Civil society statement on the International Sustainability Standards Board

The next months are key to determining what kind of sustainability data companies will disclose. For the transformation to an economy within planetary boundaries, we call on the ISSB to develop standards that go beyond climate, require reporting on key impact data and ensure climate-related disclosures are sufficiently granular to be meaningful.

Corporate sustainability reporting is critical to enable better-informed decision-making from companies and financial institutions, and provide transparency for consumers, workers, local communities and policymakers. It is also essential for companies and investors to successfully steer the transformation towards net-zero by 2050 and nature-positive beyond 2030 while tackling the systemic risks from inequality across their operations, value chains and portfolios.

The pace to improve and standardise companies' sustainability disclosures has accelerated in recent years, especially after the approval of legislation in the EU in 2014 (and its reform proposed in 2021) and with the publication of the TCFD recommendations in 2017. This is directly connected to the urgent need for relevant, comparable, decision-useful and forward-looking data to support the sustainable transition of our economic and financial systems.

All sustainability risks, including climate, social and nature-related, which companies and investors are exposed to, ultimately originate from impacts and dependencies. In order to understand which risks will affect companies in the future, it is necessary to understand the material sustainability matters connected with their business activities.

It is therefore essential that efforts driving the standardisation of corporate sustainability reporting:

→ **sufficiently recognise and reflect the relationship between impacts and risks**
→ **adequately include impact data**
→ **provide critical forward-looking information and**
→ **approach sustainability holistically**

As civil society organisations working on corporate transparency, responsible business conduct and sustainable finance, we welcome all developments working towards the standardisation of mandatory corporate sustainability reporting, and encourage an open and constructive collaboration between these processes. We recognise the importance of cooperation in ensuring the compatibility of standards, while noting that this should not and need not come at the expense of the ambition and implementation of distinct standards.

Following the presentation of the European Green Deal, the EU Commission initiated in 2020 the reform of the legislation setting the rules and obligations for corporate sustainability reporting, and initiated the preparatory work to establish mandatory standards through EFRAG, an advisory body. After two years of multi-stakeholder interactions, the draft European Sustainability Reporting Standards were published and open for comments before being finalised and submitted to be incorporated into the legislative framework.

In parallel, at the end of 2021, the IFRS Foundation Trustees announced the creation of the International Sustainability Standards Board (ISSB) with the objective of developing a global set of sustainability reporting standards. By the end of June, various reporting frameworks (SASB, CDSB and the IIRC) will have merged into the new body, while two drafts were published and released for consultation.

In the EU, the basis for corporate sustainability reporting obligations is connected to the impacts that companies have on people and the planet, as well as to the risks and opportunities that companies face from sustainability matters. This is called double materiality and has been embedded in various pieces of EU legislation. The ISSB proposals for global standardisation are built from an 'enterprise value creation' lens determined by the needs of primary users (identified as financial market participants) and measured in terms of the effect a sustainability matter has on the financial position and prospects of a company. This is labelled as a single materiality approach. Other concepts such as 'dynamic materiality' point to the evolving relationship between impacts and financial risks, i.e impacts that may not be considered relevant from a financial perspective may escalate, become subject to greater scrutiny, objection or regulation and become financially material as a result.

Collaboration between EFRAG and the ISSB is essential to ensure standards are compatible and provide meaningful sustainability information to all stakeholders, including investors, banks and asset managers, as well as trade unions, civil society and regulators. **To achieve this, we stress the need for:**

The inclusion of impact-related information:

The ISSB focus on sustainability-related risks and opportunities in relation to enterprise value must recognize that risks arise from both an entity's impacts and dependencies on people and the planet. Leading frameworks (including the TCFD and CDSB) highlight this important connectivity, as does the ISSB exposure draft on General Requirements. Leading standards (including those from SASB) as well as the ISSB exposure draft, already incorporate several indicators providing relevant impact information. For instance, Scope 3 GHG emissions is relevant information that financial market participants and other stakeholders require from companies. The ISSB needs to further consider which relevant sustainability performance related metrics should be required in a global framework, as well as taking this into account for the development of sector-specific standards.

Even where the focus is on enterprise value, entities should report on their negative impacts on people and planet as well as positive contributions to the achievement of relevant sustainability goals wherever these are sources of material risk or opportunity. Disclosure standards should adequately explain these connections, recognizing that many entities lack experience in making the relevant and necessary connections.

Moreover, for large, diversified investors with economy-wide exposure, the sole focus on enterprise value for individual companies is shortsighted. Externalities are likely to result in shared, added costs in the short, medium or long-term, thereby affecting overall performance of investors' portfolio. And for many other investors who have, or represent interests that emphasise sustainability outcomes as well as financial outcomes, information on entities' most significant impacts on people and planet are of both relevance and importance to their decision-making and should be reflected in reporting standards.

Missing data on climate:

There is a high level of compatibility between the two climate disclosure standards prototypes published by both bodies. We expressly welcome this. The ISSB based its proposal on the TCFD which is focused on climate-related financial disclosures. As noted above, the EU standards are set to cover these disclosures as well as provide reporting requirements concerning companies' impact on climate and broader environmental and human rights matters. This explains the slight difference in terms of structure. However, with regards to climate disclosures, there is a significant gap in terms of reporting requirements for climate mitigation targets and transition plans in line with the 1.5°C goal of the Paris Agreement. Forward-looking information, including disclosure of relevant intermediary milestones for climate and other environmental issues, is needed by investors and other stakeholders to evaluate companies' risks and development. In this regard, the ISSB should consider more granular requirements to provide decision-useful information and avoid prolonging issues with the quality and comparability of corporate ESG data.

Sustainability disclosures beyond climate:

The ISSB decided to develop a climate disclosure standard first. The European Commission, on the other hand, is adopting a more comprehensive approach from the start by also addressing other sustainability aspects. While climate-related data is urgent and critical, nature is not a separate issue but one that is closely interlinked with climate mitigation and adaptation as well as resilience[1], and human rights concerns are often root causes and/or consequences of climate change and must be addressed as part of ensuring a just transition.

Rather than viewing this as a sequential analysis, these matters need to be considered and managed together, taking into account the entire value chain. Otherwise, interrelated risks and opportunities may not be disclosed. Furthermore, the rapid loss of biodiversity across the globe, extreme rates of deforestation and continued human rights abuses must not be relegated to a later date, but addressed now - or as soon as possible, both for their own sake and because of the interrelationships between them, as, for example in the linkages between human rights abuses and deforestation. Even from an enterprise value perspective this is essential, as pointed out by the World Economic Forum. Given this close relationship between impacts and risks, the ISSB should at a minimum include within its General Requirements standard (and reflect appropriately also in the Climate standard and other future issue-specific standards) a reporting requirement on the due diligence a company undertakes to identify and assess severe impacts on people and planet that may already, or in the future, have financial consequences for the company. This would be important information for investors to understand the sufficiency of the entity's materiality determination process

[1] See more on the interdependencies between climate and biodiversity here: https://www.ipcc.ch/site/assets/uploads/2021/07/IPBES_IPCC_WR_12_2020.pdf

While the European approach is significantly more advanced than the ISSB, the need for cooperation and consistency among these two processes is critical. At the same time, the development of the EU standards must continue apace due to the specific policy needs in the EU, including transparency and prudential requirements for banks and investors, who urgently need corporate sustainability data on impacts, risks and opportunities.

Civil society and leading groups of investors and asset managers have explicitly called for improvements in the quality and availability of information on companies' impacts on the environment and human rights, as essential to their assessment of businesses' present and future sustainability performance. Better disclosure of material impact information is critical to adequately direct more financing toward resilient and sustainable approaches, where financing needs are strong and growing.

The next months will be critical to establish which information and key metrics of sustainability performance are incorporated in the global baseline for companies' ESG reporting. We therefore urge the ISSB to reflect more fully in its exposure drafts the integral relationship between sustainability impacts and risks, and the full extent of impact-related information that is relevant to the decisions of financial market participants at a time when policy, regulatory and client expectations of those organisations' own performance are increasingly driven by sustainability imperatives.

The undersigned organisations remain committed to collaborate and engage actively in both processes in order to ensure that the best outcome is achieved.

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