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July 29, 2022

International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

Re: ISSB Exposure Drafts for IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information, and IFRS S2 Climate-related Disclosures

Dear Board Members,

The Investment Company Institute (ICI), including ICI Global,[1] is writing to submit feedback on the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (General Requirements Exposure Draft)[2] and the Exposure Draft IFRS S2 *Climate-related Disclosures* (Climate Exposure Draft).[3] ICI has previously responded to the IFRS Foundation's consultation on Sustainability Reporting[4] and we are grateful for the opportunity to respond to the ISSB's exposure drafts.

As the trade association representing regulated funds globally, ICI has a significant interest in how sustainability reporting standards for corporate issuers evolve. The development of these reporting standards, and their broad adoption, will ensure investors have accurate, comparable, and comprehensive sustainability-related information. Fund managers need material financial information on companies' exposures to sustainability-related risks and opportunities, and how these are managed, to support investment decisions and enterprise valuations. Fund managers consider current performance as well as forward-looking matters that can be predictive of longer-term value creation. In addition, they use the information to pursue a range of investment strategies on behalf of the millions of retail investors around the world saving for retirement, education, and to achieve financial goals.

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[1] ICI Global carries out the international work of the Investment Company Institute, the leading association representing regulated investment funds. With total assets of $38.9 trillion, ICI's membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia, and other jurisdictions. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. ICI Global has offices in Brussels, London, Hong Kong, and Washington, DC.

[2] The ISSB General Sustainability-related Disclosures exposure draft is available at: https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/

[3] The ISSB Climate-related Disclosures exposure draft is available at: https://www.ifrs.org/projects/work-plan/climate-related-disclosures/exposure-draft-and-comment-letters/

[4] *See* https://www.ici.org/system/files/attachments/20_ltr_ifrs.pdf.

To help improve the quality and quantity of comparable sustainability-related financial information available to regulated funds and other investors, the ICI board issued a resolution encouraging US public companies to provide disclosure consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the standards of the Sustainability Accounting Standards Board (SASB).[5] In furtherance of this goal, ICI strongly supports the work of the ISSB to develop a global baseline standard for the disclosure of sustainability-related financial information that incorporates the TCFD recommendations and the SASB standards.

ICI believes that the global baseline of sustainability-related reporting standards will be most effective if it is designed within a rigorous and transparent framework with the investor in mind. Our members value the standards developed by SASB because they recognize that issues impacting financial performance of companies over time vary by industry, thus reducing reporting burdens on companies and providing investors with the most relevant information.

A global baseline of material information and the need for interoperability

ICI strongly supports the ISSB's approach to materiality, particularly its focus on financial materiality.[6] While we recognize the interest in measuring the sustainability impact of companies, financial materiality and double materiality have distinct analytical lenses, serve different objectives and different sets of stakeholders, in an environment with limited global consensus. While certain information, for instance a company's carbon footprint, may have both financial materiality and double materiality implications, ICI supports the ISSB's focus on developing standards using the financial materiality lens.

With this objective of providing investors with consistent and comparable sustainability information that is material for enterprise value creation, the ISSB standards are well-situated to become the global baseline. The ISSB standards should allow jurisdictions to build on the foundation while facilitating interoperability of their local initiatives by increasing comparability and reducing complexity. A common international language on disclosures will provide investors needed comparability and greater confidence in investing worldwide.

Regulatory coordination is essential for the success of any global reporting standard. Especially so, given the significant number of ongoing parallel policy initiatives relating to the measurement and disclosure of sustainability-related financial information. ICI recognizes the development of mandatory corporate sustainability reporting frameworks in a number of key jurisdictions, notably in the US under proposals put forward by the SEC[7] and in the EU under the Corporate Sustainability

[5] *See* ICI Board Unanimously Calls for Enhanced ESG Disclosure by Public Companies, available at https://www.ici.org/news-release/20_news_esg.

[6] "An entity shall apply judgement to identify material sustainability-related financial information. Materiality judgements shall be reassessed at each reporting date to take account of changed circumstances and assumptions. An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements." Page 34, paragraphs 59 and 60 of the ISSB General Requirements Exposure Draft, *supra* note 2.

[7] On March 21st, 2022, the SEC proposed rules that would require public companies with periodic reporting obligations and companies filing registration statements to provide disclosures regarding greenhouse gas emissions, climate-related risks and impacts, oversight of climate-related risks, climate-related goals and climate-related financial statement metrics, *see*: https://www.sec.gov/rules/proposed/2022/33-11042.pdf

Reporting Directive (CSRD).[8] The SEC's proposed standards and the existing standards for certain listed companies in the UK, are modelled on the TCFD recommendations (with the UK requiring express alignment, in particular).

While we are encouraged that the draft final text of the EU CSRD refers explicitly to the ISSB standards,[9] we believe that to succeed in its goals, the EU must improve the level of global collaboration on sustainability-related reporting. The European Financial Reporting Advisory Group (EFRAG) tasked with developing the EU's standards should pay due regard to the ISSB standards, particularly with respect to architecture, definitions, and methodologies. This would ensure that European companies and non-EU companies within the extraterritorial application of the CSRD are not subject to a double reporting burden when it comes to disclosures of material information, and that investors are not left resolving impractical inconsistencies in reported information. The need for *comparable* information cannot be overstated.

For greater interoperability, ICI recommends that the ISSB provide practical use cases to demonstrate the interoperability of the ISSB standards with specific requirements in key jurisdictions via a 'building blocks' approach, such as the US and EU.

The ISSB Climate Standards Should Only Mandate Scope 3 GHG Emissions in Certain Circumstances

ICI appreciates that the ISSB General Requirements Exposure Draft clarifies that a reporting entity should assess the materiality of information, and that it need not provide a specific disclosure that is not material.[10] We strongly support this approach. However, even with this clarification, we note that when it comes to reporting Scope 3 greenhouse gas (GHG) emissions, significant data gaps and the absence of agreed-upon measurement methodologies present unique challenges that cannot be easily resolved at this time.

As is noted in the Climate Exposure Draft, the disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. Notwithstanding these difficulties, the Climate Exposure Draft proposes that companies should be required to define and disclose Scope 3 GHG emissions, in addition to Scope 1 and Scope 2 GHG emissions.

Whereas the measurement and reporting of Scope 1 and Scope 2 GHG emissions is now sufficiently developed to provide investors with reliable, consistent, and comparable information, the same is not yet true for Scope 3 emissions. The lack of widely accepted methodologies and frameworks, as well as control of and transparency into entities' value chains, can make Scope 3 emissions disclosures challenging to produce and verify today.

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[8] On June 30th, 2022, the European Parliament and the Council of the EU reached a provisional political agreement on the text of the Corporate Sustainability Reporting Directive. Text available at: https://www.consilium.europa.eu/media/57644/st10835-xx22.pdf.

[9] *See* Recital 37 of the draft final text of the CSRD (https://www.consilium.europa.eu/media/57644/st10835-xx22.pdf), which provides that the EU's standards should contribute to the process of convergence of sustainability reporting standards at the global level by supporting the work of the ISSB, and that they should integrate the content of the ISSB's global baseline standards in order to reduce the risk of inconsistent reporting requirements for multinationals.

[10] *Supra* note 5, above.

Some of the challenges will resolve over time. As more companies make their Scopes 1 and 2 emissions data publicly available, these data can serve as the input for other companies' Scope 3 calculations. Mandating Scope 3 emissions, after companies and investors gain experience with Scopes 1 and 2 reporting, ultimately will allow for more accurate reporting that will carry forward for the benefit of investors.

The ISSB climate standards should acknowledge these challenges, and limit mandating disclosure of Scope 3 emissions to companies that have publicly announced a target or goal to reduce their Scope 3.[11] This approach could assist investors in tracking a company's progress toward reaching its particular target or goal, and, at the same time, encourage companies to carefully calibrate any such target or goals.

Looking ahead, the ISSB should also continue to explore ways to address the current challenges, including whether Scope 3 emissions disclosures should focus on categories of emissions that are material to the entity, rather than across all 15 categories under the Greenhouse Gas (GHG) Protocol.[12]

Additionally, the ISSB should clarify that Scope 3 GHG emissions for an asset management company should exclude GHG emissions attributable to assets managed on behalf of clients.[13] Under the GHG Protocol, asset owners investing their own capital are required to report emissions from equity investments but asset managers, who are investing clients' capital, "may optionally report on emissions from equity investments managed on behalf of clients (*e.g.*, mutual funds)."[14]

The TCFD has observed that, in the case where an asset manager is a public company, it has two distinct audiences for its climate-related financial disclosures. It notes that the first audience is its shareholders, who need to understand enterprise-level risks and opportunities and how these are managed, and the second audience is its clients, for whom product-, investment strategy-, or client-specific disclosures are more relevant.[15] The ISSB's mandate is to develop standards that are fit for the former audience: a company's investors. As such, the required reporting standards for asset managers in this context should be for the benefit of the asset manager's investors.[16]

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[11] There is a minority view among ICI members that larger public companies should be required to disclose Scope 3 emissions if the emissions are material. These members would prefer to have the opportunity to evaluate any such information as part of their respective investment processes, despite the data gaps and absence of agreed upon methodologies.

[12] For example, the ISSB could work with the GHG Protocol to publish sector- or industry-specific, materiality-based Scope 3 emissions guidance to provide consistency globally, before mandating Scope 3 in its standards. Disclosure across all 15 categories consistent with the Greenhouse Gas (GHG) Protocol could potentially lead to unnecessary burden and cost for entities and ultimately shareholders, and lead to inefficiencies for investors who will have to process more information that is ultimately not material to their decision-making process.

[13] Specifically, the Scope 3 GHG emissions disclosures required by paragraph 21(a)(i)(3) of the exposure draft should exclude GHG emissions attributable to assets managed on behalf of clients.

[14] *Id.* (emphasis supplied). It further stated: "[I]t should be noted that mutual funds and other funds managed on behalf of clients are not the primary audience for the calculation methods described here and some of their specific issues have not been addressed, including the business goals relevant to a fund manager and the appropriate use of inventory results."

[15] *See* TCFD, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (Oct. 2021), at 44, available at https://www.fsb.org/wp-content/uploads/P141021-4.pdf. The TCFD states that its guidance addresses considerations for asset managers when reporting to their clients.

[16] The costs of requiring asset managers to include managed assets in their Scope 3 GHG emissions disclosure would greatly exceed any possible benefits. First, even as several jurisdictions take steps to mandate companies report Scopes

For the same reasons, the ISSB should also not require asset managers to disclose Scope 1, 2, and 3 GHG emissions attributable to their managed assets as part of the Asset Management and Custody Activities industry-based disclosures standard.[17] Excluding managed assets from emissions disclosure requirements of an asset manager would appropriately reflect the parameters of an asset manager's exposures and the limits of its control. A fund, for example, is a separate legal entity, the assets of which are separate and distinct from its asset manager. An asset manager itself does not take on the risks inherent in the securities or other assets it manages for funds or other clients. Those are investment risks that appropriately are borne by the funds or other clients. Moreover, an asset manager does not control the GHG emissions of portfolio companies held by funds or other clients.

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In conclusion, ICI strongly supports the ISSB's continuing efforts to develop an effective global baseline of robust sustainability reporting standards that enable broad adoption across jurisdictions and facilitate jurisdictions choosing to take a building blocks approach. We encourage the ISSB to continue and enhance its international engagement with key jurisdictions including the US and EU to ensure that investors are able to effectively assess the enterprise value of the companies in which they invest worldwide.

We appreciate the opportunity to provide feedback on behalf of our members and would be happy to discuss further any of our comments and additional input that we can provide. If you have any questions, please contact me at Michael.Pedroni@ici.org or +1-202-853-2186.

Yours sincerely,

/s/ Michael Pedroni

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1, 2 and in some cases, Scope 3 emissions, there will continue to be large gaps in data available for asset managers to calculate Scope 3 emissions and there are no standardized calculation methodologies for certain asset classes (*e.g.*, government securities, municipal securities, derivatives, and other financial instruments). Second, reporting by asset managers and issuers of the portfolio securities could result in double-counting. Third, because a fund's risk exposures are distinct from those of its adviser's, such reporting by the asset manager could be confusing and possibly misleading, particularly if managed assets are large in relation to the asset manager's own assets.

[17] *See* IFRS S2 Climate-related Disclosures Appendix B Industry-based disclosure requirements, Volume B15 – Asset Management & Custody Activities, Transition Risk Exposure, FN-AC-2 at 141, available at: https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/industry/issb-exposure-draft-2022-2-b15-asset-management-and-custody-activities.pdf