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Emmanuel Faber, ISSB Chair
Sue Lloyd, ISSB Vice Chair
International Sustainability Standards Board
IFRS Foundation

Submitted via email: commentletters@ifrs.org

Response to the ISSB's Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Exposure Draft)

Dear Chair Faber and Vice-Chair Lloyd,

On behalf of EOS at Federated Hermes (EOS), we strongly support the initiative taken by the IFRS Foundation International Sustainability Standards Board (ISSB) to establish general requirements for entities to disclose sustainability-related financial information about its significant sustainability-related risks and opportunities.

EOS is a leading stewardship services provider. Our engagement activities enable long-term institutional investors to be more active owners of their assets, through dialogue with companies on environmental, social and governance issues. EOS represents $1.64tn of assets under advice as of 31 March 2022. EOS is a stewardship services provider and does not carry out regulated activity.

The views expressed in this communication are those of EOS at Federated Hermes and do not necessarily represent the views of all clients. Our response to this consultation is explicitly supported by PNO Media (the Netherlands), London CIV (United Kingdom) and Pensionskassernes Administration (PKA) (Denmark).

We commend the ISSB on its pioneering work to develop the standards. We welcome the opportunity to support reporting advancements that drive reliable disclosure on sustainability information aligned with financial statements. We have contributed our views to industry responses to the ISSB exposure draft and were pleased to support the SASB Standards Investor Advisory Group's consultation response.[1]

[1] final-grr-cd-comment-letter-ifrs.pdf

EOS responses on relevant consultation questions in the ISSB exposure draft[2] are provided in the annex. We look forward to the ISSB's finalisation of the draft general requirements and congratulate the board for its leadership on this important area of sustainability reporting. We welcome discussion with the board on our responses at any time.

Yours faithfully,

Jeanne Beatty

Director - Engagement
EOS at Federated Hermes

[2] Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Annex: Consultation Response: General Requirements

Question 1: Overall approach

We found the exposure draft to be clear on the requirements for entities to identify and disclose material information about sustainability-related risks and opportunities however we offer suggestions for enhancement in the following sections. We agree that the proposed requirements set out in the draft standards meet its proposed objective.

We welcome the use of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and the Sustainability Accounting Standards Board (SASB) as foundations for the ISSB standards. We ask the ISSB to also consider the Taskforce on Nature-related Financial Disclosures (TNFD) framework which provides risk management and disclosure guidance for organisations to report and act on evolving nature-related risks as well as the EU Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD).

Harmonisation of the standards with regulatory requirements in other jurisdictions is critical and we welcome that the proposals are consistent with the objective of enabling the ISSB disclosure standards to be inter-operable with other jurisdiction reporting requirements.

Question 2: Objective (paragraphs 1-7)

We consider that the proposed objective is clear but broad in requiring information that will inform the investment decision making of existing and potential investors, lenders and other creditors as the primary users of standardised sustainability reporting. The definition of materiality is clear and

follows the International Accounting Standards Boards (IASB) conceptual framework for financial reporting.
We welcome the focus on significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value. Key terms such as "sustainability-related risks and opportunities", "sustainability-related financial information" and "knowledge-based assets" would benefit from further clarification and more precise definitions in the standards, as would the term "significant" and how this differs from how the exposure draft defines materiality, and the term "sustainability-related". The EU SFDR's principal adverse impact (PAI) indicators may provide helpful guidance in this regard.

The ISSB may wish to consider including under paragraph seven that the entity's sustainability-related financial information should be comparable to the reporting of other entities. Investors would welcome better standardisation of sustainability data and information.

Question 4: Core content (paragraphs 11-35)

We consider the disclosure objectives for the governance, risk management, metrics and targets to be appropriately defined, however strategy disclosure objectives would benefit from additional refinement. Currently the disclosure objective does not reflect the information needs of investors in assessing entity value. We suggest amending the objective to differentiate between the effect on the entity's overall strategy and the entity's strategy for addressing the risks and opportunities. Both elements include important data for investors. The impact of identified risks and opportunities on the strategy, business model, financials and where applicable, the value chain, requires further consideration. Investors would also benefit from understanding how an entity adjusts its strategy in response to the impact from the identified risks and opportunities.

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The title "risk management" on page 28 would be clearer with the inclusion of "opportunity". Opportunities are included in the disclosure requirements (paragraphs 25-26) and are an important part of valuing a company.

Question 5: Reporting entity (paragraphs 37-41)

We believe in the principle that the reporting boundaries for sustainability-related financial information should be the same as for the related financial statements. We note that consolidation of the information at the parent or group level may compromise completeness and quality with the risk of obscuring material information that is decision-useful to investors. We believe the standards could be further enhanced to address this concern.

Question 6: Connected Information (paragraphs 42-44)

The intent of the objective for connectivity between various sustainability-related risks and opportunities is clear. We are also supportive of the proposed requirements connecting sustainability-related financial information to the general-purpose financial report. We would encourage more specificity on the requirements for connectivity as these are currently very broad and may not provide the comparability needed by investors.

Question 7: Fair presentation (paragraphs 45-55)

The requirements for entities to present fairly the sustainability-related risks and opportunities to which they are exposed is clear as is the proposal for aggregating or disaggregating the information in the disclosure. This requirement could be further enhanced by asking the entity to explain why certain risks and opportunities were considered but not disclosed especially if inconsistent with the risk disclosures in the general-purpose financial report.

We support entities referencing the IFRS sustainability disclosure standards to identify sustainability-related risks and opportunities. In this regard, as outlined in question one, we ask the ISSB to include the TNFD framework within the standards when it is finalised. We believe, however, that entities should consider the additional sources outlined in paragraph 51 of the exposure draft as helpful guidance versus a requirement. This list could then be expanded to be more inclusive of other tools and frameworks.

Question 8: Materiality (paragraphs 56-62)

We support the alignment of the definition to that in the IFRS conceptual framework and IAS 1, that is "sustainability-related financial information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity".[3] We note however that the definition is used inconsistently throughout the exposure draft for example paragraph 9 (scope) and paragraphs 56 and 57 (materiality). We also believe it is important for entities to explain why certain sustainability risks and opportunities deemed material for the sector were considered immaterial by the entity and why. It would also be helpful to understand how the entity determined which sustainability risks and opportunities were material and which were not. Further guidance to support the consistent application of materiality for sustainability-related financial disclosures would be helpful. To improve the clarity, and thereby consistency of the process, we recommend the ISSB clarify the steps to apply materiality including undertaking a materiality assessment informed by stakeholders that identifies those risks and opportunities material for the entity in the short, medium, and long term.

Question 9: Frequency of reporting (paragraphs 66-71)

In principle, we support the proposal that entities report sustainability-related financial disclosures at the same time as its related financial statements. We also support the sustainability-related financial disclosures being for the same reporting period as the financial statements. We appreciate that the timing of

[3] Paragraph 56 of the ISSB March 2022 exposure draft – general requirements

reporting alignment will need to evolve initially as entity sustainability data collection challenges are overcome.

Question 10: Location of information (paragraphs 72-78)

The proposal regarding the location of sustainability-related financial disclosures is clear and we consider it necessary that entities disclose this information as part of general-purpose financial reporting targeted at investors. More specificity regarding location and relevant information or data point may be helpful to ensure comparability of the information disclosed.

Question 11: Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63-65, 79-83 and 84-90)

The exposure draft is clear where these general features and concepts have been adapted into the proposals. The process for entities to correct "material prior period" errors is clear including providing for situations where it is impracticable for an entity to do so. We would enhance this proposal by requiring entities to include an explanation as to why it is impractical to adjust comparative information as this helps understanding and transparency.

The ISSB may wish to set out more clearly the requirements for entities to update or revise estimations where new guidance or additional information becomes available. We also encourage the ISSB to include the requirement for entities to identify where assumptions in sustainability-related financial disclosures differ from those used in the financial statements and explain why that is. Again, this information is decision-useful for investors and enhances transparency. We would also expect such inconsistencies to be identified by the entity's financial auditor.

Question 12: Statement of compliance (paragraphs 91-92)

We welcome ISSB's approach to make the proposed standard assurable and enforceable. Investors require clarity on the level of assurance that has been applied to sustainability disclosures. This provides investors with decision-useful information about the robustness, completeness, quality and reliability of the qualitative and quantitative information disclosed.

We believe that sustainability information and data should be subject to the same standards as financial information, requiring assurance by an independent and qualified third party. In relation to the type and level of assurance, we would advocate for an audit firm to provide limited or reasonable assurance over sustainability data and information disclosed by the entity. Compliance with the standards should therefore require that the entity disclose to what, if any, assurance has been applied to the sustainability-related disclosure.

Question 14: Global baseline

In principle, we are supportive of the ISSB standards on sustainability-related financial disclosure providing a global baseline for sustainability reporting, yet also being scalable to meet different jurisdictional reporting requirements. We appreciate this may require further consideration by the ISSB as it finalises the standards.

Question 15: Digital reporting

We are supportive of the digitisation of reporting as part of a digital ecosystem and believe the ISSB can play an important role in driving and facilitating discussions in this regard. We note that the UK has already established digital taxonomies for TCFD and gender pay gap reporting.[4]

[4] Accountants I Accounting and Reporting Policy I XBRL FRC Taxonomies I Financial Reporting Council