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September 1, 2023

Mr. Emmanual Faber
Chair
International Sustainability Standards Board
Opernplatz 14
60313 Frankfurt am Main
Germany

RE: Request for Information: Consultation on Agenda Priorities

Dear Mr. Faber:

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC") [2], appreciates the opportunity to comment and provide our perspectives on the International Sustainability Standards Board ("ISSB" or "Board") *Request for Information, Consultation on Agenda Priorities* (the "Agenda Consultation").

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

EXECUTIVE SUMMARY

In the Response to Specific Questions section, we respond to the ISSB's request for project setting priorities (Questions #3-7), provide our views on the criteria for project selection (Question #2) and offer our perspectives on the prioritization of the ISSB's identified strategic activities (Question #1).

Strategic Imperative: ISSB's Vision and Roadmap – More importantly, however, our response considers strategic questions we believe the ISSB must ask and answer at this juncture to ensure the Board's efforts are directed toward ensuring the ISSB Standards meet the needs of investors and are widely adopted globally. We highlight many of those issues in the Overarching Considerations section and many are drawn from comments we have made in earlier

[1] With offices in Charlottesville, New York, Washington, DC, Brussels, Hong Kong, Mumbai, Beijing, Abu Dhabi and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 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 comprised 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.

commentary to the IFRS Foundation on the formation of the ISSB and on the development of the ISSB's IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*.

Before engaging in project specific work, it is our view that the ISSB needs to create a vision for its future, beyond just the next two years and to ask and respond – as best as possible, in this state of the organization's development – to a series of questions which will help the organization formulate a roadmap for their future. Those questions include:

- What is the future of the Sustainability Accounting Standards Board ("SASB") Standards ("SASB Standards") including the balance of industry vs. theme based standard setting and the need to mandate rather than consider their application?
- What does the ISSB believe constitutes a complete set of sustainability standards?
- What is the ISSB's definition of sustainability and what is in scope for sustainability standards under the ISSB's remit? What is the suite of topics for consideration? What is the potential body of work? What is the boundary of sustainability versus financial reporting issues? What sustainability topics are investor vs. stakeholder topics?
- What is the ISSB's path to a complete set of standards?
- How does the existence of the ESRS – and their legislative/regulatory mandate as well as the extraterritoriality of those standards – impact the adoption of the ISSB Standards? Will corporates be so bogged down in the ESRS that the ISSB Standards will not be able to break through?
- What role does the ISSB expect or need from securities regulators?
- What jurisdictional adoptions are necessary for full international credibility?
- What will be the balance between truly international standards versus regional flexibility?
- Whose input will guide the ISSB's decision-making?
- What is the quality of the information the ISSB expects will emerge from the adoption of both the ESRS and ISSB Standards in 2025? If investors are not satisfied, what is next?
- What is the path from disclosure to recognition and measurement of sustainability risks in financial statements?
- How will the ISSB connect the sustainability reporting disclosure with financial reporting and coordinate their agenda with the IASB's agenda and efforts to ensure investors have financially value relevant information?
- What work is necessary to refine materiality differences?

Broadly, we believe the ISSB is more in need of a vision of what they want the ISSB to be in the future and a strategic roadmap on how they intend to get there rather than an Agenda Consultation on project priorities.

It is our view, the ISSB's competitive advantage is its ability to create sustainability standards focused on value relevant information to investors and, very importantly, their ability through the IFRS Foundation to link the sustainability risks and opportunities from the ISSB sustainability standards to the financial reporting information produced by way of the IASB financial reporting standards.

To achieve this, we believe the financial effects disclosures need to be stronger and more quantitative and the terms and definitions within IASB standards need to accommodate the emergence of new types of risks (i.e., such as climate) such that they can be most appropriately identified, recognized and measured within financial statements.

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This is the challenge the IFRS Foundation must address alongside the IASB and ISSB to ensure the efforts they set in motion can meet their potential and to capitalize on their strategic advantage.

Project Selection Criteria – As it relates to the project selection criteria, our principal observation is that the first criteria indicates that project needs to be of importance to investors. Our view is that this point needs to be sharpened to clarify: a) which investors are being referred to (i.e., those investing based upon values or impact vs. values) and the nature of their investment objective; b) that issues investigated to become projects are of clearly demonstrated interest to a broad group of investors over a sustained period of time rather than a passing curiosity about a matter or based upon political or social issues of the moment; and c) that the concept of value relevance is central to project selection.

While we provide our views on several other criteria in our response to Question #2, it is this criterion as well as the interconnectedness of the projects to other projects on the ISSB's work plan – as well as the interconnectedness of the project to the IASB's financial reporting work plan – which are most important to our investor members.

Project Priorities – Time did not permit that we do an investor/member survey to collect and determine a broad consensus on the prioritization of the projects. We did, however, undertake individual discussions with investors and considered what is driving our own agenda. We considered not only the four projects in Appendix A to the Agenda Consultation (human capital; human rights; biodiversity, ecosystems, and ecosystem services; and integration in reporting) but also those listed in Appendix B to the Agenda Consultation (circular economy, materials sourcing, and value chains; cybersecurity, data security, and customer privacy; economic inequality; governance; and water and marine resources). Our project priorities stack up as follows:

- ***Connectivity*** – While we do not place integrated reporting at the top of the list, we do place a process for ensuring connectivity of IFRS sustainability and financial reporting standards. Specifically, the financial effects disclosures as a project – or cross cutting project – priority. Connecting the risks and opportunities emerging from sustainability disclosures to the recognition, measurement and disclosures within financial statements is a top priority.
- ***Human Capital*** – Human capital is our second most important project as we believe this is a significant intangible asset with additional information needed both inside and outside of the financial statements so as to be able to evaluate this important asset's impact on the sustainability of the business.
- ***Governance*** – Governance is third on our list and while not one of the four top projects listed in Appendix A by the ISSB, it is listed in Appendix B, and we believe it is so foundational to the oversight of the organization and the production of sustainability disclosures that it should be one of the top four projects.
- ***Biodiversity*** – Biodiversity, ecosystems, and ecosystem services was our fourth priority given its interest to investors, connection to the climate issue, and the potential risk it represents to companies.

We also note that the topics of human capital and biodiversity can build off the work of the SASB Standards on these issues and that they – like climate – present and opportunity to cut across while maintaining and improving the SASB's industry-based standards.

OVERARCHING CONSIDERATIONS

A "Big Picture" Issue with Respect to the ISSB Standards: The Future of the SASB Standards

The ISSB's "How" is Very Important to Investors

CFA Institute serves investors globally and has supported the International Accounting Standards Board (IASB) in its efforts to produce globally converged, jurisdiction-agnostic standards. As such, efforts by the IASB's sister organization, the International Sustainability Standards Board to do the same is something CFA Institute can clearly support. Whether in financial reporting or sustainability reporting, anything bringing a common standard to the information investors receive is in investors' interest. All the better if that standard can be applied globally.

In our recent comment letter to the ISSB on their consultation on the internationalization of the Sustainability Accounting Standards Board Standards we noted the following with respect to the stature and relevance of the SASB Standards in the context of the ISSB Standards more broadly:

> *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 that our support was heavily dependent upon the "how" of the new board.*** (See box to the right.) ***One key element of the "how" was the integration of the SASB Standards and their industry-based versus general- standards focus.*** *Separately, In CFA Institute's SEC Climate Comment Letter, we highlighted that the SASB industry-based metrics related to climate were essential for investors, citing the following about those industry-based metrics:*
>
> - *They provide the first materiality lens for disclosure.*
> - *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.*
> - *Industry-based 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.*

Many Concerns Regarding the "How" of Establishing and Operating a Sustainabilty Standards Board

As we consider the issue, CFA Institute believes an SSB operating under the governance structure of the IFRS Foundation ***could be*** a positive step in achieving further consistency, global comparability and legitimacy in sustainability reporting.

We believe that the IFRS Foundation can help to sort through some of the fragmentation that currently exists in the sustainability reporting landscape. That said, we believe the IFRS Foundation must look more deeply than the virtue of the idea of global sustainability standards to the practicalities of how this might be done. The success of the SSB will ultimately be driven by how the proposal is implemented. The Consultation Paper includes some specific requirements that the Trustees consider essential for the SSB's success. In our June 2020 comment letter responding to Accountancy Europe's paper, *Interconnected Standard Setting Corporate Reporting* we began highlighting the challenges of implementing the idea of global sustainability standards. In a forthcoming blog we will consider other factors including:

- Governance: Mission, Structure, Expertise and Relationship to IASB
- The Role of Securities Regulators
- Subject Matter & Technical Expertise vs. Standard Setting Expertise
- Standards Development vs. Standards Adoption: Credibility & Legitimacy
- Board Composition
- Funding
- Audience for Standards: Investors, Stakeholders and Others
- Objective of Standards: Value vs. Values
- Location of Disclosure of Information Created by Standards
- SSB Impact on IASB
- SSB Impact on IASB (IFRS) Standards
- Due Process
- Conceptual Framework
- Utilization of Existing Frameworks
- Disclosures vs. Accounting
- Forward-Looking Information
- Materiality
- Assurance
- General Purpose vs. Industry Specific Standards
- Regional Influences & Regional Differences
- Investor Engagement & Influence

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 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 earlier correspondence highlights ***our support for the ISSB and IFRS Sustainability Disclosure Standards*** *was* ***conditioned on the ISSB's integration of the industry-based nature of the SASB Standards****.*

CFA Institute feels strongly that ***ultimately sustainability standards should be industry-based****. Failure to do that would undermine the standards effectiveness and could lead CFA Institute to being less supportive of the ISSB's work in general.*

The updating of the SASB Standards through this Exposure Draft demonstrates a commitment to the SASB Standards, but the language in IFRS S1 (see box to the right) ***indicates a degree of consideration and flexibility in the adoption of the SASB Standards that is not necessarily consistent with our desired path forward for the SASB Standards****.*

We think ***the ISSB needs to be clear the SASB Standards should not just be considered but followed to be considered compliant with ISSB Standards****.*

General requirements

Sources of guidance

Identifying sustainability-related risks and opportunities

54 In identifying sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects, an entity shall apply IFRS Sustainability Disclosure Standards.

55 In addition to IFRS Sustainability Disclosure Standards:

(a) an entity shall refer to and consider the applicability of the disclosure topics in the SASB Standards. An entity might conclude that the disclosure topics in the SASB Standards are not applicable in the entity's circumstances.

(b) an entity may refer to and consider the applicability of:

(i) the CDSB Framework Application Guidance for Water-related Disclosures and the CDSB Framework Application Guidance for Biodiversity-related Disclosures (collectively referred to as 'CDSB Framework Application Guidance');

(ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and

(iii) the sustainability-related risks and opportunities identified by entities that operate in the same industry(s) or geographical region(s).

Identifying applicable disclosure requirements

56 In identifying applicable disclosure requirements about a sustainability-related risk or opportunity that could reasonably be expected to affect an entity's prospects, an entity shall apply the IFRS Sustainability Disclosure Standard that specifically applies to that sustainability-related risk or opportunity.

57 In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, an entity shall apply judgement to identify information that:

(a) is relevant to the decision-making of users of general purpose financial reports; and

(b) faithfully represents that sustainability-related risk or opportunity.

58 In making the judgement described in paragraph 57:

(a) an entity shall refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards. An entity might conclude that the metrics specified in the SASB Standards are not applicable in the entity's circumstances.

(b) an entity may—to the extent that these sources do not conflict with IFRS Sustainability Disclosure Standards—refer to and consider the applicability of:

(i) the CDSB Framework Application Guidance;

(ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and

(iii) the information, including metrics, disclosed by entities that operate in the same industry(s) or geographical region(s).

(c) an entity may—to the extent that these sources assist the entity in meeting the objective of this Standard (see paragraphs 1–4) and do not conflict with IFRS Sustainability Disclosure Standards—refer to and consider the applicability of the sources specified in Appendix C.

Disclosure of information about sources of guidance

59 An entity shall identify:

(a) the specific standards, pronouncements, industry practice and other sources of guidance that the entity has applied in preparing its sustainability-related financial disclosures, including, if applicable, identifying the disclosure topics in the SASB Standards; and

(b) the industry(s) specified in the IFRS Sustainability Disclosure Standards, the SASB Standards or other sources of guidance relating to a particular industry(s) that the entity has applied in preparing its sustainability-related financial disclosures, including in identifying applicable metrics.

We reiterate this comment as part of this Agenda Consultation, because we do not believe "shall refer to and consider" (i.e., as we have highlighted in yellow in the box to the right) is sufficiently strong language. The SASB Standards must be applied because SASB

Standards – and their completeness with respect to the topics covered by industry – is what makes the IFRS Sustainability Standards a viable set of standards for investors.

We highlight this issue first as it is an essential ingredient in considering the strategic direction of the ISSB's work.

The Strategic Direction of the ISSB Standards: Dependent on A Complete Body of Standards, The Sustainability Standard Setting Landscape and Regulatory Adoption

We commence our discussion above, with the future of the SASB Standards because the IFRS Sustainability Standards and the ISSB cannot be seen as a credible standard setting body with only IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2, *Climate-Related Disclosures*.

It is the complement of the SASB Standards and their focus on investors value relevant decision-making that is the source of support and credibility of the ISSB within the investment community. Said differently, who or what is the ISSB without the SASB Standards? Simply a climate standard setter, or a replacement for the Financial Stability Board's Task Force on Climate Related Financial Disclosures (TCFD)?

It is the SASB Standards and the investor focus that has garnered investor support and caused preparers to adopt the SASB Standards that has solidified the credibility of the ISSB. Without the SASB Standards, the ISSB's standards are incomplete for investor decision-making and investor support may fade. Additionally, preparers may be distracted by other sustainability standard setters.

The Role of the ESRS in the ISSB Strategic Landscape: A Strategic Reality & Challenge

Because of the extra-territoriality of the European Sustainability Reporting Standards ("ESRS"), large multinational organizations globally (i.e., especially in the US) have woken up – over the last 12-18 months – regarding their need to comply with the ESRS. Heavily derived from Global Reporting Initiative (GRI) standards and with a stakeholder – and double materiality – rather than investor focus, preparers will be forced to provide this information, but it is not investor focused and not necessarily value relevant.

The reality of this moment is that large multinational companies, in addition to European domiciled companies, will have to devote resources to ESRS disclosures.

This presents a strategic reality and challenge for the ISSB with the ESRS being a more complete (see box to right) of standards, whereas IFRS S1 and IFRS S2 are only

General
ESRS 1: General principles
ESRS 2: General, strategy, governance, and materiality assessment disclosure requirements

Environmental
ESRS E1: Climate Change
ESRS E2: Pollution
ESRS E3: Water and Marine Resources
ESRS E4: Biodiversity and Ecosystems
ESRS E5: Resource Use and Circular Economy

Social
ESRS S1: Own Workforce
ESRS S2: Workers in the Value Chain
ESRS S3: Affected Communities
ESRS S4: Consumers and End-Users

Governance
ESRS G1: Governance, Risk Management and Internal Control
ESRS G2: Business Conduct

Appendices
- Appendix I: Navigating the ESRS: ESRS Index
- Appendix II: CSRD Requirements for the Development of Sustainability Reporting Standards and their Coverage by the ESRS Exposure Drafts
- Appendix III: SFDR Principal Adverse Impacts in the ESRS
- Appendix IV: TCFD Recommendations and ESRS Reconciliation Table
- Appendix V: IFRS Sustainability Standards and ESRS Reconciliation Table
- Appendix VI: Acronyms and Glossary of Terms.

topical portions (i.e., even if they were equivalent) of the ESRS standards (i.e., ESRS 1 and 2 and ESRS E1). The ESRS are also not industry based.

The ESRS standards will heavily drive the sustainability reporting within large multinational companies, because of the inertia of the processes and systems it will necessitate be developed and the need to adopt all the ESRS before the ISSB has a full complement of topical standards. The Agenda Consultation has not set forth or defined the full complement of GRI being targeted and the timeframe necessary for a complete set of standards to be developed. Based upon the capacity discussion of the ISSB as set forth in the Agenda Consultation, the ISSB's capacity seems to be defined as two major projects over the next two years, which means a full complement of standards could take a least a decade.

The Regulatory Adoption Landscape: How will This Impact Strategic Priorities?
The ESRS have the effect of law for European companies, and for those companies' doing business in Europe. The ISSB Standards do not have the benefit of that legislative or regulatory mandate. And only time will tell if those who have adopted the SASB Standards and are subject to ESRS will continue to report the information required by the SASB Standards given they are only a read and consider component of the ISSB Standards while ESRS will be required by operation of law.

While there has been [regulatory endorsement for the ISSB Standards by IOSCO] and many jurisdictions are in the process of consulting on the adoption of the ISSB Standards, it's not clear how the regulatory landscape will evolve. Having a complete set of ISSB Standards – necessitating the use of the SASB Standards – is an integral part of jurisdictions adopting on a regulatory basis the ISSB Standards.

The reality is that the number of jurisdictions that have adopted – or are likely to adopt – ISSB Standards is dependent upon having a full complement of ISSB standards. A full set of standards will drive the future prospects of the ISSB and its standards. And the SASB Standards are what provide the ISSB a body of knowledge/standards, yet how those evolve over time is not clear.

We recognize the chicken vs. egg aspect of the ISSB's current strategic position. Adoption of the standards by securities regulators globally is important for the ISSB to ensure continued investor support such that they can gauge the sustainability of the ISSB's mandate.

We believe the above is a strategic reality the ISSB has not set forth in its consideration of strategic priorities in the Agenda Consultation.

2024/2025: Investors Get First Look at Disclosures
Evaluating Quality and Decision-usefulness of Standards
In our view, the implementation of sustainability standards such as the ESRSs and the ISSB Standards in 2024 for reporting in 2025 will provide investors with a first look at the disclosures and to assess their decision-usefulness. We believe that this first look will necessitate a relook by the standard setters at the quality of the information and we believe the ISSB should plan for this in its decision-making process as part of this Agenda Consultation.

Sustainability Risks and Opportunities Definition: What is the ISSB's Scope?

In our comment letter related to Draft IFRS S1 to the ISSB last year, we highlighted (See Pages 9-11 of that letter) the lack of a definition of "sustainability-related risks and opportunities". We also noted the terms "sustainability-related disclosures" and "sustainability-related financial information" were included in the defined terms in Appendix A of Draft IFRS S1 but that the distinction between these terms was unclear. We note that the term "sustainability-related financial information" is still used in the final IFRS S1, but the term has been removed from Appendix A as a defined term while the term "sustainability-related disclosures" remains in the Appendix.

Our key point last year was that the "sustainability-related risks and opportunities" was not – and is still not – defined in IFRS S1. While the term is used eighty-one times in the document including in the Objective and Scope section as well as in the section on Identifying Sustainability-related Risks and Opportunities in Appendix B, what are considered the sustainability-related risks and opportunities for the purposes of defining the ISSB's scope or remit for standard setting remains undefined.

As we discuss in the response to Questions #3-7 which follows, this is essential to understanding the breadth and scope of the ISSB's mandate. For example, are risks such as interest rate risk and tax risk sustainability issues, but are those the purview of the ISSB, the IASB, both or none?

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The Interrelationship and Collaboration of the ISSB & IASB: Financial Effects Disclosures & The Connection to the Financial Statements

Interrelationship and Collaboration of the ISSB & IASB

In our comment letter related to Draft IFRS S1 to the ISSB last year, we highlighted the importance of the interrelationship and collaboration of the ISSB and IASB. We excerpt our comments again below because we believe that the connection of sustainability risks and opportunities disclosed outside the financial statements need to be translated into financial effects in the financial statements as we highlight in the first bullet below. The second and third bullets below while not directly related to this agenda consultation are an important consideration for the IFRS Foundation in how they balance resources and focus between the two organizations.

> *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 erode the quality and integrity of financial statements.*

As we note in our discussion of terminology below and in our response to Questions #3-7, that we are not clear that everyone has a consistent definition of "interconnectedness." ***We view the first and most important element of interconnectedness as being the ability to connect the sustainability risks and opportunities to the cash flow effects in the financial statements.*** We believe this must guide the ISSB's thinking and future work. ***We also view this ability of the IASB and ISSB to connect the sustainability risks and opportunities to the financial statements as the strategic, durable competitive advantage of the ISSB. If the ISSB standards are going to gain traction against the ESRS, the ISSB and IASB need to closely connect the sustainability risks and opportunities disclosures outside the financial statements to the financial effects and financial statement disclosures within the financial statements***.

As we believe this is the key strategic advantage of the ISSB, we considered the language regarding financial effects in the final version of IFRS S1 and IFRS S2.

Financial Effects Disclosures & The Connection to the Financial Statements

In the box to the right, we extract the paragraphs within IFRS S1 (Paragraphs 34-40) which address financial effects disclosures.

We are concerned by the language in Paragraphs 37-40 which we have highlighted in yellow because it allows preparers to negotiate out of quantitative financial effects disclosures reducing the link to the financial statements in the current or future periods and reducing the ISSBs competitive advantage.

We also note the IASB needs to setup side-by-side projects to each ISSB project to facilitate the connection of ISSB disclosures and financial effects to the financial statements. Specifically, where sustainability risks and opportunities manifest in the financial statements and whether additional terms are needed within IFRS to accommodate the identification, capture, recording and reporting of the financial effects of sustainability disclosures.

Financial position, financial performance, and cash flows

34 An entity shall disclose information that enables users of general purpose financial reports to understand:

(a) the effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects); and

(b) the anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how sustainability-related risks and opportunities are included in the entity's financial planning (anticipated financial effects).

35 Specifically, an entity shall disclose quantitative and qualitative information about:

(a) how sustainability-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period;

(b) the sustainability-related risks and opportunities identified in paragraph 35(a) for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;

(c) how the entity expects its financial position to change over the short, medium and long term, given its strategy to manage sustainability-related risks and opportunities, taking into consideration:

(i) its investment and disposal plans (for example, plans for capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas, and asset retirements), including plans the entity is not contractually committed to; and

(ii) its planned sources of funding to implement its strategy; and

(d) how the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage sustainability-related risks and opportunities.

36 In providing quantitative information, an entity may disclose a single amount or a range.

37 In preparing disclosures about the anticipated financial effects of a sustainability-related risk or opportunity, an entity shall:

(a) use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort (see paragraphs B8–B10); and

(b) use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures.

38 An entity need not provide quantitative information about the current or anticipated financial effects of a sustainability-related risk or opportunity if the entity determines that:

(a) those effects are not separately identifiable; or

(b) the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful (see paragraphs 77–82).

39 In addition, an entity need not provide quantitative information about the anticipated financial effects of a sustainability-related risk or opportunity if the entity does not have the skills, capabilities or resources to provide that quantitative information.

40 If an entity determines that it need not provide quantitative information about the current or anticipated financial effects of a sustainability-related risk or opportunity applying the criteria set out in paragraphs 38–39, the entity shall:

(a) explain why it has not provided quantitative information;

(b) provide qualitative information about those financial effects, including identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that sustainability-related risk or opportunity; and

(c) provide quantitative information about the combined financial effects of that sustainability-related risk or opportunity with other sustainability-related risks or opportunities and other factors unless the entity determines that quantitative information about the combined financial effects would not be useful.

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

In our comment letter related to Draft IFRS S1 to the ISSB last year, we highlighted the importance of who's feedback is considered by the ISSB and how it will be weighted. As we have experienced the dialogue and debate on sustainability disclosures over the last year, we reiterate this concern.

As an investor organization we want to know how, or if, feedback or comment letters from organizations which have clearly different objectives than investors will be incorporated into the ISSB's decision-making process.

> *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**. 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.

We highlight this issue because we believe that those other stakeholders have an objective that is outside of the scope of the ISSB's mandate.

Materiality

The Change in Definition of Materiality Between Draft IFRS S1 and Final IFRS S1
In our comment letter related to Draft IFRS S1 to the ISSB last year, we highlighted challenges with respect to the definition and use of materiality within Draft IFRS S1. See Pages 10-13 of that comment letter for our issues with respect to materiality and Appendix 2 of that letter for a side-by-side comparison of the definition of materiality. We have updated that comparison in the **Appendix** to this letter.

We note the following differences:

- ***Remove Enterprise Value –*** The term enterprise value is no longer used in IFRS S1. This was not a change we sought as this term is very familiar to investors and has a broader and more investor value focused objective. The ISSB is marketing the definition of materiality is now the same between the IASB (financial reporting) and the ISSB (sustainability reporting). We are not convinced of this assertion for the reasons noted in the bullets which follow.

- ***But No Enhancement in Financial Effects Disclosures & Greater Connectivity Between ISSB (Sustainability Reporting) and IASB (Financial Reporting) –*** As we note above, the financial effects disclosures are subject to a high degree of subjectivity, uncertainty and qualitative rather than quantitative disclosure. The assertion that the materiality assessment is the same between financial reporting and sustainability reporting when there will likely be no quantitative financial effects disclosures is questionable as most preparers and auditors consider materiality as a relative quantitative impact to income, equity, or assets. Removing enterprise value was at the behest of most auditors who do not understand or deal with the concept of enterprise value. However, in removing enterprise value while making the assertion that financial reporting and sustainability reporting are equivalent, this assertion seems almost impossible to believe given the "squishy" financial effects language in the ISSB Standards. Said differently, how can the ISSB assert the materiality assessment is the same when no financial effects information may be required to be presented for sustainability reporting.

  Making the issue more challenging – as we highlight in our discussion above regarding the need to connect sustainability disclosures with financial reporting – financial reporting does not include terms, definitions, recognition, or measurement criteria that facilitates the determination of the financial effects of sustainability information. There is no "bridge" between sustainability disclosures and financial reporting, which is why we have called for greater coordination and collaboration between the ISSB and IASB – and why the ability to build this bridge must be leveraged by the IFRS Foundation as their strategic advantage to enable the ISSB Sustainability Standards to gain traction globally.

- ***General Purpose Financial Reports Definition Is Not the Same as for Financial Reporting: Sustainability Reporting Includes Voting Decisions in the Definition (Materiality Definition and Assessment is Therefore Not the Same)*** – The definition of general-purpose financial reports – a term used in the definition of materiality – remains different between financial reporting in IAS 1 and sustainability reporting in IFRS S1. We noted this in our comment letter on Draft IFRS S1. Most notably the sustainability reporting standard (IFRS 1) version of the definition of general purpose financial reports includes decisions regarding voting rights. (See item (c) in the box below).

  This is not the case for financial reporting. Neither IAS 1 Paragraph 7 – nor the definition of "general purpose financial report" or "general purpose financial statements" within the Conceptual Framework – include exercising voting rights – in the definition of general purpose financial reports. See a comparison of the terms at [the link] in the **Appendix.**

general purpose financial reports	Reports that provide financial information about a **reporting entity** that is useful to **primary users** in making decisions relating to providing resources to the entity. Those decisions involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources. General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and **sustainability-related financial disclosures**.

  We would note that Paragraph 1.2 of the Conceptual Framework notes the objective of general purpose reports includes reports that are useful in making the three types of decisions, including voting, listed in the box above, but those criteria did not make it into the defined term for general purpose financial statements/reports in the Conceptual Framework. Additionally, and more importantly, the three criteria are not included in the definition of the term general purpose financial statements included in the definition of materiality in IAS 1 – an actual IFRS financial reporting standard. The Conceptual Framework is not authoritative like an IFRS standard[3]. The Conceptual Framework is only looked to when an IFRS standard does not include a term or accounting principle or concept. But for financial reporting IAS 1 includes a definition which does not include voting rights. As such, strictly speaking the definitions of materiality are not equivalent in financial and sustainability reporting.

  Because both financial reporting and sustainability reporting definitions of materiality refer to general purpose financial statements/reports but the definition for sustainability reporting includes voting rights, but IAS 1 does not, the definitions are different.

  The issue of voting rights is not something preparers trained in financial reporting nor assurance providers are familiar with. It is something they have not previously included in their assessment of materiality.

  The subject of voting rights is currently a topic of significant debate in the sustainability space – particularly in the passive investing context where investment managers are being accused of "green smuggling" asset owners votes to meet their own social, political, or financial agendas.

  Because of this we believe it is likely misleading to characterize the financial reporting and sustainability reporting materiality assessments as being the same. Assurance providers (i.e., auditors) do not currently explicitly assess voting actions in their materiality assessments per se. We believe the ISSB, and possibly IASB, need to explain the need for this difference and provide guidance on how it changes the materiality assessment process.

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[3] Understanding the Purpose of Conceptual Framework for IFRS - Chartered Education

How We Are Experiencing the Conversation on Materiality

In our comment letter related to Draft IFRS S1 to the ISSB last year, we highlighted language within the Draft IFRS S1 which we believe connoted a very broad, impact, double materiality oriented definition of materiality. In speeches and presentations of the ISSB staff and in the pursuit of appearing to be developing standards which are interoperable with the ESRSs we are concerned the ISSB is conflating the definitions of financial materiality and double materiality. We believe the ISSB need to develop practical guidance – on for example, IFRS S2 – highlighting the difference in definition.

As a point of interest or reference, we are not clear how impact materiality will be assessed by preparers in any meaningful way because it requires the assessment of many degrees of separation between the external environment and the company; requires consideration of the perspectives of a vast array of stakeholders and has an undefined – but very long connotation of timeframe. Further, auditors struggle to make financial materiality decisions because they do not understand the thought or decision-making process of investors. How they then make such assessments for a broader group of stakeholders, on topics which are outside of their expertise and have no financial effects disclosures seems challenging, if not impossible.

Strategic Imperative: Practical Guidance on Materiality

We believe a strategic imperative for the ISSB is to clarify the differences in sustainability reporting and financial reporting materiality assessments and to develop practical guidance on the difference between financial materiality and double materiality.

These distinctions are important not only on in the application of standards but in the choice of projects within the ISSB's remit.

CFA Institute

Terminology: Interoperability, Interconnectedness, Capacity Building, Scalability, & Proportionality

During the last year, we have noted the use of a variety of terms by the ISSB. These terms include interoperability, interconnectedness, capacity building, scalability & proportionality. We have extracted the dictionary or Wikipedia definitions in the boxes to the right. What is not precisely clear is how those terms are being used in the context of the ISSB Standards.

Scal·a·bil·i·ty
/ˌskāləˈbilədē/
noun
1. the capacity to be changed in size or scale:
"scalability of the service has not been an issue"

In·ter·op·er·a·bil·i·ty
/ˌin(t)ərˌäp(ə)rəˈbilədē/
noun
1. the ability of computer systems or software to exchange and make use of information:
"interoperability between devices made by different manufacturers"
- the ability of military equipment or groups to operate in conjunction with each other:
"staff believe interoperability between forces is crucial to effectiveness"

The terms interoperability and connectivity are highlighted in the graphic on strategic priorities in this Agenda Consultation and used eight and nine times, respectively, but the terms are not defined. While we understand from the use of these terms in the Agenda Consultation that connectivity refers to the connection between sustainability and financial reporting and that interoperability refers to the similarity of ISSB and other standards, we believe these terms need to be defined as the state of being connected or interoperable is a matter of degree.

In·ter·con·nect·ed·ness
/ˌin(t)ərkəˈnektədnəs/
noun
1. the state of being connected with each other:
"the interconnectedness of all things in the universe"

Con·nec·tiv·i·ty
/kəˌnekˈtivədē/
noun
1. the state or extent of being connected or interconnected:
"the authorities worked at restoring connectivity between Puerto Rico and the US mainland after Hurricane Hugo"

Pro·por·tion·al·i·ty
/prəˌpôrSHəˈnalədē/
noun
1. the quality of corresponding in size or amount to something else:
"the requirement of proportionality of punishment to offense"

For example, how interoperable is IFRS S2 with ESRS E1 on climate disclosures? It is not clear that interoperability equates to flexibility of the standards to accommodate one another (i.e., they are close in wording) or whether interoperability means the ISSB standard reflects a global baseline upon which additional ESRS requirements are added to accommodate double materiality. Said differently, how is the ISSB deciding something is interoperable?

Capacity building

Article Talk

From Wikipedia, the free encyclopedia

Capacity building (or **capacity development, capacity strengthening**) is the improvement in an individual's or organization's facility (or capability) "to produce, perform or deploy".[1] The terms *capacity building* and *capacity development* have often been used interchangeably, although a publication by OECD-DAC stated in 2006 that *capacity development* was the preferable term.[2] Since the 1950s, international organizations, governments, non-governmental organizations (NGOs) and communities use the concept of capacity building as part of "social and economic development" in national and subnational

We also note that some are confused by the difference in the term connectivity and the notion of integrated reporting (i.e., in the context of Questions #3-7).

We believe it is important to provide definitions in the context of the ISSB's standard setting initiatives and most importantly the degree to which the standards will be altered or modified to be interoperable, scalable, proportional, interconnected, or to build capacity.

We find the terms widely used but not clearly defined and we believe these are a strategic consideration for the ISSB and its stakeholders such that we can ensure there is a consistent understanding of the terms.

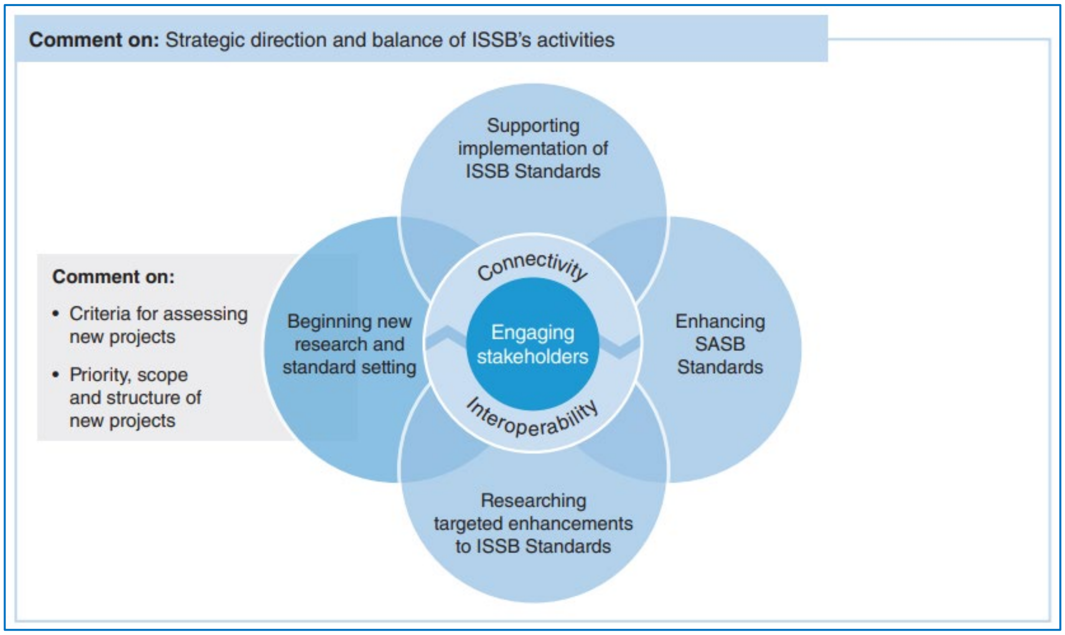
ISSB Capacity

We note the discussion of capacity indicators for the ISSB in Paragraphs 39 to 43 of the Agenda Consultation. It appears the ISSB is indicating it can take on two projects during the time period under consideration. What is not clear is the total resources available to the ISSB post the merger with the SASB with the IFRS Foundation and the extent to which resources have been dedicated to the other activities in Diagram 1 and discussed in Question #1.

RESPONSE TO SPECIFIC QUESTIONS

Strategic Direction of ISSB's Activities (Question #1)

The items within the Overarching Considerations section – many of which have been expanded upon but first appeared in our prior year comment letter – get to the heart of Question #1 regarding the ISSB's Strategic Direction in the Agenda Consultation. We reiterate them above because they are central to the Agenda Consultation and what the ISSB should be devoting their time, attention, and resources to over the period covered by the Agenda Consultation. The chart below from the Agenda Consultation highlights the ISSB's stated considerations with respect to the strategic direction and balance of the ISSB's activities. We consider those activities below but summarize the broader more strategic and visionary questions we believe the ISSB must consider first in the section which follows.



ISSB Needs A Vision of the Future and a Strategic Roadmap

What we really need from the ISSB is more of a vision of what they want the ISSB to be in the future and strategic roadmap on how they intend to get there – including how the IFRS Foundation sees the ISSB and IASB working together to capitalize on their strategic advantage of being able to integrate financial and sustainability reporting. Important strategic questions and consideration should, in our view, include:

- What is the future of the SASB Standards, including the balance of industry vs. theme based standard setting and the need to mandate rather than consider their application?
- What does the ISSB believe constitutes a complete set of sustainability standards?
- What is the ISSB's definition of sustainability and what is in scope for sustainability standards under the ISSB's remit? What is the suite of topics for consideration? What is the potential body of work? What is the boundary of sustainability versus financial reporting issues? What sustainability topics are investor vs. stakeholder topics?
- What is the ISSB's path to a complete set of standards?
- How does the existence of the ESRS – and their legislative/regulatory mandate as well as the extraterritoriality of those standards – impact the adoption of the ISSB Standards? Will corporates be so bogged down in the ESRS that the ISSB Standards will not be able to break through?
- What role does the ISSB expect or need from securities regulators?

- What jurisdictional adoptions are necessary for full international credibility?
- What will be the balance between truly international standards versus regional flexibility?
- Whose input will guide the ISSB's decision-making?
- What is the quality of the information the ISSB expects will emerge from the adoption of both the ESRS and ISSB Standards in 2025? If investors are not satisfied, what is next?
- What is the path from disclosure to recognition and measurement of sustainability risks in financial statements?
- How will the ISSB connect the sustainability reporting disclosure with financial reporting and coordinate their agenda with the IASB's agenda and efforts to ensure investors have financially value relevant information?
- What work is necessary to refine materiality differences?

We think these are important questions to consider by the ISSB and to provide guidance on to their stakeholders. These are more important matters to us than the consideration of individual topics.

We believe the ISSB needs to develop their best possible answer and actions around these.

Consideration of the ISSB's Strategic Activities

Enhancing SASB Standards – Our discussion in the Overarching Considerations section highlights our view on the need for the ISSB to clarify their strategic and long-term intent with respect to the SASB Standards. While the consultation queries whether stakeholders believe "enhancing SASB Standards" should be a priority for the ISSB, in our view, this depends on the ISSB's future plans for the SASB Standards. If the ISSB intends to make them an integrated part of the standards rather than something to be "read and considered", then the obvious answer is yes enhancing the standards should be a priority as they are what give the ISSB a full complement of standards.

Supporting Implementation of ISSB Standards – The Agenda Consultation also addresses "supporting implementation of ISSB standards." While that would naturally be something which is important, our response depends on the degree to which ISSB Standards are being adopted globally and the time to be devoted to this activity. As is the case for all the potential activities, the question is how much time will be spent on each. See our discussion of capacity in the Overarching Considerations section. It is our view that many of the implementation issues related to say, IFRS S2 will not be unique to the ISSB's disclosures of climate risks and opportunities, but the ESRS and other regulatory requirements as well. Given there is one specific standard to adopt, it seems the time to implement is important but there is a broader imperative which is a complete set of standards and regulatory endorsement of the ISSB Standards (i.e., completeness being a condition of endorsement).

Researching Targeted Enhancement of ISSB Standards – This seems to be the lowest priority item in the graphic above given that enhancement issues stemming from implementation will likely not be fully clear until 2025. This seems like something which can be deferred given the other strategic imperatives.

Beginning New Research and Standard Setting – We see this as important alongside addressing the strategic imperatives touched on in the Overarching Considerations section and summarized via the questions above.

Connectivity and Interoperability – See our discussion under the section *Terminology: Interoperability, Interconnectedness, Capacity Building, Scalability, & Proportionality* and the section *The Interrelationship and Collaboration of the ISSB & IASB: Financial Effects Disclosures & The Connection to the Financial Statements* in the Overarching Considerations section. We believe connectivity is the most important priority for the future of the ISSB Standards.

Our Thoughts on the ISSB's Research Selection Criteria (Question #2)

The ISSB's Proposed Criteria set forth in Table 2 (see box below) of the Agenda Consultation provides an excellent starting point for the criteria that the ISSB should apply in deciding what research projects to undertake next.

The ISSB considers seven criteria in deciding whether a potential project will meet investors' needs	
1	the importance of the matter to investors
2	whether there are any deficiencies in the way companies disclose information on the matter
3	the types of companies that the matter is likely to affect, including whether the matter is more prevalent in some industries and jurisdictions than others
4	how pervasive or acute the matter is likely to be for companies
5	how the potential project interconnects with other projects in the work plan
6	the complexity and feasibility of the potential project and its solutions
7	the capacity of the ISSB and its stakeholders to progress the project in a timely way

As we discuss below, we believe there are additional considerations – some which are qualitative and more unique to sustainability reporting – which need to be more precisely considered and articulated.

Criteria #1: Importance to Investors: Which Ones? – We believe Criteria #1 – "the importance of the matter to investors" – needs to be clarified. Certainly, the ISSB wants to identify projects that will dovetail with investor concerns and interests. But the point here needs to be sharpened.

We understand the criteria were drawn from the IASB Agenda Consultation criteria. But the IASB's investors, their objective – financially value relevant information – and materiality are much better defined and established concepts.

As we highlight in the Overarching Consideration sections, within sustainability reporting the investors being referred to (i.e., those investing based upon values or impact vs. values), the investment objective and their view of materiality may be different.

For a project to be a prudent use of the ISSB's time and resources, the subject matter can't be of interest to, for example, a small number of impact investors who may have expressed fleeting interest in learning more about the topic or who use the label of being investors, but have a more significant or pervasive social cause which needs to be addressed through the political economy rather than the financial economy. We believe the ISSB needs to indicate the issue must be of *clearly demonstrated interest to a broad group of investors over a sustained period of time.* Investors passing curiosity about a matter or based upon a political or social issue of the moment is not the same as a topic that's been on the minds of a wide group of investors everywhere for a sustained period of time. In choosing topics to research and ultimately build sustainability standards around, the ISSB needs to establish depth and breadth of investor concern as a determining factor. We believe the ISSB needs to develop a more complete conceptual framework regarding not only the definition of sustainability – as we discuss in the Overarching Considerations section – and the investors they are seeking to support with this information. This should also include – as we discuss in the Overarching Considerations section – the stakeholder feedback they will read and review, but not weight in their decision-making.

Further, none of the ISSB criteria *explicitly* discuss the impact that sustainability-related matters might have on a company's *value*. Criteria #1 on importance of matter to investors does not address the concept of value relevance. Ideally, the list of criteria should be refined or expanded to include the idea that for investors sustainability-related disclosure is about identifying and reporting on topics that will affect a company's earnings, cash flow, and ultimately value in a meaningful way. The idea of a material impact on value needs to appear explicitly and prominently in the research project criteria.

Criteria #2: Deficiencies in the Way Companies Report Information? – Given the ISSB Standards consist of only IFRS S1 and S2, and the ISSB does not have a complete set of standards, this does not appear to be a distinguishing characteristic or criteria at this stage. See our comments under Question #1 regarding the need for a forward vision of a complete set of standards.

Criteria #3: Type of Companies and Industries Impacted – This criterion speaks to why investors have communicated that the SASB's industry-based standards are important. Each industry is different and the sustainability issues unique to the particular industry. While this may be a criterion important to IASB standards which are not, generally, industry focused, this criterion should drive the retention and focus on the SASB standards and then the cross-cutting effect of a sustainability theme to that industry.

Criteria #4: How Pervasive or Acute to Companies – Criteria #4 in the table says that a potential project is likely to meet investors' needs if the subject matter is "pervasive" and "acute" for companies. But what exactly does it mean for a matter to be affecting companies in a "acute" way? At a minimum, that concept should be fleshed out.

Criteria #5: Interconnectedness with Other Projects in the Work Plan & the IASB's Work Plan – We support this criterion, but we believe – as we note above in the Overarching Considerations section – that the interconnectedness of the project to the IASB's work plan should be added as a criterion as investors need to understand the financial effects of these sustainability disclosures.

New Research or Standard Setting Projects: Specific Project Priorities (Questions #3, 4, 5, 6 & 7)

Notwithstanding our discussion with respect to our response to Question #1 of needing to have a vision of what constitutes the ISSB's complete set of sustainability standards, we considered the ISSB's discussion of their approach to the consideration of their top four priorities in Paragraphs 27 – 38 and as set forth in Appendix A to the Agenda Consultation. The four items are listed below, along with the Agenda Consultation question to which they relate. We respond to the questions, for sake of brevity, collectively below. We also reviewed the potential projects considered – but not prioritized – by the ISSB in Appendix B to the Agenda Consultation.

- Biodiversity, Ecosystem and Ecosystem Services (Question #4)
- Human Capital (Question #5)
- Human Rights (Question #6)
- Integration in Reporting (Question #7)

Time did not permit that we do an investor/member survey to collect and determine a broad consensus on the prioritization of the projects. As such, we undertook individual discussions with investors and considered what is driving our own organizational agenda.

Connectivity of Sustainability Risk, Opportunities and Financial Effects to Financial Reporting is Priority Over Broader Integrated Reporting Project

Broadly speaking, investors did not highlight the Integration of Reporting – as defined in the Agenda Consultation– as a priority. Though we would note that some are confused by the concept of integrated reporting versus connectivity of sustainability and financial reporting (i.e., The coordinated work of the IASB and ISSB as discussed above in the Overarching Considerations section.) In our view, this is because this is not a project per se but a broader, overarching consideration regarding the structure that the ISSB cannot itself resolve without support and changes in regulatory reporting regimes in many jurisdictions.

What investors do care about is the tangible quantitative financial effects emanating from the sustainability risks to the value of the enterprise. For example, emission disclosures are impact metrics, without a clear understanding and quantitative analysis of the financial effects of reducing the emissions, the impact metrics cannot be readily translated to the impact on valuation and enterprise value. Further, many of the sustainability risks being disclosed – such as climate – involve the usage of terms and the capturing of transactional effects and financial effects which are not defined or isolated as part of the IFRS financial reporting standards. We believe this connection and integration of the work of the ISSB and IASB is essential. We also believe it is a strategic differentiating factor for the IFRS Foundation in the global adoption of IFRS sustainability and IFRS financial reporting standards globally. It is that connectivity – rather than the integration of reporting (i.e., the legacy work of the Integrated Reporting Foundation) as defined herein that is a priority for investors.

Human Capital: The Top Priority

In our outreach to investors one noted: *"The rapid growth of artificial intelligence, aging populations globally, and public education systems that (at least in large U.S. cities) still turn out graduates not fully equipped to work in the modern world, could lead to massive labor disruptions (excess or shortages) that could impede companies' ability to compete, undermine economic growth for years to come, and ultimately lead to far more pain for individuals and families than the other three topics being considered by the ISSB."*

It is similar comments to those above that are why CFA Institute is currently fielding a survey of our investor members to gain their perspectives on the human capital disclosures they need to appropriately value companies in which they seek to invest. Additionally, the SEC Investor Advisory Committee, has drafted a recommendation on the topic of Human Capital disclosures given the importance of the topic to members of the committee. Despite 2020 rulemaking by the U.S. Securities and Exchange Commission the human capital disclosures for U.S. companies are not as informative as they need to be to value this important input and intangible asset. Additionally, human capital is a disclosure topic currently on the SEC's reg flex agenda.

Further, disclosures within financial statements across the globe related to this important intangible asset are – despite being a large expense – sparse. While the FASB has recently exposed a project which would provide greater income statement disaggregation including disclosure of employee compensation expense, it likely doesn't go far enough and does not link to disclosures outside the financial statements which will enable investors to determine the true value of human capital. The same is true for IFRS.

Further, the SASB previously undertook work related to human capital disclosures which could be built upon.

Because of the focus investors have had on human capital in the past; the pervasiveness of the issue amongst industries and companies; the need to coordinate and connect disclosures and efforts of the IASB and ISSB (i.e., something not achievable through the ESRSs), human capital is our top priority.

Further, we believe this project stands out amongst the other four in its ability to meet the criteria set forth in Table 2. It is important to investors – those who are value and values oriented; there are existing deficiencies in the disclosures inside and outside the financial statements; all companies are affected by this input to their business model; it is pervasive and of immediate importance; it is needed to connect the largest expense for most companies to this intangible asset; and it is currently being debated by the SEC resulting in an opportunity for better global consistency.

Biodiversity, Ecosystems, and Ecosystem Services

In terms of ranking the four research projects that the ISSB has said it is considering working on as part of its two-year work plan, some may have thought investors would unanimously pick as their top priority Biodiversity, Ecosystems, and Ecosystem Services (BEES) given the recent attention to this topic in the sustainability space.

To quote directly from the Agenda Consultation *"Biodiversity loss poses a significant threat to financial stability."* Some suggest threats to species critical to ecosystems, such as anything that would reduce the population of bees and other pollinators in agricultural settings, could affect the supply of critical raw materials to food production. Water is also so vital to many industries – from chemicals to pharmaceuticals to mining to the manufacture of building materials such as cement, so any pressure on water supplies is of concern.

But despite the seeming urgency of this topic by some, investors whom we contacted told us the ISSB's immediate focus should be elsewhere. A senior executive at one of the major credit rating agencies, also favored the ISSB's focusing on human capital. His rationale: human

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capital progress – for example, the success of efforts by companies to recruit women and people of color and to promote them into management ranks – can be tracked and measured. It is also something that investors easily can understand. By comparison, he said, whether certain animal species or plant life is being threatened – and the impact that such declines in plants or animals could have on companies – remains less than perfectly understood and the subject of significant debate. It is too ambitious a project to focus on next, the rating agency executive said, especially given the heavy amount of unfinished business the ISSB needs to address in connection with its other priorities.

Only one investor we spoke with – a portfolio manager with 40 years' experience working at some of the largest global fund companies – favored the ISSB's focusing next on the biodiversity project. According to this investor, both human capital and human rights disclosures have been on a secular positive path, meaning both have been getting better even if there's still important work to be done in both domains. By comparison, he said, the long-term trend in terms of protecting biodiversity has been negative and the collapse of ecosystems could threaten not only corporate value, but it could also threaten human life.

Human Rights

On the other hand, during our outreach we spoke with – a portfolio manager with 40 years' experience managing the stocks of smaller companies – who said the ISSB's top priority should be researching and developing disclosure standards around human rights related issues. This portfolio manager's thinking: Human rights often relates to individuals being hurt (in some cases physically) in an immediate sense, and in this investor's view any harm to individuals needs to be disclosed at once.

Projects in Appendix B: What Risks Aren't Sustainability Related? & Shouldn't Governance Be One of the Four Top Priorities

Projects in Appendix B include not only the first three items addressed above, but also five other topics, which we note below:

- Circular Economy, Materials Sourcing and Value Chains
- Cybersecurity, Data Security, and Customer Privacy
- Economic Inequality
- Governance
- Water and Marine Resources

Interestingly, this list – to our mind – raises the question of what is in scope for the ISSB and what the full scope of its remit includes. Topics such as Cybersecurity, Data Security, and Customer Privacy have not traditionally, been considered part of the ESG lexicon or sustainability per se, but they are risks which have an impact on the sustainability of a company's business model. But, then also do many risks. Consider, for example, interest rates. We think items in Appendix B beg the ISSB to answer the question: What is your complete scope? Anything not already captured in the financial statements?

We would also observe that we would move Governance into the top four categories, this is an essential and pervasive issue of key importance to investors and to the overall quality of sustainability disclosures.

Bringing it All Together: Our Top Priorities
Considering the strategic priorities and projects above, as well as the ISSB's capacity, our project priorities stack up as follows:

- *Connectivity* – While we do not place integrated reporting at the top of the list, we do place a process for ensuring connectivity of IFRS sustainability (ISSB's work) and financial reporting (IASB's work) standards. Specifically, the financial effects disclosures are a project – or cross cutting project – priority. Connecting the risks and opportunities emerging from sustainability disclosures to the recognition, measurement and disclosures within financial statements is a top priority for investors.
- *Human Capital* – Human capital was our second most important project, as we believe this is a significant intangible asset with additional information needed both inside and outside of the financial statements to evaluate this important asset's impact on the sustainability of the business.
- *Governance* – Governance is third on our list and while not one of the four top projects listed in Appendix A by the ISSB, it is listed in Appendix B, and we believe it is so foundational to the oversight of the organization and the production of sustainability disclosures that it should be one of the top four projects.
- *Biodiversity* – Biodiversity, ecosystems, and ecosystem services was our fourth priority given its interest to investors, connection to the climate issue and the fact that it can represent a significant input risk to companies.

We also note that the topics of human capital and biodiversity can build off the work of the SASB Standards on these issues and that they – like climate – present and opportunity to cut across while maintaining and improving the SASB's industry-based standards.

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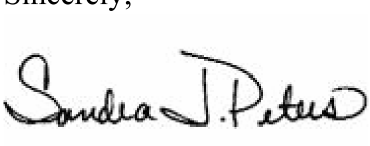
Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at +1.347.413.0774 or at sandra.peters@cfainstitute.org.

Sincerely,



/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
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COMPARISON OF MATERIALITY FINANCIAL VS. SUSTAINABILITY REPORTING

See separate document for comparison of IASB definition of materiality and ISSB definition of materiality. See document at link below:

Ihttps://rpc.cfainstitute.org/-/media/documents/comment-letter/2020-2024/ISSB-Agenda-Consultation-Comment-Letter_09_25_23_appendix.pdf