

RESPONSE TO THE INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB) CONSULTATION ON AGENDA PRIORITIES

Frank Bold welcomes the opportunity to respond to the consultation on the International Sustainability Standards Board's (ISSB) future agenda priorities.

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

01-A. (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. Beginning new research and standard-setting projects
3. Researching targeted enhancements to the ISSB Standards
4. Enhancing the Sustainability Accounting Standards Board (SASB) Standards

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

Frank Bold recommends that the ISSB focuses in the first place on developing supporting materials for the implementation of the existing standards. These would be beneficial for broader acceptance of the disclosures and provide market guidance and a clear common structure for the application of standards. From the perspective of companies under the EU jurisdiction, there is a particularly high demand for guidance on how to carry out financial materiality assessment. The European Sustainability Reporting Standards have been conceptually aligned with the IFRS Sustainability Standards on financial materiality, but there is very little practical guidance that companies can rely on in the actual implementation of the standards. Bringing new research and standard-setting projects, to the extent that it entails expanding ISSB standards to matters beyond climate, should be prioritized next. Limiting sustainability reporting to the current scope of information covered by IFRS S1 and S2 could lead investors to solely focus on a climate perspective and dismiss increasingly relevant information for decision making, thus not capturing exposure to significant risks. At the same time, there is a growing number of investors recognizing additional sustainability risks and seeking information related to other targets from companies, which has been accompanied by regulatory developments in different jurisdictions. This is of particular importance considering EU investors need to collect key sustainability-related data for estimating the percentage of taxonomy alignment of companies located outside the EU market and make sustainable decisions.

As a logical step to extend the topical focus of ISSB standards, we welcome the proposed commitment towards prioritizing “social related” disclosures (human capital and human rights) as well as biodiversity disclosures. We believe that both projects can be realized in parallel, because the ISSB can harness the existing international instruments - including in particular the UN Guiding Principles on Business and Human Rights, the extensive implementation of social disclosures in the GRI, the UNEP Kunming-Montreal Global Biodiversity Framework, and the TNFD - as well as the experience gathered in the development of European standards in both areas by EFRAG.

With respect to the social standards, we strongly support the following recommendations submitted by SHIFT Project outlined below, and which reflect our common experience and collaboration in the development of the European Sustainability Reporting Standards in the EFRAG Sustainability Reporting Board, and beyond.

The development of human rights and human capital research projects reflects a clear growing and widespread investor enthusiasm in these issues. Some concrete examples of initiatives illustrating this ambition are the Workforce Disclosure Initiative (with more than USD\$ 10 trillion in assets under management), the the Human Capital Management Coalition (with over USD\$9 trillion) or the UNPRI’s Advance initiative (embraced by 255 investors with USD \$37 trillion in assets under management).

For providers of capital to know how well entities they finance understand and manage risks associated to social aspects, we strongly recommend the development of a thematic standard as in the case of climate. Such would be essential to create a clear architecture for social issues and allow a level playing field, with the ISSB’s General Requirements standard being too broad and high-level.

Further, social standards need to start with a cross-cutting thematic standard instead of working either separately or in parallel on ‘human capital’ and ‘human rights’ standards, in order to avoid contributing to a confused landscape regarding social issues. Approaching separately human capital and human rights, which are intertwined and overlapping categories, risks fostering confusion in the market and a framework hard for investors to navigate. With respect to the biodiversity standards, the adoption of the Kunming-Montreal Global Biodiversity Framework, as well as the IPCC Sixth Assessment Report clearly identify unprecedented risks in this area as well as consensus among scientists as well as public policy makers on the need to address those risks, and - among other thing - achieve end of net deforestation already by 2030.

01-C. (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

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

N/A

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

N/A

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

03-A. (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.

03-Aii. (ii) If more than one project, which projects should be prioritised and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects). Please explain your response.

- Biodiversity, ecosystems and ecosystem services:

As noted above in our answers, the biodiversity crisis is closely intertwined with the climate change crisis, as each is a cause and effect of the other. Both are a source of financial risks for businesses of similar magnitude and likelihood. It is therefore impossible to effectively address climate-related financial risks without properly addressing the impact drivers of biodiversity loss.

- Human capital:

We suggest human capital and human rights to be prioritized in the coming workplan, as the financial materiality of these topics and the critical role of human rights due diligence in identifying business risks is more clear than ever. Due to the numerous areas of crossover between these two topics and the risk of undermining the integrity of any disclosing standards, we highly recommend the ISSB to consider them as the same research area, encompassing social related disclosures.

- Human rights:

See answer to under "Human Capital"

- Other—please explain:

Guidance on implementation of financial materiality assessment in IFRS S1 and S2.

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

04-A. (a) Of the subtopics identified in paragraph A11, to which would you give the highest priority? Please select as many as applicable.

Please explain your choice and the relative level of priority with particular reference to the information needs of investors. You may also suggest subtopics that have not been specified.

To help the ISSB analyse the feedback, where possible, please provide:

- a short description of the subtopic (and the associated sustainability-related risks and opportunities); and
- your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.

- Land-use and land-use change:

We suggest ISSB to prioritise the subtopics for a biodiversity standard on the basis of their contribution to the risk of biodiversity collapse. This prioritisation should be done on the basis of scientific evidence. We also recommend the ISSB to follow the categorisation of the environmental topics adopted in the European Sustainability Reporting Standards. While "water and marine resources use" and "pollution" impacts often affect biodiversity, and should be reflected as such in the biodiversity standard, the primary impacts and sources of risks in these areas are more diverse and extend beyond biodiversity and need to be considered in their own right. This is even more the case for "circular economy". These topics should be addressed in future stand-alone standards. Therefore, for the development of the biodiversity standard, we recommend focusing on land-use change (and in addition freshwater-use and sea-use change), and on sourcing commodities that are connected to the drivers of biodiversity loss. Other subtopics, such as pollution, should be addressed in the biodiversity standard to the extent they significantly contribute to biodiversity loss.

- Other—please specify:

Freshwater and sea-use change and sourcing of high-biodiversity risk materials. Please see explanation under "Land-use and land-use change"

04-B. (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

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

One of the most important source of risk is deforestation. Deforestation can be attributed to specific drivers, including, for example, certain agricultural commodities. This risk will be relevant for companies sourcing those commodities, namely in the Food & Beverage sector. Real estate companies are concerned primarily with direct impacts of their projects and assets.

The biodiversity impacts and risks that stem from pollution are often localised and can be present in mining operations. That being said, it is possible to develop a sector-agnostic, framework standard, such as the European Sustainability Reporting Standard E4, which will provide a basis for future sector specifications.

04-C. (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. If you would like to suggest materials that are not specified, please select 'Other' and give your suggestion(s) in the comment box. You can suggest as many materials as you deem necessary.

To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

- The Global Reporting Initiative (GRI) standards (for example, GRI 304 – Biodiversity)
- The Taskforce on Nature-related Financial Disclosures (TNFD)
- The European Financial Reporting Advisory Group (EFRAG):

The ISSB can harness the experience of EFRAG in developing a sector-agnostic biodiversity standard and building on other materials. It is important to note that:

EFRAG standard has been in the meantime adopted into a Delegated Regulation by the European Commission. Therefore the material to consider is the European Sustainability Reporting Standard E4, rather than the EFRAG as a body. ESRS E4 standard has been closely built on the draft TNFD materials available at the time.

For the purpose of global standardisation it is important that the ISSB work is aligned as much as possible with both ESRS and TNFD as specialised reporting instruments with global impact; choosing a radically different approach would result in fragmentation that would undermine the ISSB's purpose.

For the same reason, we suggest ISSB to consider GRI standards as well; taking into account that the actual GRI biodiversity standard is dated back to 2016, it will be important to consider any ongoing GRI's technical work on the update of this standard.

Other materials should be also considered, as many of them include relevant content that can be considered within the framework delimited by the above instruments.

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

05-A. (a) Of the subtopics identified in paragraph A22, to which would you give the highest priority? 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. You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:

- a short description of the subtopic (and the associated sustainability-related risks and opportunities); and
- your view on the importance of the subtopic with regard to an entity’s sustainability-related risks and opportunities and the usefulness of the related information to investors.
- Other—please specify:
We suggest ISSB to develop a general social reporting standard that address all relevant topics in a comprehensive way. Please see our response to question 1 for more detailed suggestion

05-B. (b) Do you believe that sustainability-related risks and opportunities related to human capital 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

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

Such differences stem mostly from specific human rights-related issues across different sectors, value chains and geographies. Many of the subtopics listed above are interconnected with human rights issues, including in particular “Diversity, equity and inclusion” and “labour conditions in the value chain”. Since the human capital cannot be cleanly separated from human rights, we suggest addressing both topics in a single standard. See our answer to Question 6 for further details.

Labour conditions in the value chain typically correlate with the wealth of the nation. Furthermore, the risk of poor working conditions or downright systemic violations of labour rights increases for low-paid work. Therefore sectors that depend on unskilled labour in value chain situated in high-risk geographies are more likely to be more exposed to significant risks. Such risks may be linked to application of import regulations such as the U.S. Tariff Act that address the issues of forced labour. In the case of “Diversity, equity and inclusion”, companies face increased challenges if they operate in jurisdictions that officially discriminate on the basis of gender, religion or other diversity aspects.

05-C. (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 A25 should be prioritised by the ISSB in pursuing its research? 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. If you would like to suggest materials that are not specified, please select ‘Other’ and give your suggestion(s) in the comment box. You can suggest as many materials as you deem necessary.

To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

- Other—please specify:
Please see our response to question 6 c) below.

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

06-A. (a) Within the topic of human rights, are there particular subtopics or issues that you feel should be prioritised in the ISSB’s research? You can suggest as many subtopics or issues as you deem necessary. To help the ISSB analyse the feedback, where possible, please provide: a short description of the subtopic (and the associated sustainability-related risks and opportunities); and your view on the importance of the subtopic with regard to an entity’s sustainability-related risks and opportunities and the usefulness of the related information to investors.

N/A

06-B. (b) Do you believe that sustainability-related risks and opportunities related to human rights 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

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

In principle, many of the human rights issues are substantially the same across different industries, sectors or geographic locations. This is evidenced by the existence of universal, sector-agnostic instruments on business and human rights, including the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises and the OECD Responsible Business Conduct Guidance on Due Diligence. However, different sectors and geographic locations are associated with specific risks, some of which are highlighted in our answer to Question 5. The existence of sector specific or even issue and geography-specific initiatives and standards on business and human rights provide an insight into such differences. For example, the Rana Plaza accident, which involved collapse of a building housing textile factories, led to the adoption of The Bangladesh Accord on Fire and Building Safety. In other words, there exist universally accepted principles for business and human rights which are applicable across all human rights issues, sectors and geographies. We strongly suggest the ISSB to harness these principles and develop an agnostic, framework standard for all human rights issues. This standard can be subsequently complemented by sector specifications.

06-C. (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 A36 should be prioritised by the ISSB in pursuing its research? 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. You can suggest materials that are not specified—please select 'Other' and give your suggestion(s) in the comment box. You can suggest as many materials as you deem necessary.

To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

- The UN Guiding Principles on Business and Human Rights and the associated UN Guiding Principles Reporting Framework:
The UN Guiding Principles on Business and Human Rights and the associated UN Guiding Principles Reporting Framework represent a globally endorsed framework, which has been followed by all relevant initiatives since it was adopted. This includes OECD, the most recent GRI universal standards, as well as the European Sustainability Reporting Standard, as well as numerous other initiatives.
The UNGP makes reference to the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights, alongside with references to other human rights instruments and treaties.
- Other—please specify: ESRS S1, S2, S3, S4

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

07-A. (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? Please explain your response.

N/A

07-B. (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)? Please explain how you think this should be conducted and why.

N/A

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

07-Ci. (i) the IASB's Exposure Draft Management Commentary?

If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

N/A

07-Cii. (ii) the Integrated Reporting Framework?

If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

N/A

07-Ciii. (iii) other sources?

If you agree, please describe the source(s) and any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

N/A

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

N/A

08. Question 8—Other comments

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

We strongly support arguments that call for transparency on reporting entities' implementation of human rights and broader sustainability due diligence including the disclosure of their outcomes, based on international instruments including the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. The information on severe impacts, their management and the robustness of the reporting entities' due diligence systems represent important information for investors, as such impacts are an important source of financial risks. Furthermore, any international standards in the area of business and human rights need to be aligned with the universally accepted principles and frameworks established by the abovementioned instruments. Choosing to develop an alternative approach would undermine the achieved international consensus, and lead to further fragmentation in the area of sustainability reporting.