of this comment letter provides a summary – in the section *Summary Considerations from Responses to Specific Questions* – of the cross-cutting issues and themes resulting from the questions as well as other overarching considerations.

Appendix 2 is a comparison of materiality and materiality-related definitions for financial reporting – within the *IFRS Conceptual Framework for Financial Reporting* as well as IAS 1, *Presentation of Financial Statements* – and the sustainability reporting materiality definitions included within Appendix A of the ISSB's IFRS S1 Exposure Draft. The comparison is integral to the response to Question #8 in **Appendix 1** and in the discussion of materiality within the *Conceptual Framework Considerations* subsection within the *Summary Considerations from Responses to Specific Questions* section in the body of the letter.