Emmanuel Faber
Chair of the International Sustainability Standards Board
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August 30, 2023

RE: IFRS's Consultation on Agenda Priorities for the ISSB – Comments from the Interfaith Center on Corporate Responsibility

Dear Mr. Faber,

The Interfaith Center on Corporate Responsibility ("ICCR") appreciates the opportunity to comment on ISSB's next phase of research and standard-setting. ICCR is a global coalition of over 300 institutional investors with over $4 trillion USD in assets under management. ICCR members have long advocated for robust sustainability disclosures to support informed investment and stewardship decision making, both in engagements with individual companies and through input to regulators and standard-setters.

In this letter, we provide some general comments with respect to the ISSB's agenda for its next two-year work plan as well as our views on specific priority areas for the ISSB's attention. In brief, we urge the ISSB to embrace disclosure not only of sustainability information material to an entity's financial prospects, but also of material impacts affecting stakeholders, the economy, the natural environment, and systems on which ICCR members depend to generate returns. As an initial step to that end, ISSB should leverage its existing collaboration with the Global Reporting Initiative ("GRI"), which focuses on impact disclosure and has achieved broad acceptance in the marketplace. Secondly, a combined human capital/human rights project should be the ISSB's most immediate issue priority, with biodiversity to follow once impact disclosure has been implemented and investors have the opportunity to refine their views on the information on biodiversity they would find useful.

Disclosure of Impacts

ICCR members have long-term investment horizons and believe that responsible and sustainable business practices are key to a company's ability to generate long-term value. As well, like the majority of institutional investors, most ICCR members' investments are broadly diversified, so systemic risks play a key role in determining members' portfolio returns.[1]

[1] The performance of the overall market accounts for 75-94% of a diversified investor's equity investment returns. (https://blogs.cfainstitute.org/marketintegrity/2021/05/03/esg-qa-moving-beyond-modern-portfolio-theory/ (interview with Jon Lukomnik and Jim Hawley; overall stock market performance accounts for 75-94% of returns))

Systemic risks are often driven by corporate behavior that has adverse impacts on the environment, workers, consumers, and communities, which can limit returns across asset classes and threaten to destabilize the financial system at various turns. For example:

- ***Climate change threatens to disrupt the global economy, financial markets, and geopolitics***. The Commodity Futures Trading Commission warned in a 2020 report that "[c]limate change poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy."[2] The physical effects of continued temperature rise, including sea level rise and more frequent and intense wildfires, storms, heat waves, and flooding, have the potential to diminish returns of companies globally in a wide variety of industries.[3] A 2021 report by the SwissRe Institute predicted that "current likely temperature-rise trajectories" of 2.0-2.6°C above pre-industrial levels will erase 10% of global GDP by 2050, and a "severe scenario" in which temperatures rise by 3.2°C would result in an 18% GDP hit by 2050.[4]

- ***Public health threats, such as the COVID-19 pandemic and rising antimicrobial resistance, impair labor productivity and economic growth***. The COVID-19 pandemic reduced global GDP by an estimated 10% in 2021,[5] and laid bare gross inequities in global healthcare–another systemic risk. Modeling by the World Bank has estimated that a high antimicrobial resistance scenario would knock 3.8% off of global GDP by 2050.[6]

- ***Racial injustice hampers the U.S. economy, and others***. According to a recent study, "[t]he marginalization of Black/African-Americans alone cost the U.S. economy an estimated $16 trillion in Gross Domestic Product (GDP) between 2000 and 2020."[7] Atlanta Federal Reserve President and CEO Raphael Bostic has characterized systemic racism as "a yoke that drags on the American economy."[8]

- ***Attacks on democratic institutions globally, such as efforts to subvert elections, pose significant risks for diversified investors.*** Studies show that democracy is better for economic growth than autocratic forms of government.[9] A 2022 report by the Brookings Institution and the States United Democracy Center argued that "it is in the investment community's own interest to actively push back on efforts to weaken or dismantle these democratic systems."[10]

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2 https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf, at i.

3 https://www.epa.gov/climateleadership/climate-risks-and-opportunities-defined

4 https://www.swissre.com/dam/jcr:e73ee7c3-7f83-4c17-a2b8-8ef23a8d3312/swiss-re-institute-expertise-publication-economics-of-climate-change.pdf

5 https://theshareholdercommons.com/wp-content/uploads/2022/09/AMR-Case-Study-FINAL.pdf, at 9.

6 https://documents1.worldbank.org/curated/en/323311493396993758/pdf/final-report.pdf, at 17-18.

7 https://tiiproject.com/wp-content/uploads/2023/06/TIIP-RacialEquityBrief-6-14-23-FINAL-Submitted.pdf, at 1.

8 https://www.frbatlanta.org/about/feature/2020/06/12/bostic-a-moral-and-economic-imperative-to-end-racism;

9 See https://www.csis.org/analysis/good-business-model-commitments-private-sector-can-make-support-democracy

10 https://www.brookings.edu/articles/is-democracy-failing-and-putting-our-economic-system-at-risk/

Investor interest in system-level investment and stewardship is growing. Investors with combined assets under management of $12 trillion USD have adopted proxy voting policies authorizing votes against directors at heavy-emitting companies whose actions are not aligned with achieving net zero emissions by 2050.[11] This portfolio-centric approach to voting has weakened support for directors at such companies.[12] Principle 4 of the 2020 U.K. Stewardship Code states that signatories should "identify and respond to market-wide and systemic risks to promote a well-functioning financial system."[13] One of the three central elements of the Principles for Responsible Investment's Active Ownership 2.0 focuses on systemic stewardship:

> Systemic issues require a deliberate focus on and prioritisation of outcomes at the economy or society-wide scale. This means stewardship that is less focused on the risks and returns of individual holdings, and more on addressing systemic or 'beta' issues such as climate change and corruption. It means prioritising the long-term, absolute returns for universal owners, including real-term financial and welfare outcomes for beneficiaries more broadly.[14]

The U.S. Securities and Exchange Commission ("SEC") acknowledged investors' use of a portfolio-centric approach when it proposed new disclosure requirements around climate change in 2022. In the proposing release, the SEC stated that it "understand[s] investors often employ diversified strategies, and therefore do not necessarily consider risk and return of a particular security in isolation but also in terms of the security's effect on the portfolio as a whole, which requires comparable data across registrants."[15]

It is critically important, then, that sustainability disclosures provide information investors can use to evaluate companies' impacts on key stakeholders and their contributions to systemic risks. The ISSB's current standards approach systemic risks quite indirectly and do not seem to require companies to disclose those impacts, despite its ambition to provide a "comprehensive global baseline of sustainability-related disclosure."[16] Instead, the ISSB's standards are based on the International Accounting Standards Board's ("IASB's") definition of materiality, which focuses on financial statement information:

> Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.[17]

The ISSB's recently-issued S1 and S2 also center on risks to individual firm financial performance. S1 states, "This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. . . . Sustainability-related risks and

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11 https://www.proxyvoting.majorityaction.us/proxy-voting-language
12 https://www.wsj.com/articles/more-investors-vote-against-corporate-directors-over-climate-change-11658397600
13 https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf, at 11.
14 https://www.unpri.org/download?ac=9721, at 7.
15 https://www.sec.gov/files/rules/proposed/2022/33-11042.pdf, at 9.
16 https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/
17 https://www.ifrs.org/content/dam/ifrs/project/definition-of-materiality/definition-of-material-feedback-statement.pdf

opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of this Standard."[18] S2 contains similar language.[19]

The ISSB's focus on individual companies and financial statement information is out of step with the informational needs of diversified investors. It is also inconsistent with disclosure requirements in Europe, where regulators recently adopted the impact-oriented European Sustainability Reporting Standards ("ESRS"). The European Financial Reporting Advisory Group, advisor to the European Commission on the ESRS, urged in a draft comment letter that the ISSB "explicitly integrate the investors' interest in impact materiality" because "a growing number of investors base their investment decisions on information on impacts whatever their direct or indirect relationship with sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects."[20]

Materiality is a flexible concept that is designed to accommodate shifts in the information reasonable investors need. We therefore urge the ISSB to explore ways to incorporate impact disclosure to provide a full picture of sustainability-related portfolio risks. We note that the ISSB has an existing relationship with the GRI that could be leveraged to fill some of this gap. Impact reporting is central to the GRI's mission, which it describes as achieving "a sustainable future enabled by transparency and open dialogue about impacts."[21] The GRI's Standards, the vehicle by which it promotes impact reporting, are the "most dominant" sustainability reporting framework, used by 78% of the world's 250 largest companies.[22]

In March 2022, the ISSB and the GRI entered into a memorandum of understanding ("MOU") in which they agreed to "coordinate work programmes and standard-setting activities."[23] Two months later, technical staff from the two organizations met to discuss activities they could undertake in furtherance of the MOU's commitment, including "[a]n agreed schedule of meetings and roadmap to advance technical aspects of the collaboration," "examination of future priorities to maximise joint standard-setting and guidance development activities, where the same or similar information requirements exist," and "[a] mapping exercise to establish those requirements in the ISSB's General Requirements and Climate Exposure Drafts that are equivalent with GRI Standards in order to guide an exercise on alignment of disclosures, guidance, concepts and definitions."[24] Since then, however, progress on the collaboration appears to have stalled. We urge the ISSB to revive this initiative with a view toward incorporating and potentially aligning the organizations' frameworks of material impact standards.

Specific Standard-Setting Priorities

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18 IFRS S1, "General Requirements for Disclosure of Sustainability-related Financial Information," Objective 2 and Scope 6.

19 IFRS S2, "Climate-related Disclosures," Objective 2 and Scope 4.

20 https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2307111254515955%2F03-05%20Joint%20TEG%20ISSB%20Agenda%20consultation%20-%20EFRAG%20FCL%20-%20210823.pdf

21 https://www.globalreporting.org/about-gri/mission-history/

22 https://assets.kpmg.com/content/dam/kpmg/se/pdf/komm/2022/Global-Survey-of-Sustainability-Reporting-2022.pdf, at 10, 24.

23 https://www.ifrs.org/news-and-events/news/2022/06/issb-and-gri-provide-update-on-ongoing-collaboration/

24 https://www.ifrs.org/news-and-events/news/2022/06/issb-and-gri-provide-update-on-ongoing-collaboration/

The ISSB has sought comment on four specific areas on which it might focus its research over the next two years, including human capital and human rights. ICCR members have a strong interest in and long history with both of those topics, as evidenced by:

- the significant number of engagements and shareholder proposals addressing them;[25]
- the work of the Investor Alliance on Human Rights, an initiative ICCR launched with over 220 members focusing on the investor responsibility to respect human rights;[26]
- ICCR's establishment of a working group on Advancing Worker Justice;[27]
- and work on a just transition, essential to a successful energy transition, and which illustrates the links between human capital/human rights and climate justice.[28]

More generally, there is a growing investor interest in worker issues, due to the long-term shift toward generation of value through intangible assets, the growing recognition of links between responsible workforce practices and firm performance, and, more recently, the COVID-19 pandemic, during which companies scrambled to protect and retain workers.[29]

We believe human capital and human rights should be prioritized and that treating them as separate areas of work would not serve investors well. Human capital management and human rights are interconnected in many ways. For example, although freedom of association is a core human right,[30] companies' behavior during unionization drives is also viewed by many investors as a key human capital management indicator.[31] Investors' recent focus on the human capital management implications of companies' workplace health and safety records[32] dovetails with the human right to a safe and healthy workplace.[33] The human right to be free from discrimination[34] overlaps with human capital management considerations related to diversity, equity and inclusion.[35] Furthermore, in practice, investors and companies do not treat human capital and human rights as distinct topics, and undertake human rights due diligence in line with authoritative international normative frameworks, like the UN Guiding Principles on Business and Human Rights, as a means of identifying salient labor rights risks.

If the ISSB's research in these areas were to lead to new standards, it would be difficult to avoid overlapping (and thus potentially confusing) standards, as well as gaps and inconsistencies in coverage, if the ISSB addresses human capital and human rights separately. Thus, we urge the ISSB

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25 https://exchange.iccr.org/resolutions/public
26 https://www.iccr.org/program-areas/human-rights/investor-alliance-human-rights
27 https://www.iccr.org/iccrs-issues
28 https://www.iccr.org/program-areas/climate-change/just-transition-clean-energy-economy
29 https://privatebank.jpmorgan.com/gl/en/insights/investing/why-investors-are-looking-carefully-at-human-capital-management
30 See https://www.ohchr.org/en/topic/freedom-assembly-and-association
31 https://www.sec.gov/files/rules/petitions/2017/petn4-711.pdf, at 26.
32 E.g., https://www.cnn.com/2023/06/01/business/dollar-general-worker-safety-shareholder-resolution/index.html; https://www.reuters.com/business/retail-consumer/walmart-shareholder-meeting-hold-votes-workplace-safety-china-risk-2023-04-20/
33 https://www.ohchr.org/en/stories/2019/10/human-right-safe-and-healthy-working-conditions
34 https://www.un.org/en/about-us/universal-declaration-of-human-rights
35 https://www.sec.gov/files/rules/petitions/2017/petn4-711.pdf, at 26.

to combine human capital and human rights into a single research project and to prioritize that project as it sets its agenda for the next two years.

Our support for immediate work on a combined human capital/human rights project should not be construed as a lack of support for research on biodiversity. Rather, because biodiversity is an emerging area for investors, we believe that first addressing impact disclosure–which is critical to addressing biodiversity loss–will allow this issue to mature and provide more insight into the kinds of information that would be most valuable for investors.

Thank you for the opportunity to comment. If you have any questions, please contact me at jzinner@iccr.org.

Sincerely,

Josh Zinner

CEO