

31 August 2023

IRSG Comment letter: ISSB Request for Information Consultation on Agenda Priorities

The International Regulatory Strategy Group (IRSG) is a practitioner-led body of leading UK-based representatives from the financial and professional services industry. It is an advisory body to the City of London Corporation, and to TheCityUK. The IRSG develops its policy positions through a number of workstreams which comprise representatives from across the industry to ensure a cross-sectoral response. Its remit is to provide a cross-sectoral voice to shape the development of a globally coherent regulatory framework that will facilitate open and competitive cross-border financial services.

The IRSG welcomes the opportunity to contribute the following comments, in response to the ISSB request for information on its next two-year work plan.

Question 1 - Paragraphs 18–22 and Table 1 of the RFI provide an overview of activities within the scope of the ISSB’s work.

(a) From highest to lowest priority, how would you rank the following activities?

- (i) beginning new research and standard-setting projects
- (ii) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
- (iii) researching targeted enhancements to the ISSB Standards
- (iv) enhancing the Sustainability Accounting Standards Board (SASB) Standards

Question 1 (a):

The IRSG would rank the activities as follows (from highest to lowest priority):

- (i) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
- (ii) beginning new research and standard-setting projects
- (iii) enhancing the Sustainability Accounting Standards Board (SASB) Standards
- (iv) researching targeted enhancements to the ISSB Standards

The IRSG strongly suggests that the implementation of IFRS S1 and IFRS S2 standards be the priority. There will be significant reliance on sustainability reporting and, given the mismatch of timing in relation to regulatory implementation, expecting companies to report on climate and sustainability data in the absence of standardised corporate data disclosure will increase costs across the system and

impact investors. It is therefore **crucial that the ISSB ensures global adoption and consistent implementation across jurisdictions of its standards.**

The IRSG would like to note the **importance of considering potential deficiencies in corporate reporting will be critical** as deficiencies often translate to data gaps, which prevent investors from obtaining the necessary information to make effective decisions or disclose on their reporting obligations. Differing regulatory approaches in different countries means the potential for a range of possible interpretations of the same disclosed data point. **Narrowing the potential for divergent approaches would be helpful to end investors.**

The IRSG encourages the ISSB to continue its efforts to promote the uptake of the standards and **work to ensure the interoperability of the ISSB across the different frameworks and jurisdiction-specific regulations** that are in place or are in development. The ISSB should **release additional materials and guidance aimed at addressing interoperability challenges and how to apply its standards.** Unlike traditional corporate disclosure practices which have clearer and time-tested guidelines, sustainability disclosure is very new. Companies will need additional material on how to apply the standards and regulators will likely need additional support in how to apply them into mandatory reporting.

As part of S2 implementation work, the IRSG recommends that the ISSB **allocate resources to fostering high-quality and comparable transition plan related disclosures.** We believe that this area will experience a fast pace of development over the next two years compared to the other priority areas identified. **Transition plans will be particularly important to investors, and it is therefore crucial to build a global baseline in this area** to prevent a potential outcome where local jurisdictions independently develop transition plan disclosures.

Question 2 - Criteria for assessing sustainability reporting matters that could be added to the ISSB's work plan

Paragraphs 23–26 of the Request for Information discuss the criteria the ISSB proposes to use when prioritising sustainability-related reporting issues that could be added to its work plan.

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

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

Question 2 (a):

The IRSG broadly supports the 7 identified criteria set out in Paragraphs 23-26 for prioritising sustainability-related reporting issues. The criteria broadly follow the outline of the IFRS standards, where financial materiality serves as the overlay to both future work and for the standards themselves. The IRSG therefore agrees that given the ISSB's focus is to deliver a global baseline for reporting on sustainability, this should start from the place of financial materiality and should follow through to how it considers future work.

Nevertheless, it is **important to recognize that the financial materiality focus would not preclude a jurisdiction from layering a double materiality overlay to the ISSB standards.** We acknowledge that importance to investors is likely to be guided by what is financially material to a company, but in practice we recognise that some reporting frameworks currently extend beyond this, and it is not realistic to assume that materiality for investors and issuers will align in all circumstances.

Likewise, interconnectivities between the newly proposed project and the ISSB's work plan will **ensure that the ISSB approaches issues holistically as opposed to in isolation.** A holistic understanding of how issues connect with one another provides investors with a much more comprehensive and connected view of how companies are dealing with sustainability-related issues.

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

Paragraphs 27–38 of the Request for Information provide an overview of the ISSB's approach to identifying sustainability-related research and standard-setting projects. Appendix A describes each of the proposed projects that could be added to the ISSB's work plan.

(a) Taking into account the ISSB's limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?

(i) If a single project, which one should be prioritised? You may select from the four proposed projects in Appendix A or suggest another project.

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

Question 3 (a) (i):

The IRSG believes the ISSB should prioritise a single project and that project should be biodiversity, ecosystems, and ecosystem services.

The IRSG acknowledges the ISSB's capacity issues limit the potential for pursuing multiple projects. **We therefore encourage the ISSB to prioritise biodiversity, ecosystems and ecosystem services (BEES)** before broadening the scope of sustainability reporting. We believe **this would be an important step in addressing gaps in global biodiversity reporting while reducing the risk of fragmentation**, and will assist companies in managing their nature-related impact, dependencies, risks and opportunities in a sustainable way.

The global regulatory landscape is currently seeing several policy developments in the biodiversity space, and we believe it is **crucial that current and future global regulations in this space have a stock of reliable information to inform policy formation** and implementation. Nature and biodiversity should be a priority for the ISSB given the growing investor focus on BEES-topics, limited market-tested frameworks, and the lack of standardization on BEES-related reporting.

There are several ongoing initiatives to develop reporting standards and frameworks on nature and BEES-topics globally. The IRSG also notes the technical work that is being undertaken in this space by the Taskforce on Nature-Related Financial Disclosures (TNFD) and the European Financial Reporting Advisory Group (EFRAG) and believes that the **introduction of biodiversity into common standards will be an attractive prospect to jurisdictions and encourage a broader uptake of ISSB standards**. The recommendations of the TNFD are prominent among the new standards that are being created on biodiversity and **new standards in this area from ISSB could help to ensure consistency in global incorporation of TNFD recommendations**.

The IRSG welcomes the work done by the ISSB in supporting the implementation of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and believes the completion of the TNFD risk management and disclosure framework presents an opportunity to move quickly on nature and biodiversity standards.

We believe that the inclusion of nature in the European Sustainability Reporting Standards and the need for global alignment of reporting standards for investors to have good comparability across geographies and sectors are important factors to consider when deciding project focus. **The IRSG strongly encourages continued and strengthened dialogue with EFRAG and other standard setting bodies in order to achieve maximum consistency and interoperability in global reporting standards.**

The ISSB should ensure **any BEES standard developed is interoperable with existing initiatives while recognising that existing frameworks may not align perfectly with the ISSB's scope and investor-focused materiality**. For example, the TNFD was developed with input from a wide variety of market stakeholders, and its final framework could offer insights into material BEES-related disclosure. However, the ISSB should think carefully about applying the TNFD framework directly, as the TNFD employs a flexible approach to materiality, allowing both double, single, and dynamic materiality considerations, which is broader than the ISSB's investor-focused materiality lens. **The ISSB's ability to**

leverage existing nature-related reporting frameworks while staying within its BEES scope and financial materiality focus will be essential.

The ISSB, as the global standard-setter for sustainability reporting, is well-positioned to develop standards that will help companies around the world manage their nature and biodiversity risks and opportunities. The IRSG would support **the ISSB playing a leading role in setting the global standard for biodiversity reporting** and to ensure that investors have the information they need to make informed investment decisions.

Access to data and the quality of that data remain key barriers to reliable and comparable nature and biodiversity disclosures, particularly given the location-specific nature of data in this space. The IRSG notes the particular difficulty around the measurement of biodiversity and ecosystem loss and one where we believe **standardisation would be particularly useful**.

Nature risks are likely to manifest themselves as both physical and market risks. The World Economic Forum [report](#) on nature risk also estimates that over **half of global GDP (US\$44 trillion) is potentially at risk because of business dependence on nature and its services**.

Beyond that, the IRSG would like to highlight the findings in United Nations Environment Programme's [State of Finance for Nature](#) report, which outlines the **major nature funding gaps that need to be filled in order to meet international commitments**. Investment in nature and biodiversity is crucial for climate action and being 1.5 aligned will depend on the protection of our current nature stock and ensuring investment flows into nature-based solutions.

While the preservation of ecosystems is crucial, the IRSG would like to highlight that **biodiversity loss has the capacity for additional level of human impact** that must also be considered. **Growth in biodiversity markets has the potential to support vulnerability and will support improvement in both human rights and human capital categories**.

We acknowledge that the ISSB may be resource-constrained and any alternative decision to focus on researching targeted enhancements to the ISSB Standards or enhancing the Sustainability Accounting Standards Board (SASB) Standards should still **seek to prioritise enhancements which focus on biodiversity, ecosystems and ecosystem services** as they relate to the existing standards.

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

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

Please explain your choice and the relative level of priority with particular reference to the information needs of investors. You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:

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

Question 4 (a):

The IRSG is of the view that the **suggested subtopics would benefit from more specificity and refined definition**. For instance, the subtopic of water may include issues related to deep-sea mining, coral reefs and access to drinking water, all of which are likely to bear varying relevance investors. Narrowing the research project to focus on these more granular aspects within each listed topic will allow the ISSB to explore these issues in greater detail. This detailed approach will likely prove more beneficial in informing future ISSB standard setting efforts than ranking the subtopics by priority and building a research project based on the high-level preferences of the respondents across these broad categories.

We also believe that the **ISSB should select a sample of more specific drivers within each category of drivers to provide high quality research that spans a broad variety of sectors and geographies**. For example, ISSB could look at deforestation (from land use), overfishing (from resource exploitation), non GHG emissions and waste (from pollution), and water use in areas of high-water stress (from water).

The IRSG recommends that, in order to aid interoperability, the ISSB also considers the ESRS and TNFD topics going forward, while maintaining its lens of investor-focused materiality.

For any questions or clarifications please contact: IRSGsecretariat@cityoflondon.gov.uk