In response to the ISSB two-year work plan

The work undertaken by the International Sustainability Standards Board (ISSB) represents a major development with the power to significantly advance corporate transparency on sustainability matters relevant to business strategy and resilience. As the ISSB proceeds with its announced research projects, we would like to stress key recommendations shared by sustainability reporting experts and investment initiatives.

1. A strategic approach with a higher pace is needed for the ISSB to provide a meaningful global baseline for corporate sustainability reporting

- We welcome the ISSB moving forward with the standardisation of corporate disclosures to cover sustainability topics beyond climate change. As documented in the work of the IPCC and other science-based initiatives, key factors for sustainable development, social and planetary boundaries are intrinsically connected.
- The ISSB was set up with the objective of addressing investors' need for comparable and decision-useful information on the sustainability performance of companies. Capital market players seek to understand how companies assess and manage material risks arising from their dependencies on people and nature. To achieve this, ISSB should address risks and dependencies across the entire spectrum of environmental, social and governance topics. As outlined by WBCSD, *"the interconnection of BEES [Biodiversity, ecosystems and ecosystems service] issues with both climate change and social issues are areas that should also be explicitly considered when understanding the materiality of these topics, for example litigation risks linked to pollution or deforestation, or a lack of natural resource availability due to climate change."* PRI urged for instance the ISSB to follow the "*integrated approach taken by the UK Transition Plans Taskforce – accounting for interdependencies and impacts of transition planning on nature, adaptation and just transition in reporting guidance*" while Eurosif emphasised the increasing interest from investors on biodiversity and social matters. In its input to the ISSB, the OECD recommended for the ISSB to make "*incremental progress on a range of topics*", as focusing on a single project could risk not sufficiently advancing on these critical topics and called for the ISSB to benefit from insights gained in the implementation of TNFD and jurisdiction-specific standards (namely the CSRD in the EU).
- The ISSB staff highlighted that respondents from last year's consultation called for the articulation and definition of a "*longer term strategic vision of the future of the ISSB Standards*". In order to meet global expectations, financial market actors have repeatedly stressed the importance for the ISSB to address long-term systemic risks, as stated by BNP Paribas "*it is important to recognize that broadly diversified investors use corporate disclosures for a variety of purposes, including to evaluate portfolio and economy-wide systemic risks, not solely risks to enterprise value. Without an explicit requirement to disclose certain key external impacts, investors, policymakers— and issuers—will remain inadequately equipped to mitigate the most significant financial risks we face*". This is a pressing matter for investors as well as of utmost importance to national and global economies due to the nature of and exposure to systemic risks, with financial impacts within a company (or a set of companies) creating risk for other companies within the same portfolio.
- As most financial risks and opportunities stem from impacts, investors need the ISSB standards to be interoperable and connected with impact-related disclosures. Therefore, we strongly encourage ISSB to build upon the existing internationally endorsed instruments and frameworks in designing its future standards, most notably the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, which are increasingly reflected in legislation that determines the obligations of entities around the world, reinforcing the financial materiality of these aspects of entities' performance.

2. Standardising nature-related and social disclosures in a holistic manner, building on international standards and frameworks

Environment:

- We welcome that the ISSB approach to the Biodiversity, ecosystems and ecosystems services standard will build on the Taskforce on Nature-related Financial Disclosures (TNFD), as well as on relevant components from the CDSB framework. Similarly, we welcome the reference to enhance interoperability with GRI and ESRS standards.
- With more than half of the global economy highly dependent on nature and the services it provides, it is imperative to address the impact drivers of biodiversity loss. The Kunming-Montreal Global Biodiversity Framework, as well as the IPCC Sixth Assessment Report clearly identify unprecedented risks in this area as well as consensus among scientists on the need to address those risks, and - among other things - achieve end of net deforestation already by 2030. As outlined by UNEP FI "*Any adverse impacts on natural capital or anything that impairs its resilience (e.g. via waste and pollution) therefore have a potentially negative effect on the businesses (and investments) that depend on it*".
- We urge the ISSB to follow the staff recommendations and take a holistic approach "*in terms of its coverage of BEES-related subtopics without prioritising a single subtopic or a subset of the subtopics.*" As highlighted by WWF "*only an integrated approach to assessing and reporting impacts, dependencies, risks and opportunities can fully deliver against the information needs of investors*". However, while "water and marine resources use" and "pollution" impacts often affect biodiversity, and should be reflected as such in the biodiversity standard, the primary impacts and sources of risks in these areas are more diverse and extend beyond biodiversity and need to be considered in their own right. This is also the case for circular economy (including resource exploitation). This would also make it easier to ensure interoperability with the ESRS (E2, E3 and E5), and minimise any unnecessary reporting burden on companies. The interrelation between the above-mentioned nature-related topics, and the scale of their financial impact[1], merits the ISSB consideration of a faster and more encompassing approach to their work plan.

Social:

- We remain concerned that the ISSB's starting approach to social issues was to consider projects for reporting on human capital and human rights risks, instead of planning for a coherent architecture of social-related disclosures. As Eurosif mentioned, "*topics related to human capital also contain and overlap with human rights considerations (e.g worker wellbeing; diversity, equity, and inclusion; or labour conditions in the value chain)*". Moreover, many organisations' material issues related to social risks are tied to impacts on communities or consumers and end-users.
- We recognize the ISSB's decision to pursue a research project specific to human capital, albeit recognizing the overlap with various human rights issues, and relevance for risks associated with value chain workers. That said, we urge the ISSB to use the research process to continue to consider the merits and viability of this approach. We are concerned that pursuing metrics tied to specific human capital topics will be of limited value for investors absent crucial contextual information regarding entities' broader understanding, management and governance of social-related risks, which lies beyond the scope of the IFRS S1 standard on General Requirements.
- PRI suggested to the ISSB to develop a general human rights and social issues reporting standard in the next two years, "*covering a broad set of issues (including human capital) applicable across sectors, geographies and business models*". Eurosif underlined that "*investors are increasingly interested in contributing to a positive social impact, promoting investments through the justice, equity, diversity, and inclusion lens or at least avoiding harm with regard to human rights and social matters*". In line with this, the World Benchmarking Alliance stated that "*providers of capital need to know how well entities they finance understand social-related risks and opportunities in general and the extent to which they are equipped to identify and manage these issues effectively*". UNEP FI supported the combination of both projects to allow for a "*better alignment with existing social sustainability standards*" as well as to "*facilitate the reporting process for preparers and increase usability for users, in particular facilitating their decision-making processes*"

[1] See for instance report from the Green Finance Institute, which shows nature degradation could result in a 12 per cent drop in UK GDP by 2035, outstripping the losses caused by the 2008 financial crisis (which resulted in a 5 per cent drop in GDP) and the Covid-19 pandemic, which cost the country 11 per cent of GDP in 2020.

- There is widespread alignment by investors and broader stakeholders that the ISSB should build from international standards of the UN Guiding Principles and the OECD Guidelines as the accepted basis for companies to demonstrate how well-positioned they are to understand and address social-related risks.
- As stated by Shift, "*material social issues can be widely varying*" but in order to meet the most essential needs of investors for assessing the management of social risks, it is paramount that their "*identification and management is underpinned by a common process of human rights due diligence*" articulated by the above international standards. This would provide a common baseline for financial market participants to understand companies' readiness to manage their social-related risks, before needing to delve into specific topics and metrics. In a recently published report by the UN Working Group on Business and Human rights, the concern over the proposed separation of human rights from human capital has been clearly noted, while also highlighting that a lack of human rights due diligence disclosure "*affects investors' decision-making and gives rise to possible financial risks to the investor*". Choosing to develop an alternative approach would undermine the achieved international consensus, and lead to further fragmentation in the area of sustainability reporting.
- Given the ISSB's decision for now to focus on narrower human capital issues, we agree with the ISSB staff recommendation that it is helpful to rename the project to "Risks and opportunities associated with an entity's own workforce and workers in its value chain" (see Annex A, A4 d)

3. Building a practical framework on the basis of sector-agnostic and sector-specific levels maintaining a constructive approach to interoperability

- We agree with the ISSB staff assessment that BEES and social-related risks and opportunities will differ across business models, industries and geographies, given the uniqueness of interactions between companies' operations and their value chain with the natural and social context in which they operate. While there are differences,WBA suggested that "*akin to TNFD*", the ISSB develops "*a common core of sustainability disclosure on nature across all industries, sectors and locations*" and tailors additional disclosures specific to the industry, sector or geographic location. PRI also called to prioritise the development of a sector-agnostic corporate disclosure standard for human rights and social issues.
- This approach would also further secure interoperability with European standards. As put forward by Nestle, "*it is important that compliance with ESRS should generally (continue to) allow a preparer to simultaneously satisfy IFRS Sustainability requirements*". We urge the ISSB to continue engaging collaboratively with the European Union, as well as other jurisdictions and their standard-setters to ensure a common baseline that is not misconstrued as a top-level ceiling. This includes considerations of interoperability with the ESRS in the design of future IFRS. Furthermore, PRI suggested ""*guidance on how the ISSB Standards can be applied alongside more impact-focussed standards would help companies and jurisdictions to effectively implement the ISSB's building blocks approach, to meet the data needs of all investors*". We therefore welcome the latest announcement between the IFRS Foundation and GRI to work in optimising the use of their standards together.

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