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ESG Reporting: Asset Managers Express Divergent Views

Comments on draft ISSB climate and sustainability standards highlight major challenges to achieving a 'global baseline.'

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Executive Summary

The newly formed International Sustainability Standards Board issued two draft climate and sustainability reporting standards, which closed for public comment at the end of July. The ISSB aims to set a "global baseline," internationally consistent minimum sustainability reporting standards for companies. In this paper, we examine the comment letters from 20 large asset managers responding to the ISSB. Such analysis can help investors better understand the underlying thinking driving managers' approaches to environmental, social, and governance issues.

Morningstar also sent a response to the ISSB. We strongly believe that as asset owners and asset managers invest globally, they need some international convergence to be able to report meaningful aggregated information to end-users. On the whole, asset managers firmly agree with this but their responses in key areas addressed by the draft standards—particularly materiality, greenhouse gas emissions disclosures, and international alignment—suggest that this goal will be difficult to achieve without major changes in approach by either the ISSB or other standard-setters globally.

Key Takeaways

- Six of the 20 managers state their agreement with the ISSB's focus on enterprise value, including Capital Group, Dimensional, Legal & General, Wellington, UBS, and Vanguard. This is seen by some as being aligned with a "single materiality" approach.
- Eight others—mostly based in Europe, and including Allianz, Amundi, BNP Paribas, DWS, and Schroders—encourage the ISSB to consider a double materiality approach, incorporating companies' impacts on the environment and wider society, in line with the European Commission's proposals.
- Five U.S.-based managers—BlackRock, Invesco, Northern Trust, State Street, and T. Rowe Price—advise that a more flexible approach accommodating local regulatory practices is needed.
- The majority of the 20 managers agree with the ISSB's proposal that Scope 1 and 2 greenhouse gas emissions (that is, direct emissions and those related to electricity use) should be mandatory for all companies. Dimensional disagrees, believing such disclosures should be mandatory only if material.
- Eight of the 20 respondents—including BNP Paribas, Capital Group, Legal & General, and Wellington—agree with the ISSB that Scope 3 emissions disclosures (that is, other indirect emissions) should also be mandatory.

Introduction

At Morningstar, we evaluate asset managers' active ownership—also called investment stewardship—as part of our overall assessment of their ESG Commitment Level. Public policy advocacy activity—alongside proxy voting and direct engagement with companies—is one of the key elements of an asset manager's active ownership approach. Analyzing asset managers' public comments on key regulatory and standard-setting projects helps us better understand the ethos underlying asset managers' approaches to ESG.

Recently, there have been several important opportunities to engage in public policy advocacy on corporate disclosures about climate change. In June 2022, the SEC closed the comment period for its proposed rule, The Enhancement and Standardization of Climate-Related Disclosures for Investors. We analyzed the responses of the top 10 U.S. asset managers in a research paper in July. We found that a broad base of support for consistent, investor-relevant climate disclosures was somewhat complicated by significant reservations in some areas, notably the definition of materiality and the scope of disclosures about mandatory greenhouse gas emissions.

Around the end of July, public comment periods on two other major consultations on climate and sustainability disclosures also ended.

The first consultation is for the Exposure Drafts IFRS S1 *General Requirements for Disclosure of Sustainability-Related Financial Information* and IFRS S2 *Climate-Related Disclosures*. These two draft reporting standards were issued by the newly formed International Sustainability Standards Board of the IFRS Foundation, which sets accounting standards that are either mandatory or permitted in most major capital markets outside the U.S. The ISSB aims to set a "global baseline" (that is, an internationally consistent minimum standard of required disclosure) for sustainability reporting by companies to investors, which would also help companies meet the requirements of national regulators. In this paper, we examine the comment letters responding to IFRS S1 and IFRS S2 from 20 large asset managers based in the U.S and Europe.

The second consultation was on 13 draft European Sustainability Reporting Standards, issued by the European Financial Reporting Advisory Group and backed by the European Commission. The draft ESRS are intended to be the key sustainability reporting framework for companies in Europe[1]. Although the EFRAG consultation is outside the scope of this paper, important differences between the draft ESRS and the ISSB's draft standards are mentioned frequently in comment letters to the ISSB.

Evaluating Comments by 20 Asset Managers to the ISSB

The investing world is placing more emphasis on sustainability and climate matters as a key input in assessing investee companies' performance and valuation, so establishing common standards for disclosing sustainability information has become critically important.

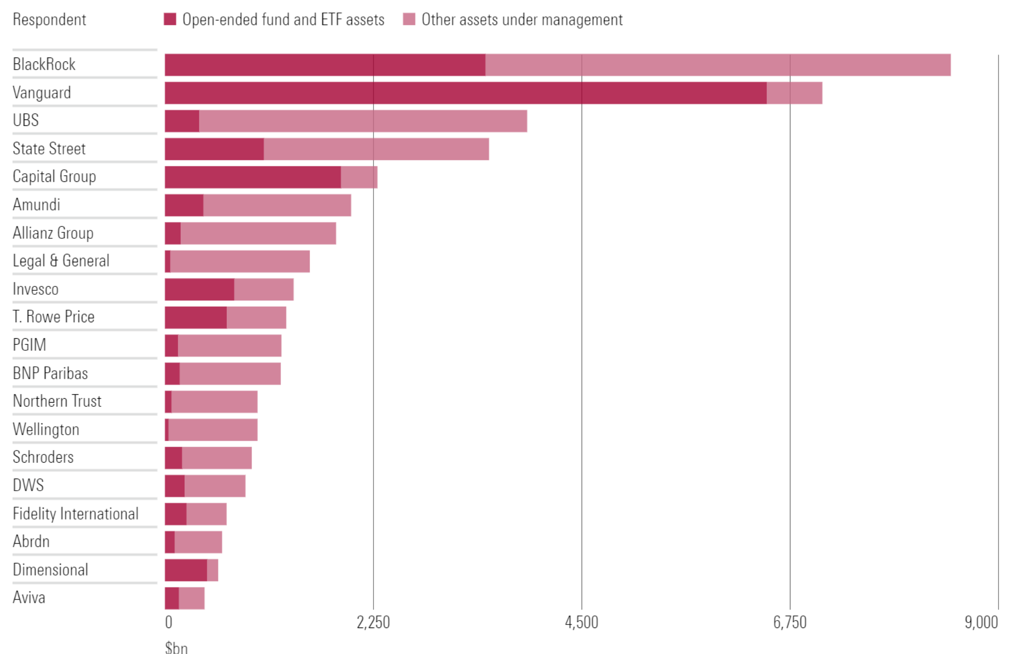
1 Morningstar's response to the draft ESRS can be found on EFRAG's website.

Getting companies to report under globally consistent climate- and sustainability-related standards would help investors make better-informed decisions about risks and opportunities. This is why the ISSB is keen to set a global baseline for sustainability reporting by companies for investors to use.

To assess asset managers' views on how the ISSB should go about implementing a global baseline for sustainability reporting, we selected comment letters sent by 20 respondents. All these responses are from asset managers or from diversified financial services groups with a large asset-management segment. They are: Abrdn, Allianz Group, Amundi, Aviva, BlackRock, BNP Paribas, Capital Group, Dimensional, DWS, Fidelity International, Invesco, Legal & General, Northern Trust, PGIM, Schroders, State Street, T. Rowe Price, UBS, Vanguard, and Wellington. As shown on the chart below, the 20 respondents represent over USD 40 trillion of assets under management invested in all regions of the globe, of which over USD 17 trillion is in open-ended and exchange-traded funds. Ten of these respondents are based in the United States and 10 are in Europe. All 20 are signatories to the Principles for Responsible Investment, and all except two (PGIM and Dimensional) are signatories to the Net Zero Asset Managers Initiative.

In light of this, the responses by these 20 organizations should give a representative view of how large asset managers integrating ESG into their general investment decision-making processes perceive the ISSB's draft climate and sustainability standards. Such analysis helps us better understand the ethos underlying asset managers' approaches to ESG and helps us refine our ESG Commitment Level ratings, which investors can use in their manager selection processes.

Exhibit 1 Assets Under Management for 20 Selected Respondents to ISSB Exposure Drafts IFRS S1 and IFRS S2



Source: Morningstar Direct, Morningstar research, respondents' regulatory and investor disclosures. Data as of June 30, 2022.
Note: The figure for Capital Group is an estimate.

In the following sections, we have summarized the broad points of view expressed by the 20 respondents. (See Appendix 2 for further details and links to the respondents' original comment letters.)

In our opinion, these responses indicate that there is very broad support for the ISSB to establish a "global baseline" for investor-focused climate and sustainability reporting; however, significant differences in opinion among the respondents on the definition of materiality, required emissions disclosures, and the level of alignment with parallel regulatory initiatives in Europe and the U.S. highlight some major challenges to achieving that global baseline.

Overall Need for Consistent Disclosures

The ISSB's Proposals

"The proposals set out the overall requirements for disclosing sustainability-related financial information in order to provide primary users with a complete set of sustainability-related financial disclosures… The prototype and the Exposure Draft include the recommendations by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and components of the frameworks and standards of international sustainability bodies… To identify sustainability-related risks and opportunities and to disclose information about them, entities are directed to consider sources that include the disclosure topics in the industry-based Sustainability Accounting Standards Board (SASB) Standards [and] the International Sustainability Standards Board's (ISSB) non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures)."[2]

Asset Managers' Views

Broad Support for the ISSB's Efforts to Implement a Global Baseline

All 20 respondents

Although there are many differences in opinion on the detail of IFRS S1 and IFRS S2, the 20 respondents we analyzed all recognize the need for globally consistent disclosures on climate and sustainability standards. Every comment letter we reviewed mentioned that they either "support," "welcome," "applaud," or "agree that there is a need for" the ISSB's efforts in this regard.

Here are some representative quotes from a few respondents:

> *"BlackRock strongly supports the International Sustainability Standards Board's ("ISSB") objective of providing a global baseline of sustainability-related disclosure standards. As an asset manager investing on behalf of diverse clients with a range of long-term financial objectives, we weigh a variety of investment factors, risks, and opportunities, including those related to sustainability." – BlackRock*

2 IFRS Foundation, March 2022: Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information p.6-7.

> *"We are supportive of efforts to drive greater international consistency in sustainability reporting, and we believe these efforts will improve the effective functioning of the capital markets. We welcome the formation of the International Sustainability Standards Board (ISSB) and support the "building blocks" approach, which provides a baseline founded on existing frameworks and standards." – Vanguard*

> *"We consider that the Exposure Drafts represent an important step forward towards delivering consistent and comparable disclosures needed for the genuine assessment of an issuer's sustainability credentials." – Fidelity International*

A few respondents note that the ISSB's efforts are especially important given the existing degree of fragmentation in nationally mandated reporting requirements for sustainability information, something they hope the exposure drafts will address. One of them puts it like this:

> *"Despite the growing importance of sustainability disclosures, the existing fragmentation of the reporting landscape creates difficulties and uncertainties in collecting and publishing comprehensive and comparable sustainability data. The variety of sustainability standards, frameworks, and definitions together with numerous different indicators and metrics create further challenges for companies to focus their efforts on strategic and meaningful disclosures. That is why we support the mandate of the IFRS cross-jurisdictional working group to align global sustainability reporting requirements." – DWS*

Morningstar's View

"We welcome the progress made by ISSB and believe the standard is on the right track. A base level of standardized, consistent and comprehensive sustainability information is a critical minimum requirement for investors to be fully informed in their investment decision-making and necessary to provide guidance to issuers/corporates. We particularly support the fact the standard follows the TCFD structure/ definitions and the reference to existing standards such SASB."[3]

Definition of Materiality

The ISSB's Proposals

"Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value… Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information."[4]

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3 Morningstar, July 2022: Response to ISSB draft sustainability disclosure standards IFRS S1 and IFRS S2 p. 1

4 IFRS Foundation, March 2022: Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information p. 9-10.

"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… Material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users' assessments of an entity's enterprise value."[5]

Asset Managers' Views

In contrast to the respondents' broad agreement on the overall need for consistent sustainability disclosures, their opinions diverge on key details of the ISSB's proposals. This is particularly true regarding the definition of materiality, which is important because this definition determines what is considered sufficiently important to investors to be required to be reported by companies.

We can divide the responses into three groups. Respondents who comment on materiality generally either:

- agree with the ISSB's proposal for a materiality approach that focuses on enterprise value (often referred to as "financial materiality" or "single materiality");
- prefer a flexible approach that uses a materiality definition that is aligned with the relevant local jurisdiction's own definition; or
- advocate for a "double materiality" approach that recognizes environmental and social impacts alongside financial ones (as proposed in the European Commission's draft ESRS).

There are also calls for greater clarity on the intention behind using the words "material" vs. "significant" in the draft ISSB standards.

Agrees With the Proposed Enterprise-Value Focused Approach

Capital Group, Dimensional, Legal & General, UBS, Vanguard, Wellington

Five respondents clearly came out in support of the ISSB's proposed enterprise-value focused approach. Three of these respondents are U.S.-based asset managers, reflecting the financial materiality approach required by U.S. reporting regulations (which was also a key area of focus in asset managers' responses to the SEC's proposed climate rule, discussed in our July paper). Respondents embracing this view emphasize the perceived cost-benefit balance of this approach, and its ability to capture the "dynamic nature" of materiality over time.

> *"The ISSB focuses on disclosure of sustainability-related financial information that is necessary for investors to assess enterprise value and clearly states that an entity need not provide a specific disclosure if the information is not material. We strongly agree with this approach. Because the costs of disclosing specific climate-related information may outweigh the benefits to a company's investors, we believe that financial materiality is the right lens through which a company should determine what climate-related information to disclose." – Dimensional*

5 IFRS Foundation, March 2022: Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information p. 33-34.

> *"We believe the proposed definition and application of materiality will capture the breadth of sustainability related risks and opportunities relevant to the enterprise value of a specific entity, including over time. Implicit in this definition is the requirement that companies assess the sustainability risks and opportunities which they believe to be most material to enterprise value on at least an annual basis, which we support, given the dynamic nature of materiality."* – *Capital Group*

Comment letters in this group from respondents in Europe add a caveat to their responses, noting the need for clarity over how companies assess enterprise value and mindful of the dynamic nature of materiality and the need to consider ESG issues beyond climate.

> *"We are supportive of the focus on a materiality based on users' assessment of enterprise value. However, it is important when assessing materiality that there is clarity over the expectations of how a firm must assess its enterprise value. An assessment of enterprise value must be beyond a point-in-time 'financial materiality' as applied to financial statements."* – *Legal & General*

> *"We also support the goal to go beyond climate and address E, S, and G topics in their entirety with a focus on risks and opportunities that are material to understanding enterprise value."* – *UBS*

Prefers a Flexible Approach Aligned to Local Requirements

BlackRock, Invesco, Northern Trust, State Street, T. Rowe Price

Five U.S.-based asset managers call for a more flexible approach aligned to local regulatory requirements. This stance appears to respond to the difference in approaches to materiality taken by various regulators; particularly the SEC, which focuses on financial materiality, and the European Commission, which has opted for double materiality.

Comments from two of these respondents summarize the issue well:

> *"We believe the ISSB should revise its approach to defining materiality such that it aligns with accounting and policy frameworks that do not apply IFRS accounting standards, for example, in the United States. We agree with industry recommendations to adopt a more flexible approach that would enable companies to apply the same materiality standard as they do for financial reporting today, or to remove the reference to "enterprise value" and instead utilize the definition provided by [the accounting standard] IAS 1."* – *State Street*

> *"While we continue to strongly support the clear focus of the ISSB on financial materiality in assessing enterprise value, we recognize that clients and regulators in some jurisdictions, most notably in Europe, are requiring the disclosure by corporations and their asset managers on the wider impacts they have on the environment and the societies they operate in, i.e., double*

materiality. This underscores the importance for interoperability of the ISSB standards to serve as building blocks upon which different jurisdictional reporting standards can be layered upon." – Northern Trust

Advocates for a Double Materiality Approach

Abrdn, Allianz, Amundi, Aviva, DWS, Fidelity International, PGIM, Schroders

Several respondents, mostly based in Europe, express considerable reservations about the single materiality approach proposed by the ISSB and advise that a change of approach is needed. Two such respondents put it this way:

"We urge the ISSB to commit to an acceleration of efforts to incorporate impact materiality into the standards through intensive engagement with EFRAG to devise a workable double materiality concept. This is a significant opportunity to address the fragmentation of reporting standards and develop a truly comprehensive 'gold standard' for sustainability reporting. Without this the needs of both investors and other stakeholders will not be met." – DWS

"Our point of attention is that, while ISSB does require the disclosure of the impacts on people, planet and the economy, the requirement is narrowed only if this information is needed by 'primary users' to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value.... Broadly diversified global companies may be able to create significant harm that never crosses the threshold of financial materiality. Investors carry all of these impacts. Without a full inventory of impacts, we cannot assess which are the most significant, where they are coming from, etc. Without this information, we cannot hope to reverse the systemic risk of nature loss, climate change or even child labor. This also means that we cannot hope to mitigate the most significant financial risks to our clients." – BNP Paribas

Some are less critical of the single materiality approach but indicate that there would be benefits to investors in using a double materiality approach, particularly as this would align with the proposed European regulations.

"The definition of materiality used is reflective of that used in traditional financial reporting, but this is difficult to apply to a sustainability reporting context. We would welcome further guidance on how materiality should be applied, not least in order to ensure consistency and comparability of reporting. We also believe a consistent definition of materiality should be applied across the standard setting bodies and we specifically note the concept of 'double materiality' in CSRD, which aims to reflect decision-useful information that extends beyond information affecting enterprise value solely." – Schroders

Not all respondents in this group want an immediate change in approach. One suggests a more "gradualist" approach:

> *"We believe that a gradualist approach is appropriate to encourage broad adoption, but that over time the ISSB should consider how its approach should evolve to the principle of double materiality, which will be necessary to meet the needs of investors seeking to align to broader international objectives such as the UN Sustainable Development Goals." - Fidelity International*

One respondent requests further clarity from the ISSB on how to address "endogenous and exogenous" risks:

> *"When determining significant risks and opportunities, entities should consider endogenous risks and well as exogenous risks that impact enterprise value and consider the impact of risks and opportunities over a long-term horizon, consistent with the obligations of the company to shareholders and stakeholders over the long-term. We believe that this is the intention of the ISSB's proposals, but ensuring this is clear will be important to ensure that the disclosure standard achieves the ISSB's ambition to make meaningful change." – Aviva*

Clarifying "Material" vs. "Significant"

Aviva, DWS, Schroders, State Street, Wellington

A few respondents mention the ISSB's use of the terms "material" and "significant" in the draft standards when referring to sustainability risks and opportunities, which they believe adds complexity. They feel that more precise definitions—or removing "significant" from the standard—would help clarify matters for investors.

Morningstar's View

"While we believe that ISSB should initially focus on financial materiality, we also recognize that it does not respond to all the needs of investors. Investors are increasingly interested in sustainability issues which affect a broad range of stakeholders as these are the most likely to in turn affect enterprise value. There is a diversified pool of investors who seek to allocate capital to create measurable environmental and social impacts. Impact investors in particular may want to know the sustainability impact of a firm alongside financial materiality. Further, there is a growing retail investment market where individuals are being more inclined to think of ESG investing as a way to invest according to their personal values, rather than from a risk perspective.

"The focus on double materiality is also being driven by regulation. In 2023, asset managers in the EU will have to report on Principal Adverse Impacts indicators at the entity level. The EU SFDR also demands that a financial product seeking a sustainable investment does not harm significantly other sustainable objectives.

"In the short-term and in the context of this first sustainability standard, ISSB should at least acknowledge the dynamic nature of materiality: sustainability risks that a company assesses not to be material can change in response to stakeholder pressure, consumer and investor expectations,

regulation and technological progress. We would also suggest that companies provide a clear rationale supporting their materiality judgment supporting disclosure on top of mandatory SASB-inspired quantitative disclosure."[6]

Mandatory Greenhouse Gas Emissions Disclosures

The ISSB's Proposals

"The proposed Standard would require a company to disclose its absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions, in metric tonnes of CO2 equivalent, and the intensity of those emissions. The company would be required to calculate these emissions using the GHG Protocol. A consolidated group would be required to disclose GHG emissions by associates and joint ventures separately from those by the consolidated group. The requirement to disclose Scope 3 emissions reflects the importance of providing information related to a company’s value chain."[7]

Asset Managers' Views

Under the Greenhouse Gas Protocol, greenhouse gas emissions are assigned to Scope 1, 2, or 3 depending on whether they:

- are directly emitted by the reported company (Scope 1); or
- represent the company’s share of indirect emissions that occur in its value chain (Scope 2 or 3).

Exhibit 2 Scope Definitions for Greenhouse Gas Emissions

Scope	Type of emissions	Sources of emissions	Examples
Scope 1	Direct	Sources owned or controlled by the reporting company.	Direct fuel combustion; company-owned vehicles and machinery; fugitive emissions (such as methane leaks from mining).
Scope 2	Indirect	Generation of power purchased and consumed by the reporting company.	Purchased electrical power.
Scope 3	Indirect	All indirect emissions not accounted for in Scope 2 emissions.	Purchased goods and services; business travel; employee commuting; use of sold products.

Source: The Greenhouse Gas Protocol.

Proposals to mandate disclosure of Scope 3 greenhouse gas emissions often divides opinion. Some view the provision of these disclosures as premature because reliable measurement methodologies for Scope

6 Morningstar, July 2022: Response to ISSB draft sustainability disclosure standards IFRS S1 and IFRS S2 p. 2

7 IFRS Foundation, March 2022: Exposure Draft—Snapshot IFRS S1 and IFRS S2 p. 10

3 emissions (which necessarily overlap with the Scope 1 and Scope 2 emissions of other reporters, raising the risk of double counting) are still being developed.

Reflecting this, there are a range of views on greenhouse gas emissions disclosures among the 20 respondents that can also be broadly divided into three groups. Respondents who comment on the matter prefer either:

- disclosures of Scope 1, 2, and 3 emissions by all reporting companies;
- disclosures of Scope 1 and 2 emissions by all reporting companies, with Scope 3 disclosed only in certain circumstances or phased in over time; or
- disclosures of emissions under any scope only by companies that deem such information material.

Prefers Mandatory Disclosures for Scope 1, 2, and 3

Abrdn, Aviva, BNP Paribas, Capital Group, Fidelity International, Legal & General, Northern Trust, Wellington

Several of the respondents in our selection who have commented at length about the scope of greenhouse gas emissions disclosures agree with the ISSB's proposal requiring disclosures about Scope 1, 2, and 3 emissions. These respondents are a mixture of firms based in Europe and the U.S.

Respondents in this group believe that disclosure across all three scopes is necessary for investors to obtain a complete picture of climate-related risks and opportunities and that methodologies for disclosing Scope 3 emissions in particular will improve rapidly.

Key comments from firms in this group include the following:

> *"Scope 1 and Scope 2 emissions alone will not provide a complete picture for investors to assess a company's transition risk… Disclosure of both overall categories of Scope 3 emissions—upstream and downstream—with context and specificity from companies about the most significant Scope 3 sources, is necessary for investors to develop a full picture of transition risk exposure and to evaluate investment risks and opportunities." – Wellington*

> *"Without disclosure of Scope 3 emissions, we will not be able to assess the credibility and progress towards net zero of our investee companies and will therefore also not enable investors to fully understand the transition risks a company is exposed to through its value chain." – Legal & General*

> *"We are strongly in support of the requirement to disclose Scope 3 emissions which goes beyond the strong encouragement of TCFD's recommendations. While we note that data and methodological challenges still exist, they are rapidly improving and preparers should be given a long runway to implement the new disclosure regime." – Northern Trust*

Prefers Mandatory Disclosures for Scope 1 and 2, Limited or Deferred Disclosures for Scope 3
BlackRock, DWS, Invesco, PGIM, State Street, T. Rowe Price, Vanguard

These respondents agree with mandatory disclosures for Scope 1 and 2 emissions but believe that methodologies for disclosing Scope 3 emissions are not sufficiently mature to require mandatory disclosure by all companies at this time. This group is dominated by some of the largest U.S.-based asset managers.

Some of these firms suggest that Scope 3 disclosures should be required only where material; others suggest that such disclosures should be deferred until more robust measurement methods are available.

Key comments from firms in this group include the following:

> *"The ISSB should not mandate full Scope 3 GHG disclosure at this time. Many aspects of the calculation and attribution of GHG emissions disclosures are still in early stages of development, but there continues to be significant practical challenges preventing full disclosure of Scope 3." – State Street*

> *"There are a number of areas that are complex for issuers to comply with due to lack of clear methodologies. This includes: Scope 3 GHG emissions… These elements could be framed as more advanced disclosures that apply to only the largest companies and/or subject to a phase-in approach to allow more time for companies to build up towards these more advanced disclosures." – Invesco*

> *"Given methodological complexity for Scope 3 emissions and the lack of direct control by companies over the requisite data, our investors believe the usefulness of this disclosure varies significantly right now across industries and Scope 3 emissions categories. We encourage regulators to adopt a disclosure framework that accounts for this significant variation. Under this framework, companies would disclose emissions estimates for any of the fifteen Scope 3 categories that are material to them. If none of the fifteen categories are material, or if companies are not yet capable of estimating their Scope 3 emissions, they would have the option of explaining why that is the case." – BlackRock*

> *"We recommend that the ISSB apply a lead time for requiring Scope 3 GHG data disclosure, once a protocol and accounting methodology have been agreed on and tested broadly, rather than proposing industry-based disclosure requirements for financed and facilitated emissions now." – T. Rowe Price*

Prefers Mandatory Disclosures Only if Deemed Material by the Company

Dimensional

Dimensional has taken a very different view from the other respondents on the scope of emissions disclosures. Dimensional's response to the SEC's proposed climate rule is attached to their comment letter to the ISSB. It states:

> "*We strongly believe that only companies that have identified climate change as a material risk to their business should be required to disclose specific climate-related information… In our view, if a company has not identified climate change as a material risk to its business, the costs of requiring that company to disclose specific climate-related information will outweigh benefits to shareholders.*"

Additionally, Dimensional's response to the ISSB adds further detail regarding Scope 3 emissions.

> *"We also encourage the ISSB to reconsider whether requiring disclosure of Scope 3 emissions is appropriate, even when material. Companies in most industries are not able to estimate their Scope 3 emissions with reasonable reliability at this time. Estimates of Scope 3 emissions may vary substantially because of differences in the assumptions made and methodology employed. Such data is of limited use to investors."*

Morningstar's View

"We recognize that certain data points are now needed by investors regardless of sectorial financial material assessment. We therefore agree that Scope 1 and Scope 2 GHG emissions should be disclosed by all preparers. For Scope 3, we would argue that disclosure be required by companies which cite specific scope 3 emissions-reduction targets and for companies whose emissions are material according to the SASB standards… In the medium term, the ISSB should create standards that encompass sustainability impacts beyond Scope 1-3 emissions, setting out a roadmap, including timelines, for this next stage of work." [8]

International Alignment

Comments by the ISSB and Its Supporters

"Rarely do governments, policymakers and the private sector align behind a common cause. However, all agree on the importance of high-quality, globally comparable sustainability information for the capital markets. These proposals define what information to disclose, and where and how to disclose it." — Emmanuel Faber, Chair of the ISSB[9]

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8 Morningstar, July 2022: Response to ISSB draft sustainability disclosure standards IFRS S1 and IFRS S2 p. 2

9 "ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures," 31 March 2022; ifrs.org.

"IOSCO [the global association of securities regulators] welcomes the publication of the ISSB's two proposed IFRS Sustainability Disclosure Standards. We will review the proposals, with the objective to endorse them for use by our member jurisdictions. Endorsement by IOSCO can pave the way for adoption of the Standards around the world, delivering much-needed consistency and comparability in sustainability-related information to the capital markets."—Ashley Alder, Chairman of the IOSCO Board[10]

"By building on the TCFD's framework, the ISSB's climate proposals will create further consistency, comparability and reliability across climate disclosure so investors can make more informed financial decisions."—Mary Schapiro, Head of the TCFD Secretariat[10]

Asset Managers' Views

On this topic, respondents' views also differ. There is a large group of respondents who support the draft standards' alignment with TCFD and SASB. A smaller group believes greater collaboration with local regulators and international standard-setters is needed.

Support for Current Alignment with TCFD and SASB Frameworks

Abrdn, BlackRock, Aviva, Dimensional, Capital Group, DWS, Fidelity International, Legal & General, Northern Trust, PGIM, State Street, Vanguard, Wellington

There is broad support among the 20 respondents for the ISSB's efforts to align its draft standards with the existing frameworks set by TCFD and SASB.

Key comments from this group of respondents include the following:

> *"We applaud the ISSB for basing the Exposure Drafts on the SASB Standards and the Taskforce on Climate-related Financial Disclosure (TCFD), two frameworks which have been extensively tested over the last years by institutional investors and public companies globally, and which have a successful track record."* – *Capital Group*
>
> *"As an investment adviser, we rely on portfolio companies' public disclosures to help us make investment decisions on behalf of our clients and the retail investors who have entrusted us with their savings, and we support the ISSB's efforts to build upon the well-established work of Task Force on Climate-related Financial Disclosures (the "TCFD") to create a globally harmonized framework for sustainability reporting standards."* – *Dimensional*
>
> *"ISSB's incorporation of existing global standards, such as the GHG protocol and Task Force on Climate-Related Financial Disclosures (TCFD) into these standards will significantly encourage international adoption of the Exposure Drafts."* – *Fidelity International*

10 "ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures," 31 March 2022; ifrs.org.

However, even amid this broad support some respondents express reservations about the way the ISSB intends to implement the draft standards.

> *"We also agree with the overall approach to leverage the SASB standards for the industry-specific approach to Climate-related disclosures. However, the ISSB standards should recognize the flexibility that is incorporated into the TCFD and SASB. For example, the proposal would require companies to disclose information relevant to the cross-industry metric categories, including its absolute gross Scope 3 GHG emissions generated during the reporting period, despite there being significant challenges with reporting on Scope 3 GHG emissions in light of data and methodological constraints." – State Street*

> *"We generally welcome the ISSB's stated commitment to maintaining an industry-based standard-setting approach and to evolving and enhancing SASB's existing industry-based standards over time. However, we are concerned that proposing an umbrella of disclosure expectations that are meant to be applied across all the ISSB's standards may overlook environmental, social, and governance factors specific to a sector or industry, such as asset management. Our view is that the adoption of a highly topical approach to sustainability (e.g., water, biodiversity, or even social issues) might inadvertently obfuscate issues that are germane to the financial sector." – T. Rowe Price*

Greater Collaboration With Local Regulators and International Standard-Setters Needed
Amundi, Allianz, Capital Group, DWS, Invesco, Schroders, UBS

There are some calls for the ISSB to go further in collaborating with other regulators and reporting framework owners in Europe and the U.S. to ensure greater interoperability with relevant national reporting requirements. These respondents frequently mention European regulators and the SEC, and they are conscious of the diverging approaches to materiality being taken on either side of the Atlantic.

Key comments from this group of respondents include the following:

> *"We see a risk that there will be a significant gap between the ISSB's global baseline and the EU's ambition given the fact that the EU does not limit its materiality perspective to what is material for investors to assess enterprise value, but requires to fully embrace the inside-out view… The ISSB and EFRAG should urgently develop a collaboration model that enables global alignment and connect EFRAG's work with the ISSB's agenda. Allianz Group is happy to support this effort. This rationale of course also applies for other jurisdictions and/or their standard setting bodies (e.g., the US and the US Securities and Exchange Commission)." – Allianz*

> *"We would strongly encourage the ISSB to continue working with leading national regulators in other markets – including the US Securities and Exchange Commission and the European Commission – to ensure interoperability with other emerging standards such as the SEC's draft*

disclosure rules on climate change reporting and EFRAG's upcoming exposure consultation on European Sustainability Reporting Standards." – Capital Group

"We encourage the ISSB to co-operate further with other standard setters to agree a globally consistent framework wherever possible. Such an approach would allow bodies like the SEC and EU regulators to support the work of the Board without sacrificing the nature or timeliness of their independent actions. It could also reduce the cost and complexity of compliance for companies with a global footprint that are currently preparing for the introduction of multiple and varying new reporting regulations at the same time. This would be subject to addressing aspects of the existing draft that we believe would add to the cost and complexity for companies." – Schroders

Morningstar's View

"Asset owners and asset managers invest globally. They absolutely need some international convergence to be able to report meaningful aggregated information to end-users. We therefore fully support a global approach to the development of sustainability disclosure standards and are supportive of the ISSB as the global body to issue these standards. The goal should be a base level of standardized, consistent and comprehensive sustainability information as a critical minimum requirement for investors to be fully informed in their investment decision-making and necessary to provide guidance to issuers/corporates. The standard should strike the right balance between firm-specific information and standardized information. We believe the TCFD framework allow issuers to tailor qualitative information while SASB metrics will ensure a global baseline for quantitative information. We note the many initiatives reporting initiatives already underway and encourages that the ISSB work closely with these initiatives with a view towards simplifying reporting and controlling costs."[11] M

11 Morningstar, July 2022: Response to ISSB draft sustainability disclosure standards IFRS S1 and IFRS S2 p. 10

Appendix 1: Quotes From Comment Letters

In this appendix, we share extracts from the 20 respondents' public comments on IFRS S1 and IFRS S2. A full list of sources can be found in Appendix 2. Some quotes have been edited for clarity.

Topics Covered

- Overall need for consistent disclosures
- Definition of materiality
- Mandatory greenhouse gas emissions disclosures
- International alignment

Overall Need for Consistent Disclosures

"We are strongly supportive of the International Sustainability Standard's Board (ISSB) work to establish a comprehensive global baseline of sustainability disclosures. This affords investors with the ability to conduct comparable analysis and bring consistency to ESG integration." – Abrdn

"We have concerns about the lack of definition of 'sustainability'. While we recognise that this is a contentious term, we believe it is the role of global standard setters to define it." – Abrdn

"We highly welcome the establishment of the International Sustainability Standards Board (ISSB) which we deem as the most promising step to respond to the eminent call for action with regard to a global solution for sustainability reporting. A consistent global mandatory sustainability reporting baseline cannot only simplify the reporting landscape, but will clearly be highly and by far most valuable to increase the transparency about and comparability among companies in the sustainability area." – Allianz

"Amundi welcomes and overall supports the ISSB's initiative to develop international standards for entities to disclose sustainability-related information. Indeed, as an asset manager, we need information from the investees that are sufficiently standardised to be relevant, comparable, verifiable, and useful to enable informed investment decisions and to fulfil our obligations of transparency to end investors with respect to the products and portfolios we manage." – Amundi

"Overall, Aviva is supportive of the proposals, the pathways to reporting going forward and the intention for sustainability reporting to be on par with financial reporting. We support the ISSB's mandate to seek global alignment and the utilisation of the conceptual framework and [the financial reporting standard]

IAS 1 [Presentation of Financial Statements] and the intention to interconnect reporting in the financial statements with climate reporting in the front half of the Annual Report and Accounts." – Aviva

"BlackRock strongly supports the International Sustainability Standards Board's ("ISSB") objective of providing a global baseline of sustainability-related disclosure standards. As an asset manager investing on behalf of diverse clients with a range of long-term financial objectives, we weigh a variety of investment factors, risks, and opportunities, including those related to sustainability." – BlackRock

"We agree that explicit global standards are essential for the credibility and comparability of disclosures." – BNP Paribas

"Global Baseline: As global investors, it is helpful for us to be able to compare the sustainability risks and opportunities facing the companies we invest in across different jurisdictions. We also recognize that companies operating in multiple jurisdictions currently lack consistency related to the disclosures required by different regulators. We believe the exposure drafts offer the potential to serve as a global baseline to enhance the cross-border consistency of disclosure, while recognizing that those jurisdictions which have (or may implement) more robust reporting requirements can still use the Exposure Drafts as a starting point." – Capital Group

"As an investment adviser, we rely on portfolio companies' public disclosures to help us make investment decisions on behalf of our clients and the retail investors who have entrusted us with their savings, and we support the ISSB's efforts to build upon the well-established work of Task Force on Climate-related Financial Disclosures (the "TCFD") to create a globally harmonized framework for sustainability reporting standards." – Dimensional

"Despite the growing importance of sustainability disclosures, the existing fragmentation of the reporting landscape creates difficulties and uncertainties in collecting and publishing comprehensive and comparable sustainability data. The variety of sustainability standards, frameworks, and definitions together with numerous different indicators and metrics create further challenges for companies to focus their efforts on strategic and meaningful disclosures. That is why we support the mandate of the IFRS cross-jurisdictional working group to align global sustainability reporting requirements. We also urge the ISSB to ensure continued coordination and cooperation with jurisdictional authorities to prevent further regulatory fragmentation. In addition, we recommend promoting proactive harmonization of the different sustainability disclosure requirements and their associated concepts and definitions, particularly as they relate to the frequency of reporting, assurance, metrics & targets, structure, materiality and effective date." – DWS

"We are pleased to express our support for the ISSB's proposed Exposure Drafts - General Sustainability-related Disclosure Requirements (General Requirements) and Climate-related Disclosure Requirements (Climate-related Requirements) (Exposure Drafts). We consider that the Exposure Drafts represent an important step forward towards delivering consistent and comparable disclosures needed for the genuine assessment of an issuer's sustainability credentials." – Fidelity International

"Establishing an inclusive global baseline that can act as a catalyst for building consistent, reliable and proportionate sustainability reporting is therefore an important endeavour and we welcome the thoughtful work that the ISSB and the TWG have developed in this Exposure Draft." – Invesco

"In our view, an important measure of success of the ISSB standards will be how widely it is adopted by jurisdictions and companies alike. In order to ensure this broadest possible adoption, the ISSB standards should be proportionate and inclusive, taking into account the needs and capacity of the broad population of companies across regions and jurisdictions that the ISSB standards should be incentivising to undertake sustainability disclosures, including small caps and companies in emerging markets, while ensuring that the standards can act as a building block for those companies and jurisdictions that are more ambitious." – Invesco

"We strongly support a focus on ensuring global consistency, as far as possible, with regards to sustainability data and reporting. We welcome the clarity, and integration, as far as possible, with existing frameworks such as the TCFD and SASB that are well recognised and disclosed against. This will help support the international adoption and alignment of a single set of standards." – Legal & General

"We believe that the ISSB's Exposure Drafts represent a pivotal turning point for the industry in developing a 'future-fit,' globally consistent baseline of sustainability disclosures. We view the Exposure Drafts as reflective of ISSB's mission "to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions." As such, we are strongly supportive of ISSB's proposals on the two Exposure Drafts and applaud the staff at the ISSB for the hard work and leadership they have shown to establish a common international language on sustainability disclosures." – Northern Trust

"PGIM agrees that there is an urgent need to achieve more consistent, complete, comparable, and verifiable sustainability-related financial information. In addition to meeting investor and client interest in sustainable and environmentally responsible investment options, assessing the impact sustainability and climate-related issues may have on an investment has become a standard part of investment risk management and a consideration for many investors. The variability that currently exists in company approaches to sustainability and climate-related disclosures inhibits the ability of investors to analyse and compare investments. Consistent and robust disclosure of sustainability and climate-related information and data may help investors better analyse sustainability and climate-related risks and the opportunities associated with such investments." – PGIM

"Schroders welcomes this consultation and we strongly support streamlining sustainability reporting standards for companies worldwide." – Schroders

"Establishing a global baseline of sustainability-related disclosures is increasingly important. For the investors we serve, the measurement and mitigation of sustainability-related financial risks especially

those stemming from climate change, can be key elements in seeking long-term value. As a result, we have long supported voluntary disclosure standards that aim to increase investor-useful information… We applaud the IFRS Foundation for responding to stakeholder calls on creating an ISSB in order to establish a global baseline of corporate sustainability disclosures." – State Street

"Although we see some areas where the ISSB's proposal can be improved, we support its actions to improve sustainability disclosures and are encouraged by the degree of consistency among the TCFD framework, SASB standards, and the ISSB General Requirements Exposure Draft. This level of consistency embodies a tangible step toward a global baseline of investor-focused climate disclosures." – T. Rowe Price

"We are concerned that proposing an umbrella of disclosure expectations that are meant to be applied across all the ISSB's standards may overlook environmental, social, and governance factors specific to a sector or industry, such as asset management. Our view is that the adoption of a highly topical approach to sustainability (e.g., water, biodiversity, or even social issues) might inadvertently obfuscate issues that are germane to the financial sector." – T. Rowe Price

"UBS strongly supports the initiative taken by the IFRS Foundation International Sustainability Standards Board (ISSB) to establish international sustainability disclosure standards. As a global financial institution, we welcome the creation of global standards for company disclosure of ESG performance through an international standard setting body to facilitate comparable, consistent, and reliable information on sustainability performance." – UBS

"We are supportive of efforts to drive greater international consistency in sustainability reporting, and we believe these efforts will improve the effective functioning of the capital markets. We welcome the formation of the International Sustainability Standards Board (ISSB) and support the "building blocks" approach, which provides a baseline founded on existing frameworks and standards, particularly those enterprise-value, industry-specific requirements set forth by the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD)." – Vanguard

"Wellington Management applauds the important work of the ISSB in aiming to set a global baseline for standardized disclosure of sustainability-related risks and opportunities. Accurate and comparable information about a company's enterprise value is critical to Wellington Management's ability to make informed investment decisions on behalf of our clients. Investors need more information to better price sustainability-related risks and opportunities in order to fully assess a company's enterprise value. The ISSB's work to advance standardized disclosure of sustainability-related financial information in these draft disclosure standards will, when finalized, improve the quality of this information for investors and provide an essential building block for national standard-setters to support comparability of disclosures globally." – Wellington

Definition of Materiality

"The focus on 'enterprise value' materiality runs counter to the EU's Corporate Sustainability Reporting Directive (CSRD) proposal for double-materiality. Reporting entities in scope of the ISSB and EU CSRD sustainability standards could find themselves in a position where they are working with two very different approaches to materiality and, as a result, publish two very different disclosures. This underlines the need for the ISSB to work with national and other jurisdictional authorities to ensure international coherence. Ensuring international agreement on this point in particular will be critical to ensure that these standards really fulfil their purpose as a global baseline." – Abrdn

"To achieve a global solution for sustainability reporting, we not only consider a broad materiality perspective, but also an ambitious timeline as regards the entire ESG scope as an essential success factor. Focusing only on a subset of the information relevant for investors and/or on climate for too long risks a lack of global acceptance and relevance and contributes to maintaining the current high level of complexity and fragmentation of the sustainability reporting landscape." – Allianz

"Further clarity on the materiality concept and its intended breadth is needed. We deem it as absolutely essential that the ISSB's materiality concept is defined in a way to cover investors' information demands in their entirety, namely by fully embracing the concept of dynamic materiality and taking into account that investors are, already today, interested in a significant number of inside-out impacts, either due to sustainability preferences or due to expected second-tier effects on enterprise value in the (potentially long-term) future. This would not only enhance the relevance of the global baseline for users globally, but is also necessary to fully cover the financial materiality view, thereby also facilitating the building blocks approach." – Allianz

"Investors need improved and readily available data to steer their own sustainability approaches and ambitions, e.g., as members of Net-Zero Alliances. Even if such impacts may not (yet) have a first-tier effect on enterprise value, where a sufficiently large group of investors is interested in them and changes its investment decision-making based on them, they elicit a second-tier effect. Also, investors need information on how investee companies intend to address their inside-out climate impacts, not only but especially since climate litigation cases are brought forward predominantly based around companies' past and targeted emissions and other environmental impacts. Altogether, this is why, indeed, we do not consider there to be a meaningful difference between what is commonly referred to as "double materiality" and the concept proposed by the ISSB." – Allianz

"The assessment of such materiality is focusing only to the extent to which it affects the enterprise value, in order to allow users to assess the enterprise value. This is the "financial materiality." Under IFRS S1, "impacts" of an entity on the society and environment may only be disclosed if it has a material effect on the enterprise value. [The financial materiality] approach raises the following concerns: 1) Materiality assessment definition: it is crucial that clear and detailed guidance support the materiality assessment so that it does not turn into a judgmental exercise with different disclosure levels depending upon the reporting entity. 2) Investment decision: this approach is not in line with the double materiality principle we support. Investors such as asset managers and their clients will want to be able to consider

material "impacts" of an entity on the people and the planet "as such" and over time, in addition to the impact on the enterprise value. 3) Regulatory obligations: the EU Sustainable Finance regulatory framework is based on the double materiality principle. Disclosures on the single financial materiality will not provide enough information from investees/issuers and counterparts to EU financial market participants and financial institutions to fulfil their regulatory obligations (SFDR, CSRD,…) towards end investors." – Amundi

"When determining significant risks and opportunities, entities should consider endogenous risks and well as exogenous risks that impact enterprise value and consider the impact of risks and opportunities over a long-term horizon, consistent with the obligations of the company to shareholders and stakeholders over the long-term. We believe that this is the intention of the ISSB's proposals, but ensuring this is clear will be important to ensure that the disclosure standard achieves the ISSB's ambition to make meaningful change." – Aviva

"In our view the assessment of materiality should be the primary basis to determine which risks and opportunities should be disclosed and we would support use of the term 'principal' risks and opportunities to guide preparers on the extent of disclosures expected rather than the term 'significant'. We believe 'significant' could be interpreted to require some form of quantitative assessment which could be burdensome and unhelpful. We therefore recommend the term 'significant' is removed." – Aviva

"While we note that the ISSB Exposure Draft ED/2022/S1 on sustainability-related financial information defines material information in alignment with the definition in the International Accounting Standards Board's (IASB's) Conceptual Framework for General Purpose Financial Reporting, in our view, materiality should be determined according to the definition most relevant to each jurisdiction's wider reporting framework." – BlackRock

"We welcome that ISSB recognizes in Section 6 that sustainability-related financial information is broader than information reported in the financial statements and could include "…information about the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them…" We welcome that the ISSB approach, even if not completely equivalent with the explicit "double materiality" standard, implemented in the European Corporate Sustainable Reporting Directive, through the European Financial Reporting Advisory Council (Efrag) Standards, clearly includes corporate impacts on people, planet and the economy, as they are recognized as investor-relevant information." – BNP Paribas

"The Exposure Draft definition of materiality, including impact, as directly correlated to the Enterprise Value, may be interpreted in various ways, including a narrow approach and therefore create comparability issues." – BNP Paribas

"We recognize that materiality is dynamic, evolving with the external environment a company faces and in response to a company's own strategy. We agree with paragraph 54 of the General Requirements Exposure Draft, which suggests that an entity need not provide disclosure which is not material. However, we would encourage the final drafts to guide companies to share why they are opting not to disclose against specific minimum requirements on a 'comply or explain' basis to help investors distinguish between disclosure which is incomplete and that which is not material." – Capital Group

"We believe the proposed definition and application of materiality will capture the breadth of sustainability related risks and opportunities relevant to the enterprise value of a specific entity, including over time. Implicit in this definition is the requirement that companies assess the sustainability risks and opportunities which they believe to be most material to enterprise value on at least an annual basis, which we support, given the dynamic nature of materiality." – Capital Group

"In Exposure Draft S1, the ISSB focuses on disclosure of sustainability-related financial information that is necessary for investors to assess enterprise value and clearly states that an entity need not provide a specific disclosure if the information is not material. We strongly agree with this approach. Because the costs of disclosing specific climate-related information may outweigh the benefits to a company's investors, we believe that financial materiality is the right lens through which a company should determine what climate-related information to disclose. Some stakeholders may encourage the ISSB to incorporate double materiality into its standards. We urge the ISSB to resist such calls. Under a double materiality framework, a company would be required to disclose climate-related information if it is material to understanding the external impacts of the company on the environment and society, even if these external impacts do not materially affect the company's enterprise value." – Dimensional

"In our view, the costs of [a double materiality] approach outweigh the benefits. There is no limit to what may be deemed material by at least some investors, and therefore, a double materiality standard may lead to reams of extraneous disclosure, substantially increasing costs to companies and potentially confusing investors. It may also compel corporate leaders to spend a disproportionate amount of time managing the disclosure of financially non-material information at the expense of activities that may create value for the company, its shareholders, and wider stakeholders. And it may have a negative effect on corporate governance. When corporate leaders are allowed to portray themselves as serving the interests of multiple stakeholders, this may induce institutional investors to become more deferential to corporate leaders' decisions, less willing to support challenges to the control of these leaders, and more willing to support or accept corporate governance arrangements that shield management from market pressure." – Dimensional

"It would be unfortunate if double materiality contributed to corporate leaders becoming insulated from and less accountable to their shareholders. We believe investors are better served if companies are only required to disclose information that it has determined is financially material." – Dimensional

"While there are merits in an enterprise value approach, the single materiality / climate change focus is clearly falling short of what is needed to provide effective and comprehensive disclosures to meet the

objectives outlined in art 2 (a) of the IFRS Foundation Constitution. At a practical level, please consider how investors can take important investment decisions and how capital markets can work effectively if standards ignore the impact that economic and financial capital has on society and the environment. Without a commonly accepted standard based on double materiality, we will need to continue to spend significant time and resources in assessing these impacts on environment and society resulting in potentially higher costs for sustainable investors and capital misallocation." – DWS

"The collaboration with GRI and discussions with EFRAG indicate an acknowledgement by the ISSB of the importance of impact materiality. Hence, we urge the ISSB to commit to an acceleration of efforts to incorporate impact materiality into the standards through intensive engagement with EFRAG to devise a workable double materiality concept. This is a significant opportunity to address the fragmentation of reporting standards and develop a truly comprehensive 'gold standard' for sustainability reporting. Without this the needs of both investors and other stakeholders will not be met." – DWS

"The use of the term 'significant' is not clear and leaves an opportunity for interpretation. We suggest that the IFRS S1 standard should align this definition with the ESRS 1 'General principles,' where the terms 'significant' and 'material' have the same meaning when referring to impacts, risks and opportunities. Alternatively, the ISSB should provide further explanation on the difference between 'significant' and 'material' as well as guidance on the methodology for identifying significant risks and opportunities." – DWS

"Another challenge with the Exposure Drafts is the expression of 'materiality'. We agree issuers are best positioned to assess which metrics are material to their operations; however, the absence of any clearly accepted international definition of 'materiality' could lead to hesitation in adopting the standards and a purely qualitative assessment of materiality could impact usability of these standards for investors. Further clarification of the definition of materiality, or guidance on when sustainability metrics may be material, as well as requiring companies to explain how they have assessed materiality, could be useful to address this challenge. As we previously expressed, we believe that a gradualist approach is appropriate to encourage broad adoption, but that over time the ISSB should consider how its approach should evolve to the principle of double materiality, which will be necessary to meet the needs of investors seeking to align to broader international objectives such as the UN Sustainable Development Goals." – Fidelity International

"Thought will need to be given as to how the ISSB standards can be used as building blocks that can sit within different legal regimes, particularly given varying legal definitions of materiality, for example in the US with a narrow focus on financial materiality compared with the ISSB definition of enterprise value or the EU which also includes sustainability impact." – Invesco

"We are supportive of the focus on a materiality based on users' assessment of enterprise value. However, it is important when assessing materiality that there is clarity over the expectations of how a firm must assess its enterprise value. An assessment of enterprise value must be beyond a point-in-time 'financial materiality' as applied to financial statements. Equally, we do not want to overburden the user.

We believe that additional prominence should be given to the expectation that when assessing enterprise value, a firm is expected to consider the following features of sustainability risks: 1) Sustainability risks that will impact the entity's business model, strategy and cash flows, its access to finance and cost of capital, over the short, medium, and long-term. 2) For sustainability risks it is possible that while direct impacts on an individual enterprise may not meet the materiality threshold, due to the often systemic nature of sustainability risks, the enterprise may be exposed to material impacts through these alternative transition channels. 3) A key feature of sustainability risks is their dynamic nature (sometimes referred to as the concept of 'dynamic materiality'). The landscape is continuously shifting, including what is considered sustainable versus what is not. The materiality of an issue may evolve over time, sometimes rapidly. Therefore, the assessment of materiality should also allow for the dynamic materiality of the sustainability risk over the short, medium, and long-term." – Legal & General

"While we continue to strongly support the clear focus of the ISSB on financial materiality in assessing enterprise value, we recognize that clients and regulators in some jurisdictions, most notably in Europe, are requiring the disclosure by corporations and their asset managers on the wider impacts they have on the environment and the societies they operate in, i.e., double materiality. This underscores the importance for interoperability of the ISSB standards to serve as building blocks upon which different jurisdictional reporting standards can be layered upon." – Northern Trust

"PGIM encourages the ISSB to enhance the proposed standards by applying a 'double materiality' approach to sustainability reporting. Such an approach, whereby companies would report not only on financially material sustainability/climate-related information but also on companies' significant environmental and social impacts, is becoming increasingly useful to investors who seek to understand the impact of the businesses they invest in on sustainability/climate-related issues in the context of many of our clients' ESG, sustainability and portfolio decarbonization objectives." – PGIM

"The exposure draft would benefit from clearer definitions around what 'significant' sustainability risks and opportunities are, as well as what is 'material' information around those risks. Materiality is particularly hard to define when considering the qualitative, subjective nature of information and the need to ensure relevance to investors. The definition of materiality used is reflective of that used in traditional financial reporting, but this is difficult to apply to a sustainability reporting context. We would welcome further guidance on how materiality should be applied, not least in order to ensure consistency and comparability of reporting. We also believe a consistent definition of materiality should be applied across the standard setting bodies and we specifically note the concept of 'double materiality' in CSRD, which aims to reflect decision-useful information that extends beyond information affecting enterprise value solely. Greater clarification of the concept of materiality such that it ensures compatibility with CSRD would be welcome." – Schroders

"The ISSB should ensure that any proposed definition of materiality (which currently references 'enterprise value') operates in a way that enables companies to apply the materiality standard they already use for financial reporting today." – State Street

"We agree with the ISSB's approach to apply a materiality standard to all of the provisions contained in both exposure drafts. As an initial matter, however, there are several instances in which the exposure drafts make reference to not only disclosing 'material' risks and opportunities, but also those that would be considered 'significant'. To eliminate the ambiguity caused by this inconsistent terminology, and to ensure that the standards elicit disclosure of information that is decision-useful to users of financial statements, we recommend the ISSB remove references to 'significant' and focus exclusively on what is considered material." – State Street

"More importantly, we believe the ISSB should revise its approach to defining materiality such that it aligns with accounting and policy frameworks that do not apply IFRS accounting standards, for example, in the United States. We agree with industry recommendations to adopt a more flexible approach that would enable companies to apply the same materiality standard as they do for financial reporting today, or to remove the reference to 'enterprise value' and instead utilize the definition provided by [the accounting standard] IAS 1." – State Street

"While the ISSB has continually applied a clear definition of materiality in the context of sustainability-related financial information, the concept of double materiality – which includes environmental and social impacts of a company's operations, even if not financially material to the company – has significant support outside of the ISSB's framework (e.g., the E.U. has adopted a double materiality approach in relation to SFDR and other sustainable finance regulations; the GRI's disclosure standards adopt a broad, multi-stakeholder interpretation of materiality; and EFRAG's draft European Sustainability Reporting Standards for the Corporate Sustainability Reporting Directive incorporate disclosure obligations that include entities' impacts on nature, society and climate). Furthermore, in the U.S., the SEC recently proposed the Enhancement and Standardization of Climate-Related Disclosures for Investors, where certain disclosures would be required, regardless of materiality." – T. Rowe Price

"Given the varied approaches to the concept of materiality, as illustrated above, we encourage the ISSB to explicitly adhere to a standard of materiality that investors and registrants understand and are familiar applying. Ultimately, to require disclosure of immaterial information will be detrimental to investors, making it difficult for them to determine exactly what information, of the wealth of data presented, is in fact useful, relevant, and comparable across registrants. From an issuer perspective, preparing immaterial information will increase costs and divert attention and time from data that is material." – T. Rowe Price

"We also support the goal to go beyond climate and address E, S, and G topics in their entirety with a focus on risks and opportunities that are material to understanding enterprise value." – UBS

"We ask boards to be a key voice on strategy, to identify and govern material risks, and to have structures in place to consider emerging and event-driven risks, including those material risks related to environmental and social sustainability issues in their industry. We believe boards are in the best position to define risks material to a particular entity and disclose them utilizing widely accepted frameworks to ensure comparability across companies and sectors." – Vanguard

"Vanguard views corporate disclosures—including disclosures pertaining to sustainability—through the lens of materiality to the firm's long-term value, and we focus on the risks that are most relevant to particular companies, while acknowledging that those risks might evolve over time. Disclosure and assessment of material risks, including sustainability risks, is important for price discovery and longterm shareholder returns. As disclosure of financially material sustainability risks improves, we believe security prices will more accurately reflect these risks, and all investors will benefit. We support the SASB approach that companies are responsible for determining which disclosure topics represent financially material risks and opportunities for their business and which associated metrics to disclose, taking the company's business model, business strategy, and relevant legal requirements into account." – Vanguard

"Further, Wellington Management strongly supports the ISSB draft's use of financial materiality centered around assessing enterprise value and focused on the sustainability topics most relevant to each industry to establish the global baseline. We recommend that the ISSB work to improve consistency in the use and meaning of the term 'material' and consider the meaning and use of other terms like 'significant' in the standard. We also recommend consistent definition of 'enterprise value,' which we believe should be the central principle driving disclosure. For the ISSB Requirements to succeed as a global baseline, these key terms should be clear and used consistently throughout." – Wellington

"For the disclosure standards to be a successful global baseline, materiality should focus on an assessment of enterprise value. Wellington Management supports the definition and application of materiality in the Draft General Requirements IFRS S1 provided the definition is made clearer and used consistently throughout the standard." – Wellington

Mandatory Greenhouse Gas Emissions Disclosures

"The ISSB Exposure Draft proposes that an entity be required to separately disclose Scope 1 and Scope 2 emissions for (i) the consolidated entity, and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates. We believe that this requirement may cause confusion as the definition of the carbon accounting boundary (equity share, operational method, or control approach) will dictate whether or not it includes a joint venture or unconsolidated subsidiary. We believe there should be an assessment on whether a single boundary method should be applied to create greater consistency across corporate accounting. This would require the revision of the GHG Accounting Protocol Standard. Until this issue is addressed, the separation of joint ventures and other entities will likely lead to increased inconsistency." – Abrdn

Abrdn supports the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality, as proposed by the ISSB." – Abrdn

"Some of the data requirements for reporting of the proposed climate metrics and targets are challenging, most notably regarding the emissions data which is required at a granular level (e.g. for

each carbon-intensive industry, by asset class and by scope type and for financed emissions) which is not data yet available. This is due to data gaps and lack of reliable data inputs from third party data providers, as well as gaps in or immature methodology and the challenge of double counting which means that an accurate collective view of emissions is not available. It is important that financial reporting principles as outlined in Sustainability Standard 1 General Requirements (S1) are adhered to such that data is relevant and reliable before it is reported." – Aviva

"As investors, we use GHG emissions estimates to size an issuer's climate-related exposure. Specifically, we look to companies to provide Scope 1 and 2 GHG emissions disclosures, and meaningful short-, medium-, and long-term science-based reductions targets, where available for their sector." – BlackRock

"We support requiring issuers to disclose their Scope 1 and 2 GHG emissions estimates regardless of materiality, as this information helps investors assess exposure to climate-related risks and opportunities across a variety of sectors. However, given the methodological and estimation challenges issuers face today in collecting Scope 1 and 2 data on a timely basis, we are of the view that it is impracticable to require this information to be disclosed or 'filed' in general-purpose financial reporting on the annual report timeline, even if material, although that may change over time as these challenges abate. In our response to the SEC's proposed climate-related disclosure framework, we have included a proposal for a New Form through which issuers could 'furnish' all GHG emissions data, given these methodological and estimation challenges. We encourage the ISSB to permit Scope 1 and 2 disclosures – where material – to be incorporated by reference from an appropriate alternative reporting location instead of requiring that it be included in a company's general purpose financial reporting, unless a robust safe harbor can be provided to afford meaningful protection from liability for Scope 1 and 2 disclosures included in a company's general purpose financial reporting." – BlackRock

"As investors, we use Scope 3 emissions as a proxy metric (among others) for the degree of exposure companies have to carbon-intensive business models and technologies. However, we do not believe the purpose of Scope 3 disclosure requirements should be to push publicly traded companies into the role of enforcing emission reduction targets outside of their control. Given methodological complexity for Scope 3 emissions and the lack of direct control by companies over the requisite data, our investors believe the usefulness of this disclosure varies significantly right now across industries and Scope 3 emissions categories. We encourage regulators to adopt a disclosure framework that accounts for this significant variation. Under this framework, companies would disclose emissions estimates for any of the fifteen Scope 3 categories that are material to them. If none of the fifteen categories are material, or if companies are not yet capable of estimating their Scope 3 emissions, they would have the option of explaining why that is the case." – BlackRock

"As investors, we use Scope 3 emissions as a proxy metric (among others) for the degree of exposure companies have to carbon-intensive business models and technologies. However, we do not believe the purpose of Scope 3 disclosure requirements should be to push publicly traded companies into the role of enforcing emission reduction targets outside of their control. Given methodological complexity for Scope 3 emissions and the lack of direct control by companies over the requisite data, our investors believe the

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"In our experience as investors, these issues, and the usefulness of Scope 3 disclosures more generally, vary significantly across industries and the 15 categories of Scope 3 emissions. We support a 'comply or explain' approach to disclosure of Scope 3 in an appropriate alternative reporting location outside of a company's general-purpose financial reporting, allowing issuers to either disclose material Scope 3 emissions or explain why certain emissions categories are not relevant to the issuer or not subject to reasonable estimation." – BlackRock

"We highly welcome that the ISSB proposes mandatory disclosure requirements on, among others, the following aspects: Scope 3 GHG emissions, transition plans, and climate scenario analysis." – BNP Paribas

"We agree that entities should be required to use the GHG Protocol to define and measure Scope 1, 2, and 3 emissions. We do not believe other methodologies should be permitted, as divergence in methodology will create inconsistent and incomparable reporting. We believe entities should be required to provide a disaggregated view of all seven GHGs for Scope 1, 2, and 3, as there are times where it is most helpful to understand exposure to particular GHGs. For example, certain jurisdictions may have regulation limiting methane emissions, and it is helpful to understand a company's relative exposure rather than just overall emissions in order to know how operations may be impacted." – Capital Group

"We recommend the draft make clear that reporting entities should provide the disaggregated amount of each category of Scope 3 emissions deemed material in addition to the absolute gross figure. Further, we suggest a 'comply or explain' approach; where entities opt not to disclose certain categories of Scope 3, reporting should include a description of why they do not view this as material, so that users of financial statements can distinguish between incomplete information and that which is not relevant." – Capital Group

"We support the inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality. As long-term investors seeking superior results for our clients, in our bottoms-up security analysis, we find that Scope 3 GHG emissions data, where material, offers key insights into how a company is managing material climate-related risks and opportunities in the energy transition. A company's mix of Scope 1, Scope 2 and Scope 3 GHG emissions will vary based on its operating model. For example, based on Scope 1 and Scope 2 GHG emissions data alone, two companies engaged in substantially similar businesses might appear to have radically different carbon footprints if one, unlike the other, outsources its production. Without Scope 3 GHG emissions

information, the comparison would lead one to conclude, falsely, that the company that is outsourcing its production is managing its climate-related risks more effectively." – Capital Group

"We also encourage the ISSB to reconsider whether requiring disclosure of Scope 3 emissions is appropriate, even when material. Companies in most industries are not able to estimate their Scope 3 emissions with reasonable reliability at this time. Estimates of Scope 3 emissions may vary substantially because of differences in the assumptions made and methodology employed. Such data is of limited use to investors." – Dimensional

"The ISSB should allow sufficient time for data collection and disclosure of Scope 3 emissions, considering the sourcing complexity. In addition, we strongly support the 'safe harbour' principle included in the Climate-Related Disclosures proposed by the US Securities and Exchange Commission. We consider the 'safe harbour' provisions key to address challenges associated with disclosures relying on difficult to obtain and/or uncertain information." – DWS

"We are very supportive of disclosures on Scope 1, 2 and 3 emissions." – Fidelity International

"Industry-specific disclosure requirements for financed and facilitated emissions reflect the characteristics of each industry and can provide investors with useful information. Additionally, the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) allows investors to develop an overall picture of the indirect emissions of companies in the financial sector and to make a preliminary comparison based on this general info. We recommend ISSB incorporate both into its disclosure requirements." – Fidelity International

"As recognised in the Exposure Draft, there are a number of areas that are complex for issuers to comply with due to lack of clear methodologies. This includes: Scope 3 GHG emissions; Scenario analysis; Current and anticipated financial effects. These elements could be framed as more advanced disclosures that apply to only the largest companies and/or subject to a phase-in approach to allow more time for companies to build up towards these more advanced disclosures." – Invesco

"We are supportive of the proposed Scope 3 requirement being only in relation to relevant and material categories of absolute Scope 3 emissions. Scope 3 is where the vast majority of corporate emissions reside and measuring it will be essential to galvanising system-wide pressure on decarbonisation. Without disclosure of Scope 3 emissions, we will not be able to assess the credibility and progress towards net zero of our investee companies and will therefore also not enable investors to fully understand the transition risks a company is exposed to through its value chain. The usefulness of the disclosures of quantitative targets will be sector dependent. A definition of materiality will be important. Scope 3 category 15 (investments) are by far the most material emissions for most financial institutions. This does not mean other scope 3 categories are not material, but companies are not currently required to disclose all categories of their Scope 3 and may struggle to access this data." – Legal & General

"We are strongly in support of the requirement to disclose Scope 3 emissions which goes beyond the strong encouragement of TCFD's recommendations. While we note that data and methodological challenges still exist, they are rapidly improving and preparers should be given a long runway to implement the new disclosure regime." – Northern Trust

"PGIM recommends that Scope 1 and 2 emissions be reported by all companies irrespective of financial materiality." – PGIM

"PGIM believes that Scope 1 and 2 emissions should be reported by all issuers, and that industry standards should require disclosure of most material Scope 3 emissions for those industries where Scope 3 represents a significant portion of emissions." – PGIM

"PGIM agrees that eventually all entities should be disclosing Scope 3 emissions. However, until Scope 3 information is available more readily, PGIM believes Scope 3 information provided as follows would be useful to investors: Scope 3 emissions should be reported by companies with material Scope 3 emissions… While PGIM believes Scope 3 emissions is an important data point, recognizing the challenges of calculating upstream and downstream emissions information, companies reporting only on their most material Scope 3 emissions information would still provide valuable information to investors. As data collection in value chains improve, upstream and downstream emissions disclosure can be expanded to all companies and additional categories of Scope 3 emissions can be added to reduce the reliance on estimates by investors. To ensure consistency of disclosures, PGIM request that ISSB provide clear guidance on which industries and activities would require Scope 3 disclosures and on the most material emissions categories for each industry." – PGIM

"While the initial exposure drafts may represent an 'end-state' global baseline, we urge the ISSB to consider that companies' capabilities to satisfy all of the requirements will evolve over time – especially, with respect to disclosing processes around risk measurement and management, including scenario analysis, as well as greenhouse gas ("GHG") emissions reporting (Scope 3). We assume that the ISSB is cognizant of this and intends to provide such flexibility, given it allows companies to omit disclosure if they are 'unable to do so'. However, this ought to be further clarified as we suspect that it will lead to varying interpretations." – State Street

"The ISSB should not mandate full Scope 3 GHG disclosure at this time. Many aspects of the calculation and attribution of GHG emissions disclosures are still in early stages of development, but there continues to be significant practical challenges preventing full disclosure of Scope 3. There is an inherent timing lag in the availability of Scope 3 data, given the interdependence on Scopes 1 and 2, inconsistent Scope 3 estimation measurements, as well as wider technical issues such as 'double counting'." – State Street

"We support the ISSB's proposal to include Scope 1 and Scope 2 greenhouse gas (GHG) emissions disclosures utilizing the approach set forth in the GHG Protocol. Furthermore, we are strongly supportive of an entity being required to provide an aggregation of GHG expressed in CO2 equivalents, rather than disaggregating by constituent gases. We do not believe that the quality of the data obtained after

disaggregating by constituent gas would justify the cost and effort involved in gathering it, and question whether this incremental disclosure will in fact be useful for investors. In our view, disaggregation by constituent GHG should be mandated only if it is material to the reporting entity." – T. Rowe Price

"We are concerned with the ISSB Climate Exposure Draft's proposal to include Scope 3 emissions as a cross-industry metric category for disclosure by all entities on an immediate basis. While we recognize that Scope 3 GHG emissions data is important to assess investments, the reality is that methodologies continue to be under development and, in its current state, Scope 3 GHG data is of limited reliability. There is no uniform methodology or approach, making it highly unlikely that Scope 3 GHG disclosure will provide comparable and useful climate-related information. Data collection and quality assurance processes, along with timely access to this data, need to improve to increase investor confidence." – T. Rowe Price

"We recommend that the ISSB apply a lead time for requiring Scope 3 GHG data disclosure, once a protocol and accounting methodology have been agreed on and tested broadly, rather than proposing industry-based disclosure requirements for financed and facilitated emissions now." – T. Rowe Price

"We appreciate that the ISSB framework would ensure clear, consistent, and comparable foundational climate-related information—including uniform reporting of Scope 1 and Scope 2 greenhouse gas (GHG) emissions in alignment with the TCFD—in line with the local legislative requirements. This information will help investors better understand a company's exposure to, and management of, climate risk without imposing an undue burden on companies. In most cases, the disclosures." – Vanguard

"We recognize that Scope 3 GHG emissions represent the majority of emissions for many companies and sectors, but these disclosures come with challenges including data availability, use of estimates, and varying calculation methodologies. These challenges may place an undue burden on companies if required to report all categories of Scope 3, including emissions which may not be material... Investors would be best served by more targeted and flexible disclosures than the full Scope 3 requirement proposed, which includes significant data requirements and potentially broad applicability." – Vanguard

"It may be appropriate, however, to require additional climate-related disclosures for a subset of companies or sectors that have more acute climate risks or that have set climate-related targets. For example, a company or sector that faces acute risk with respect to one or more categories of its Scope 3 emissions—such as purchased goods and services or use of sold products—or that has set a target with respect to that element, should be required to disclose only the information necessary to help investors understand that risk or progress toward the target." – Vanguard

"Scope 1 and Scope 2 emissions alone will not provide a complete picture for investors to assess a company's transition risk. Scope 3 emissions disclosures include indirect emissions from a company's overall value chain, including suppliers (i.e., upstream emissions) and customers/consumers (i.e., downstream emissions). Disclosure of both overall categories of Scope 3 emissions—upstream and downstream—with context and specificity from companies about the most significant Scope 3 sources,

is necessary for investors to develop a full picture of transition risk exposure and to evaluate investment risks and opportunities." – Wellington

"If Scope 3 reporting is not required of all companies, investors will be faced with the difficulty of assessing which companies have internalized processes with GHG emissions and which have outsourced to other companies, both upstream and downstream. Without Scope 3 emissions information, companies who outsource carbon-intensive activities appear to have less exposure to transition risk than companies who internalize these same activities." – Wellington

"Wellington Management agrees that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions. We believe that use of common standards for this important disclosure aids investors' use of this information in evaluating a company's enterprise value, including the impact of GHG emissions on a company's value chain." – Wellington

International Alignment

"While well intentioned, jurisdictional efforts to legislate for increased corporate ESG disclosure risk creating a fragmented approach to ESG reporting, where companies operating internationally have to produce multiple reports. In the worst-case scenario, this could turn into a box ticking exercise which does not result in useful, comparable and high quality ESG data that companies like us need to support our clients become better investors. We particularly welcome the ISSB's focus on supporting the investment community." – Abrdn

"We appreciate that the latter [IFRS S2 Climate-Related disclosures] are leveraging on the commonly accepted reporting frameworks of the Task Force on Climate-related Financial Disclosures (TCFD) and the GHG Protocol. However, we note two significant gaps compared to our expectations: … We believe requirements should be strengthened to provide accurate and comparable transition plans; … ISSB should continue efforts to extend the scope of disclosure standards as soon as possible and in a consistent manner with the EU sustainable reporting framework and EFRAG's coverage of the full ESG spectrum." – Amundi

"We have long supported international efforts toward a single, globally consistent set of baseline sustainability reporting standards, that is aligned with the Taskforce on Climate-related Financial Disclosures ("TCFD") framework. We consider this key to enhancing the quality of information available to investors and other stakeholders. A global baseline of standards will help users to assess a company's exposure to and management of climate-related risks and opportunities, and to facilitate investment and stewardship decisions." – BlackRock

"We see a need for standards that are industry-based, in order to include metrics and analysis of sustainability factors that are currently, or could become, material to understanding enterprise value, yet which may be relevant to only a few industries. We therefore welcome the incorporation of sector specific standards, drawing on the work of the Sustainability Accounting Standards Board (SASB) and others." – BlackRock

"Regarding the sectoral SASB standards, we are quite concerned that they remain US centric. We welcome that ISSB has implemented a jurisdictional working group to ensure a co-construction approach for the definition of the international standards. We support sectoral standards be enriched and amended to be usable and interoperable in many jurisdictions, based on existing international sectoral norms and standards (such as the Global Reporting Initiative)." – BNP Paribas

"We believe that ensuring a sound basis for interoperability with existing and upcoming sustainability reporting standards developed by national and regional standard setters worldwide is the key success factor, while at the same time representing the greatest challenge." – Allianz

"We highly welcome that the ISSB encourages integrated reporting across sustainability information and between sustainability-related and purely financial information, builds on both existing well-established sustainability reporting guidance, especially TCFD, as well as on the IFRS financial reporting framework, where possible/relevant, and proposes a principles-based approach." – Allianz

"We strongly urge the ISSB to leverage its formal cooperation with the Global Reporting Initiative (GRI) to achieve interoperable building blocks for multi-stakeholder reporting, where the building blocks can be applied separately, but also jointly, if both investors and broader stakeholders shall be addressed." – Allianz

"We see a risk that there will be a significant gap between the ISSB's global baseline and the EU's ambition given the fact that the EU does not limit its materiality perspective to what is material for investors to assess enterprise value, but requires to fully embrace the inside-out view… The ISSB and EFRAG should urgently develop a collaboration model that enables global alignment and connect EFRAG's work with the ISSB's agenda. Allianz Group is happy to support this effort. This rationale of course also applies for other jurisdictions and/or their standard setting bodies (e.g., the US and the US Securities and Exchange Commission)." – Allianz

"We also support the use of the established TCFD reporting framework and building on metric reporting frameworks such as the Sustainability Accounting Standards Board (SASB) insurance and asset management standards. We support the intention for more granular data and the concept of metrics in three areas: cross industry metrics, industry specific metrics and metrics used by management." – Aviva

"We applaud the ISSB for basing the Exposure Drafts on the SASB Standards and the Taskforce on Climate-related Financial Disclosure (TCFD), two frameworks which have been extensively tested over the last years by institutional investors and public companies globally, and which have a successful track record. Capital Group publicly endorses both frameworks in our ESG Policy." – Capital Group

"We would strongly encourage the ISSB to continue working with leading national regulators in other markets – including the US Securities and Exchange Commission and the European Commission – to ensure interoperability with other emerging standards such as the SEC's draft disclosure rules on

climate change reporting and EFRAG's upcoming exposure consultation on European Sustainability Reporting Standards." – Capital Group

"We believe the selection of SASB and the TCFD as the basis for the Exposure Drafts underscores two salient points: 1) Material ESG issues vary significantly by industry; industry-based approaches to materiality are essential for the disclosure of investment-relevant information. 2) Climate change poses a challenge to the global economy and will impact companies in different ways." – Capital Group

"As an investment adviser, we rely on portfolio companies' public disclosures to help us make investment decisions on behalf of our clients and the retail investors who have entrusted us with their savings, and we support the ISSB's efforts to build upon the well-established work of Task Force on Climate-related Financial Disclosures (the "TCFD") to create a globally harmonized framework for sustainability reporting standards." – Dimensional

"We strongly encourage the ISSB's engagement in constructive dialogues with other sustainability-reporting standard-setters to promote the concept of simplification and consolidation. As a Europe-domiciled organisation, we would particularly urge the ISSB to pursue consistency with the work of the EFRAG on the European Sustainability Reporting Standards (ESRS)." – DWS

"DWS supports the ISSB objective to develop a comprehensive global baseline for sustainability disclosures, while building upon existing international frameworks, such as the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB) (assuming these are revised for international usage) and the requirements and definitions of the International Accounting Standards Board's (IASB) Conceptual Framework for Financial Reporting (IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)." – DWS

"We recommend that the ISSB focus on double materiality reporting of sustainability from the onset and should work with EFRAG to devise a workable double materiality concept (or at a minimum ensure compatibility). In practice, this would mean a set of sustainability reporting standards which are science based, incorporate double materiality and capture a broad range of sustainability issues such as inequality, human rights, water risks, biodiversity loss and climate. In our view, the Science Based Targets initiative (SBTi) provides the optimal blend of accounting for financial analysis, backed by scientific verification. This is essential given investors' demands and their commitments to net zero targets." – DWS

"ISSB's incorporation of existing global standards, such as the GHG protocol and Task Force on Climate-Related Financial Disclosures (TCFD) into these standards will significantly encourage international adoption of the Exposure Drafts… We hope the ISSB platform to enhance cross-jurisdictional adherence will be a useful tool to support international inter-operability. We also welcome the move from US standards to international standards and suggest including a requirement that companies explain any reporting impact caused by a change in standards." – Fidelity International

"We are now seeing a number of jurisdictions introducing mandatory climate and sustainability reporting obligations, including in the US, Canada, the EU, the UK, and Hong Kong. While many of these requirements are based on the TCFD, they differ significantly in terms of breadth and granularity of requirements. This fragmented sustainability reporting landscape could create sub-optimal outcomes for investors and investee companies alike, including: inefficient allocation of capital based on lack of reliable data on financially material environmental, social and governance risks and opportunities, which could impact particularly smaller companies and emerging markets; - increased administrative costs from duplicative or inconsistent reporting requirements across different jurisdictions." – Invesco

"LGIM have consistently been calling for the development of a globally harmonised framework for sustainability reporting standards and for sustainability disclosures to be treated in the same manner as financial disclosures. High-quality sustainability disclosures must be consistent, comparable and verified. We welcome this move to ensure adoption widely across markets through the ISSB's building block approach. To this end, we are supportive of the ISSB's efforts to create a globally harmonised sustainability disclosure standard. We are pleased that the ISSB builds on existing progress through the consolidation of various standards setters, notably the Value Reporting Foundation, and has developed draft standards that are clearly derived from the existing TCFD and SASB frameworks. Taking TCFD and SASB as the foundation for the Exposure Drafts means that much of the standard is already familiar to a significant number of users and preparers." – Legal & General

"We strongly support the ISSB's proposal to build on existing sustainability reporting efforts, namely the incorporation of the Sustainability Accounting Standards Board's (SASB) 77 industry-specific metrics and the disclosure framework of the Task Force on Climate-Related Financial Disclosures (TCFD)… As the foundational building blocks for the ISSB's Exposure Drafts are built on SASB and TCFD, there is already a high degree of familiarity from both users and preparers which we believe will be conducive for easier and greater adoption of new corporate sustainability reporting standards." – Northern Trust

"PGIM is supportive of the ISSB's approach to use, as a foundation for the Exposure Drafts, the standards established by the Task Force on Climate-Related Financial Disclosures ("TCFD") and the Sustainability Accounting Standards Board ("SASB"). PGIM notes, however that it will be critical for ISSB to have an effective update process as the underlying standards and practices develop." – PGIM

"We encourage the ISSB to co-operate further with other standard setters to agree a globally consistent framework wherever possible. Such an approach would allow bodies like the SEC and EU regulators to support the work of the Board without sacrificing the nature or timeliness of their independent actions. It could also reduce the cost and complexity of compliance for companies with a global footprint that are currently preparing for the introduction of multiple and varying new reporting regulations at the same time. This would be subject to addressing aspects of the existing draft that we believe would add to the cost and complexity for companies." – Schroders

"We are in favour of an approach that would allow regional jurisdictions to build on a global baseline to set supplemental standards that serve their specific jurisdictional needs. This practical approach would allow bodies such as the SEC and the EU regulators to support a global baseline without sacrificing the nature or timeliness of their independent actions. It would also reduce the cost and complexity of compliance for companies with a global footprint who are currently preparing for the introduction of various new reporting regulations at the same time." – Schroders

"We applaud the IFRS Foundation for responding to stakeholder calls on creating an ISSB in order to establish a global baseline of corporate sustainability disclosures. We also appreciate that the initial exposure drafts reflect our earlier recommendations to adopt a 'climate first' approach and to leverage the Taskforce on Climate-related Financial Disclosures ("TCFD") and the Value Reporting Foundation ("VRF"), which includes the former Sustainability Accounting Standards Board ("SASB") standards." – State Street

"We also agree with the overall approach to leverage the SASB standards for the industry-specific approach to Climate-related disclosures. However, the ISSB standards should recognize the flexibility that is incorporated into the TCFD and SASB. For example, the proposal would require companies to disclose information relevant to the cross-industry metric categories, including its absolute gross Scope 3 GHG emissions generated during the reporting period, despite there being significant challenges with reporting on Scope 3 GHG emissions in light of data and methodological constraints." – State Street

"We generally welcome the ISSB's stated commitment to maintaining an industry-based standard-setting approach and to evolving and enhancing SASB's existing industry-based standards over time. However, we are concerned that proposing an umbrella of disclosure expectations that are meant to be applied across all the ISSB's standards may overlook environmental, social, and governance factors specific to a sector or industry, such as asset management. Our view is that the adoption of a highly topical approach to sustainability (e.g., water, biodiversity, or even social issues) might inadvertently obfuscate issues that are germane to the financial sector." – T. Rowe Price

"We welcome the ISSB's work to build on the existing sustainability reporting efforts, foremost that of the TCFD. Thus, we appreciate that the standards follow the TCFD structure and the high degree of alignment between IFRS S2 and the current TCFD recommendations." – UBS

"We also support the goal to go beyond climate and address E, S, and G topics in their entirety with a focus on risks and opportunities that are material to understanding enterprise value. This will help ensure broad applicability and acceptability and provide a global baseline for sustainability reporting. Thus, we support the broad scope of IFRS S1 and the work of the ISSB to consider further topic specific standards later this year. Finally, we also support the inclusion of industry specific metrics building on the SASB Standards and the efforts of the ISSB to ensure those metrics have global relevance." – UBS

"We would very much encourage international alignment on sustainability disclosure requirements and the efforts to ensure the inter-operability of the ISSB standards with national standards that may be

developed. This is important to reduce the reporting burden for companies operating globally and to ensure the comparability of disclosures." – UBS

"We… support the "building blocks" approach, which provides a baseline founded on existing frameworks and standards, particularly those enterprise-value, industry-specific requirements set forth by the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). We also support that this approach preserves different jurisdictional contexts in implementation, such as Corporate Sustainability Reporting Directive (CSRD), in Europe which requires a multi-stakeholder focus on materiality." – Vanguard

"As the objectives build on the four core elements of the TCFD recommendations, which are already well-established and practiced in the market, we agree that this will support a comprehensive and coherent approach to disclosing sustainability-related financial information." – Wellington

Appendix 2: Further Information

Exhibit 3 Asset Managers' Comment Letters to the ISSB on Exposure Drafts IFRS S1 and IFRS S2

Respondent	Location	Date	Links to comment letters
Abrdn	United Kingdom	July 28, 2022	Comment letter on IFRS S1 and IFRS S2
Allianz Group	Germany	July 29, 2022	Comment letter on IFRS S1 and IFRS S2
Amundi	France	July 27, 2022	Comment letter on IFRS S1 and IFRS S2
Aviva	United Kingdom	July 29, 2022	Comment letter on IFRS S1 | Comment letter on IFRS S2
BlackRock	United States	July 29, 2022	Comment letter on IFRS S1 | Comment letter on IFRS S2
BNP Paribas	France	July 22, 2022	Survey response on IFRS S1 | Survey response on IFRS S2
Capital Group	United States	July 25, 2022	Comment letter on IFRS S1 and IFRS S2
Dimensional	United States	July 29, 2022	Comment letter on IFRS S1 and IFRS S2
DWS	Germany	July 27, 2022	Comment letter on IFRS S1 and IFRS S2
Fidelity International	United Kingdom	July 29, 2022	Comment letter on IFRS S1 and IFRS S2
Invesco	United States	July 29, 2022	Comment letter on IFRS S1 and IFRS S2
Legal & General	United Kingdom	July 28, 2022	Comment letter on IFRS S1 and IFRS S2
Northern Trust	United States	July 27, 2022	Comment letter on IFRS S1 and IFRS S2
PGIM	United States	July 29, 2022	Comment letter on IFRS S1 and IFRS S2
Schroders	United Kingdom	July 29, 2022	Comment letter on IFRS S1
State Street	United States	July 29, 2022	Comment letter on IFRS S1 and IFRS S2
T. Rowe Price	United States	July 28, 2022	Comment letter on IFRS S1 | Comment letter on IFRS S2
UBS	Switzerland	July 11, 2022	Comment letter on IFRS S1 and IFRS S2
Vanguard	United States	July 29, 2022	Comment letter on IFRS S1 and IFRS S2
Wellington	United States	July 29, 2022	Comment letter on IFRS S1 and IFRS S2

Source: Morningstar research, IFRS Foundation.

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