CONSULTATION RESPONSE

EXPOSURE DRAFT ON IFRS S1 GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION

July 2022

To inform this response, the following investor groups have been consulted: PRI Corporate Reporting Reference Group and PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this response.

INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI's Driving Meaningful Data programme is a key PRI Blueprint target and works on the types of data, sources and reporting frameworks needed to support responsible investors. This work includes ensuring consistent data across all the various units and entities, as well as addressing gaps identified in the Driving Meaningful Data Framework. This requires collaboration with others across the financial and corporate sectors as well as standard setters, policy makers and regulators. The PRI has an important role in working with our signatories to provide a clear signal on their data needs, how they aid decision-making and understanding their contribution towards sustainability objectives.

The PRI develops analysis and recommendations based on signatory views and evidence-based research. The PRI welcomes the opportunity to respond to the International Sustainability Standards Board invitation to comment on Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

ABOUT THIS CONSULTATION

On 3 November 2021, the IFRS Foundation announced the establishment of the International Sustainability Standards Board (ISSB) at COP26.

The ISSB will develop IFRS Sustainability Disclosure Standards, including disclosure requirements that address companies' impacts on sustainability matters relevant to assessing enterprise value and making investment decisions. The IFRS Sustainability Disclosure Standards aim to enable companies to provide comprehensive sustainability information for the global financial markets.

The ISSB is consulting on the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability Related Financial Information. The exposure draft (ED) sets out requirements for the disclosure of material information on a company's significant sustainability-related risks and opportunities necessary for investors to assess a company's enterprise value.

The PRI has previously provided views and recommendations on the Technical Readiness Working Group prototypes on climate and general disclosure requirements as well as on international sustainability reporting standard setting through consultation responses and public statements.

SIGNATORY ENGAGEMENT

The analysis and recommendations set out in this response reflect PRI's own analysis and were shared as a draft response with PRI signatories for feedback and discussed with members of the PRI Investor Corporate Reporting Reference Group (CRRG).

In addition, this response incorporates insights from our wider engagement with signatories on their data needs that we have collected through targeted interviews, as part of our wider investor data needs project. More information on this project can be found on our dedicated webpage.

We recognise that our signatories differ in their needs for corporate data (and subsequent use through third-party data providers), given differences in objectives, mandates, resources, jurisdictions, and other factors. The recommendations below aim to **reflect a holistic view from** our signatory base, which recognises that a significant step has been made towards realising globally comparable reporting on sustainability-related issues.

For more information, contact:

René van Merrienboer
Acting Director, Sustainable Markets
rene.van-merrienboer@unpri.org

Susanne Dräger
Senior Specialist, Sustainability Reporting
susanne.draeger@unpri.org

Content development:

Adams Koshy
Senior Specialist, Sustainability Reporting
adams.koshy@unpri.org

Benjamin Taylor
Analyst, Driving Meaningful Data
benjamin.taylor@unpri.org

SUMMARY OF THE PRI'S POSITION

Investors regularly report to the PRI that the lack of decision-useful corporate sustainability data is a substantial barrier to their responsible investment practice

The PRI is working with its global network of signatories to advocate for meaningful and globally comparable company disclosures, including material sustainability-related information alongside other financial data; encourage consolidation and harmonisation of reporting standards and regimes; and cater to the needs of its entire universe of signatories.

As such, we strongly support the ISSB's mission to deliver a high-quality global baseline of sustainability-related financial disclosures. We believe it will provide global financial markets with information on companies' sustainability-related risks and opportunities – in line with the IFRS Foundation's mission to develop standards that bring transparency, accountability and efficiency to financial markets around the world. We recognise the progress made with the creation of the ISSB and this ED. In our view, there are no proposed aspects of the IFRS Sustainability Disclosure Standards that would limit the ability of the Standards to be used as a global baseline to be implemented as reporting requirements by jurisdictions. In particular, we recognise that the General Requirements ED and accompanying Illustrative Guidance build off well-established concepts and standards in its guidance and disclosure requirements.

APPROACH

The insights summarised in the detailed responses to the consultation questions are informed by a desk-based assessment of whether the standard's disclosure requirements are decision-useful for PRI's asset owner and investment manager signatories; and commentary from interviews and accompanying data collection with twenty-four PRI signatories[1].

We define data as being decision-useful for the investment process, where information is relevant[2], comparable[3] and verifiable[4]. The engagement with signatories provides additional details on what makes data relevant for their investment decision-making process (i.e. is investment relevant). The comments below reflect on the views from <u>all</u> the signatories engaged and insights from interviewees are distinguished, where possible.

Please note that citations in this document refer to paragraph numbers within the General Requirements ED, unless otherwise indicated.

KEY RECOMMENDATIONS

The PRI's key recommendations to the ISSB on the General Requirements are:

- Refine the standard's approach to assessing materiality (including identifying sustainability-related risks and opportunities) by: (i) expanding disclosure requirements on the reporting entity's process for this assessment, including disclosure on what has and has not been deemed material; and (ii) providing reporting entities with a clearer process to assess materiality that is linked to other relevant disclosure requirements under governance, strategy, and risk management.

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[1] This includes two asset owner (pension schemes), twenty investment managers of varying sizes, strategies, and operating jurisdictions, and two service providers.

[2] Relevant data must both inform the investment decision-making process (i.e. be investment relevant) and (where applicable) provide insights for (or enable) investors' decisions, reporting obligations and/or commitments on specific issues (i.e. be issue relevant).

[3] Comparable data must be consistent across investees, asset classes, sectors, geographies and timeframes to enable investors to identify and understand similarities/differences at the scale that suits their data needs.

[4] For data to be verifiable, investors should be able to corroborate the information/inputs used to derive the data.

- Require additional disclosures on governance on the implementation of the processes and procedures outlined in the standard, including: (i) reporting on controversies or other relevant events related to sustainability in the last reporting period; and (ii) more detailed disclosure requirements on remuneration.
- Require additional disclosures on strategy, including: (i) the entity's definition of its value chain; and (ii) disclosure of trade-offs between sustainability-related risks and opportunities (at least) at entity level. We also recommend that the ISSB specifies the lower bound for medium and long-term time horizons, to ensure consistency of the disclosures.
- Include additional disclosure requirements on risk management to ensure consistent disclosure of both sustainability-related risks and opportunities. Currently there are more granular disclosure requirements on risks in the ED.
- Require additional disclosures on metrics and targets, including: (i) disclosure of the technical guidance applied in implementing metrics; and (ii) require consistent disclosure accompanying metrics that follow the standards and those that are developed by the entity.
- Require disclosure of key information that investors would need to understand the context of the reporting entity's business and operations – we refer to this as 'contextual information'. This includes: (i) clearer guidance in the Standard on how an entity should disclose its industry; (ii) an additional disclosure requirement to define the entity's value chain (as noted above); and (iii) additional disclosure requirements on the geographic location of the overall entity and (where possible) on individual plants/factories.
- Include additional examples and further guidance in the Standard (and/or through the illustrative guidance), to improve the consistency of the data disclosed. Furthermore, we encourage the ISSB to facilitate capacity building with users and preparers, particularly with regard to emerging economies.

The full list of recommendations can be found in the detailed responses to each question. All recommendations are distinguished in **bold**.

INTEROPERABILITY

The PRI welcomes the recently announced actions by ISSB to enhance compatibility between the Standard's global baseline and jurisdictional initiatives, in particular the establishment of a working group for this purpose.

Interoperability is typically understood as information being collected which can support disclosure under one or more reporting regimes – allowing for comparability of data across jurisdictions. This is a key concern for investors to ensure consistency and comparability of data across their portfolio.

The PRI strongly supports the ISSB's mission to deliver a high-quality global baseline of sustainability-related disclosures and:

- Recommends the ISSB to increase capacity building with jurisdictions to aid the adoption and implementation of the standards.
- Encourages the ISSB to continue engaging local regulators and standard setters to ensure interoperability of sustainability-related reporting standards and policies, to enable comparability and limit the reporting and assessment burden - on both reporting entities operating across multiple jurisdictions and investors processing data on investments in multiple jurisdictions.
- Equally, encourages local regulators and standard setters to engage closely with the ISSB with the goal to develop a global baseline for corporate sustainability reporting.

These recommendations are in line with our recent statement with other leading financial market participants, which called for stronger alignment of regulatory and standard setting efforts[5].

INVESTOR DATA NEEDS

Investors are not homogenous, and their needs vary depending on their investment objectives, strategy, mandate and other characteristics. All investors need sustainability-related information that informs their assessment of their investments' financial performance. However, investors also increasingly need information to assess and interpret a company's sustainability performance[6] and their alignment to long-term sustainability goals and thresholds (i.e. sustainability outcomes[7]).

The PRI welcomes the standard's recognition that sustainability-related financial information captures all information that can result in changes to the entity's enterprise value in the short, medium, and long term; including from the entity's actions that result in impacts and dependencies on people, planet, and the economy. With this, the standard will enable disclosure of information that captures elements of an entity's sustainability performance and its positive and negative contributions to sustainability outcomes. However, disclosure focused on enterprise value will not serve the needs of all investors, particularly those that are looking for a broader understanding of an entity's sustainability performance and outcomes, and several signatories stressed the increased need for impact-related information as part of their feedback to our draft response.

Therefore, the PRI supports the 'building blocks' approach to enable companies to report information that goes beyond the ISSB's focus on enterprise value, reporting against relevant jurisdictional initiatives and/or the Global Reporting Initiative (GRI)[8]. However, to implement this approach in practice, we suggest the ISSB works closely with these jurisdictional initiatives and the GRI to:

- Ensure their standards are consistent on: (i) reporting design/structure, such that investors are still able to extract comparable data (whether across issues or on specific issues) on governance, strategy, risk management and metrics/targets, even if not under the same headings; (ii) terminology and definitions, including common taxonomies; and (iii) reporting concepts underpinning the standards, such as the qualitative characteristics (relevance, faithful representation etc.).
- Ensure alignment in disclosures that can serve both reporting of information that is relevant to an entity's enterprise value and its sustainability performance and outcomes. This would include disclosure on relevant aspects of the entity's governance, strategy and risk management processes across issues and common indicators for metrics/targets on specific issues.

In this context, the PRI welcomes the recently announced collaboration agreement between the IFRS Foundation and the GRI. We look forward to hearing more about the collaboration as it develops and how we can best support this initiative.

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[5] IFAC WBCSD PRI Call for Alignment

[6] Sustainability performance refers to: how an investee's operations and products positively/negatively affect people and the environment.

[7] Sustainability outcome refers to: how an investee's sustainability performance contributes to sustainability goals

[8] See slide 6: https://www.ifrs.org/content/dam/ifrs/meetings/2022/june/cmac-gpf/ap6-issb-update-and-issb-exposure-drafts.pdf

DETAILED RESPONSE

1. OVERALL APPROACH

a. Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

The Exposure Draft (ED) does state that the entity is required to identify and disclose information about all significant, material sustainability-related risks and opportunities in paragraph 1, even if these are not addressed by a specific IFRS Sustainability Disclosure Standard. Note, however, this is not a reference to all sustainability-related risks and opportunities that an entity is exposed to.

The term 'significant' has not being defined in the standard. It is unclear whether a separate process is required to assess for significance and for materiality, and whether significance would look to capture a perspective different to the primary users (which is the scope for materiality). If the scope of 'significant' data is from the perspective of management, signatories interviewed were clear that data important for management's decision making must be included in the reporting as it would be relevant for their investment process. However, they also recognise that: (i) investors have specific reporting requirements, depending on the jurisdiction(s) they are operating in, which may not be captured if this is not deemed significant by an individual entity's management; and (ii) exposure to a risk or opportunity may not be significant for a specific entity, but relevant to an investor when aggregated across their portfolio.

As a result, we recommend **removing the reference to 'significant' and focus on material information only.** This would be consistent with previous IFRS commentary[9] and recognise that management will have to work with investors to help identify material issues, which will inherently be mindful of what is significant to management. This is in line with how the materiality assessment should be undertaken in practice, following IG2-IG5 of the Illustrative Guidance.

On the latter part of the question about reporting on risks and opportunities that are not addressed by specific IFRS standards, the expectations for entities to identify these risks and opportunities are set out clearly in paragraph 51 and related disclosure requirements in paragraphs 52-54. Further commentary on the standard's guidance on these paragraphs is included under question 7.

b. Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

Paragraph 1: The objective of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is to require an entity to disclose information about its significant sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity

Yes, the proposed requirements in the ED generally meet the proposed objective.

The standard consistently focuses requirements in the Core content (i.e. on governance, strategy, risk management and metrics/targets) on significant sustainability-related risks and opportunities – note comments in question 1(a) regarding the use of 'significant'. The standard also focuses on sustainability-related financial information that may directly/indirectly influence investors' assessment of enterprise value with:

- its focus on information that is material to primary users;

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[9] IFRS (2018) IASB Staff Paper on significance and materiality, available at: https://www.ifrs.org/content/dam/ifrs/meetings/2018/december/iasb/ap11a-di.pdf

- its requirements to provide an integrated view on key elements of the business through insights on governance [13], strategy [16-24] and risk management [26]. Core elements of sustainability-related disclosure widely recognised by investors, following the Taskforce on Climate-related Disclosure requirements (TCFD) recommendations' four pillars; and
- connectivity with the financial performance through strategy [22-23], which all signatories interviewed have identified is key to their investment process.

c. Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

The ED is clear that the Climate-related Disclosures (S2) should be used to identify whether an entity has any exposure to climate-related risks and opportunities [51]. However, it is not clear how the proposed requirements should be applied together on disclosure outside of the core content.

We recognise that the majority of the core content in both EDs are organised following the TCFD's four pillars, where the Climate-related Disclosures largely build off of the high-level requirements set out in the General Requirements ED (S1) by adding a level of specificity to climate-related issues.

The lack of clarity stems from where S1 should still be used for entities to report on what the standard refers to as the 'General features', including guidance on connections between different sustainability-related risks and opportunities [42], comparative information on the previous period [63], how entities should tackle sources of estimation and outcome uncertainty [79] and correcting prior period errors [84]. These include additional guidance and disclosure requirements beyond those in S2, which a preparer might not consider as these are not clearly sign-posted as additional in either standard.

We recommend clarifying in S2 that entities must disclose on requirements in the General features, despite the fact they have been providing disclosures referenced in S1.

d. Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

While PRI cannot provide detailed views on the audibility of this standard, we have raised a number of concerns in the questions that follow that may affect the verifiability of reported information.

For investors, the verifiability of the data is a key characteristic of the data, which considers whether investors are able to corroborate the information/inputs used to derive the sustainability-related data. We recognise that there are parallels to the expectations of auditors and regulators to determine whether an entity has complied with the proposals. Investors also look to whether the sustainability-related data has been audited and the results of this audit to act as a source of verification of the entity's compliance with the standards.

Although we cannot comment on possible alternative approaches to improve the basis for auditors and regulators to assess compliance of the proposals, please see our responses to questions 4, 7, 8 and 11 on recommendations to improve the verifiability of the disclosure requirements.

2. OBJECTIVE (PARAGRAPHS 1-7)

a. Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

Yes, the proposed objective [1] is clear. By focusing on information that is material to primary users, which include investors, we hope the disclosure of sustainability-related financial information produces data that is relevant to investors' decision-making, which includes whether to provide resources to the entity.

For investors, this information will also inform their engagement and exercise of ownership rights, their reporting to clients (e.g. from an asset manager to asset owner) as well as their reporting to regulators.

b. Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

[Appendix A] Information that gives insight into sustainability-related risks and opportunities that affect enterprise value, providing a sufficient basis for users of general purpose financial reporting to assess the resources and relationships on which an entity's business model and strategy for sustaining and developing that model depend.

No, the definition is not clear as there is some misalignment with the use of the term in other parts of the ED. We recommend the following revision to clarify the definition of 'sustainability-related financial information':

- The effect on enterprise value may be direct, through future inflows/outflows [6(b)], or indirect, through reputation, performance, and prospects of the entity [6(c)]. We recommend the text is updated to state: **<u>directly or indirectly</u> affect enterprise value and additional cross-reference is included to the list of examples of types of sustainability-related financial information in paragraph 6 a to d**.
- The definition focuses on the assessment of resources and relationships, but applications of the term in the ED indicate that sustainability related financial information should include '*activities, interactions and relationships and to the use of resources along its value chain*' [40]. We recommend the **definition includes reference to the full list in paragraph 40.**

In addition, under the example of types of sustainability-related financial information (noted above), signatories have fed back that it may be difficult for entities to assess: the effects on reputation, performance and prospects as a consequence of its impacts and dependencies (paragraph 6(c)); and the entity's development of knowledge-based assets (paragraph 6(d)). We **recommend that additional guidance and examples are provided** to support reporting entities and ensure the consistency of the reporting on these points. For example, on reputation, performance and prospects: entities should consider the enterprise value implications of sustainability-related systemic risks, such as exceeding planetary boundaries. Similarly, for disclosure on knowledge-based assets, this term should be defined within the standard and examples of such effects should be provided, such that entities are clear on what is expected in this area.

3. SCOPE (PARAGRAPHS 8-10)

a. Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

We welcome the potential this ED provides to increase the coverage and comparability of data across jurisdictions in which PRI's signatories operate and/or invest. However, we are not able to comment on whether the ED can be used by entities that prepare their general purpose financial statements in accordance with jurisdiction's GAAP that does not follow the IFRS Accounting Standards (IASB).

We recognise that in the ED's approach when referencing accounting concepts and methodologies, no specific reference has been made to the IASB. For example, when referencing links to financial position, performance and cashflows, the ED remains generic. This includes when requiring disclosure on any '*material adjustments to carrying amounts of assets and liabilities'* [22(b)], no expectations are defined for the valuation methodologies or how impairment of these assets or liabilities would be realised by the entity. Flexibility to accommodate for different jurisdictions' requirements are also clear in requirements on: (i) frequency of reporting; (ii) location of information;

and (iii) where jurisdictions '*prohibit the entity from disclosing that information'* [62]. Commentary on these can be seen in questions 9, 10 and 8d (respectively).

However, one potential instance of concern is for the qualitative characteristics of useful financial information - defined in Appendix C. Given that fair presentation relies on these principles [47(a)] it is unclear what are the consequences (if any) if regional GAAPs apply different qualitative characteristics and/or different interpretations of the qualitative characteristics - see our commentary in question 7(a).

4. CORE CONTENT (PARAGRAPHS 11-35)

a. Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

Governance: *'to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.' [12]*

Yes, this disclosure objective is in line with investors' minimum expectations on governance in their investments. PRI signatories involved in the interviews recognised that governance is a core part of an investor's decision to invest and/or continue to invest, whether in the public or private markets. Interviewed signatories consistently highlighted that information on governance is ultimately about understanding the internal controls that are in place for management to monitor, manage and thereby react to sustainability-related risks and opportunities.

Strategy: *'to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.' [14]*

Signatories involved in the interviews consistently recognised that reporting on strategy needs to include how a reporting entity will respond to sustainability-related risks and opportunities. Although the disclosure objective recognises the core of this expectation – to understand the intended actions (i.e. the strategy) to address sustainability-related risks and opportunities – it falls short on two aspects.

Firstly, the use of the term 'addressing' alone implies a focus on the risks. We recommend the definition is edited to include 'enhancing' opportunities.

Secondly, the focus on how the entity addresses risks and opportunities does not capture the full extent of the disclosure requirements that are included under strategy – see response to question 4(b). In particular, much of this part of the standard is about the effects on different aspects of the entity – including on the business model and value chain [15(b)], on the wider business strategy [15(c)] and financial position, performance and cash flows [15(d)].

Therefore, we recommend revising the objective as follows (changes in bold): '*to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and* ***enhancing sustainability-related*** *opportunities* ***to its business model, corporate strategy and financial performance.****'*

Risk management: *'to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.' [25]*

Based on the interviews with our signatories, this disclosure objective seems largely in line with investors' minimum requirements on risk management disclosure.

The first sentence of the definition is in line with signatories' expectations that risk management disclosure is process-based.

The second sentence of the definition is also in line with signatories' views that the information on sustainability should be integrated into the entity's wider policies and procedures and reported accordingly. However, this latter part of the definition does focus on the risks, and we recommend that **a similar weight is applied to opportunities, for example by replacing 'overall risk profile and risk management processes' with 'overall profile and company management processes'** – which is in line with the disclosure requirements in paragraphs 26(c) e.g. referencing company management, as with the disclosure requirements.

Metrics and targets: *'to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.' [27]*

Based on the interviews with our signatories, this disclosure objective is largely in line with expectations, but we can see some inconsistency between this definition and the disclosure requirements.

We recognise that users might find it difficult to understand whether this implies that the objective of the metrics and targets are on the process (i.e. how) the entity measures, monitors and manages the risks and opportunities. In practice, the disclosure requirements that relate to metrics are also on the results of the measurement, monitoring, and management, with information included on the methodology to report these, for example the Scope 1 or 2 emissions required in the Climate-related Disclosures. As a result, we recommend the following edits are made (changes in bold): '*to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities* ***and the results of this process****. These disclosures shall enable users to understand how the entity assesses its performance* ***and the performance of the entity****, including progress towards the targets it has set*'.

b. Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

Governance

The disclosure requirements for governance meet the minimum requirements for signatories interviewed to understand the internal controls within an entity. However, we have identified points where the requirements do not currently meet their stated disclosure objective.

Overall, signatories interviewed recognised that the disclosure requirements listed in the standard are proxies for better understanding the internal controls in place for each entity. Our comments on specific disclosures in this section are outlined below – where no comments are made, take that we have no further comments and identify this is decision-useful for signatories.

- How the body (and its committees) consider sustainability-related risks and opportunities '*when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required*' [13(e)]. This information is considered decision-useful for signatories as it is an indicator of the implementation of the governance processes. However, for investors to understand the internal controls, we recommend that the ED includes disclosure on **the results of these processes, in particular where it references controversies or other relevant events related to sustainability the entity was exposed to in the last reporting period**. Several signatories highlighted that information on the entity's track-record is important in their assessment of an entity's governance. Where this is not disclosed, these signatories have to collate this information (often using third-party providers), which signatories recognised are not as reliable as the entity's disclosure.

The disclosure requirement allows entities a level of flexibility in terms of what it deems material information to report. Although, signatories involved in interviews did recognise the need for flexibility for management, as these are ultimately the management's decisions, we have concerns about the comparability and verifiability of the data. As a result, we recommend that the ED includes **additional examples and guidance to outline potential information that an entity could use to comply with this disclosure**.

Finally, IFRS S1 should incorporate disclosures on:

- board oversight of political engagement activities, such as lobbying and political contributions;
- the governance processes in place to monitor and identify inconsistencies between companies' policies and practices, and political engagement activity of trade associations the undertaking is a member of;
- whether misalignments were identified and how these are addressed;
- a list of memberships to industry associations and other third-party groups involved in policy-related advocacy, and the methodology for compiling this list;
- leadership positions (e.g. positions on the board or key committees) held by staff members in industry associations and other third-party groups involved in policy-related advocacy.

As highlighted in the PRI report on the investor case for political engagement[10] enhanced corporate disclosure on companies' political engagement activities can enable investors to assess company positions on key sustainability issues, corporate channels used to influence policymaking and raise their collective voice when corporate actions are not in line with their stakeholders' long-term interests and sustainability ambitions. Signatory feedback has indicated a need for increased transparency on how entities ensure alignment between these activities and sustainability-related strategic decisions and policies.

- How the body (and its committees) oversees setting targets and monitors progress towards them, '*including whether and how related performance metrics are included in remuneration policies*' [13(f)]: This information on the process is relevant, but as with the comment above, we recommend that consistency (where it can be achieved) may be improved with **additional examples and guidance**.

Disclosure on remuneration policies helps signatories evaluate whether the governance body and management have the right incentives to implement key performance-related targets. Therefore, PRI welcomes the disclosure requirement on how the governance body and its committees oversee the setting of targets related to sustainability-related risks and opportunities in remuneration policies.

The PRI has long called for better reporting by companies on ESG targets, performance against those targets and actual impact on pay. Relevant ESG factors should be selected based on a nuanced understanding of what impacts the financial or the operating performance of a company and how an entity's operations and products impact stakeholders and the environment, in the context of broader societal goals and planetary boundaries.[11] When integrating sustainability into executive pay, we recommend that[12]:

- companies should **adopt a clear process for identifying appropriate ESG metrics that relate to sustainable shareholder returns and company strategy**;

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[10] PRI (2022), The investor case for responsible political engagement available at https://www.unpri.org/download?ac=15716

[11] PRI (2021), ESG-linked pay: Recommendations for investors available at https://www.unpri.org/executive-pay/esg-linked-pay-recommendations-for-investors/7864.article.

[12] PRI (2012), Integrating ESG issues into executive pay available at https://www.unpri.org/download?ac=1878.

- companies should **disclose how sustainability related targets included in executive remuneration are balanced with other metrics of financial performance that influence executive pay**;
- companies should **link appropriate ESG metrics to reward systems in a way that they form a meaningful component of the overall remuneration framework**; and
- companies should **endeavour to disclose the rationale, method and challenges presented by the incorporation of ESG metrics into executive pay clearly and concisely**.

Boards should have the discretion to select relevant ESG factors and the appropriate balance of these factors in the remuneration package. It is reasonable to expect that this process would take into account material impacts on business operations, e.g. climate change for fossil fuel intensive industries, and that such factors are incorporated, to some extent, in executive remuneration packages. We have not identified evidence that mandating a specific proportion of ESG-linked pay addresses the issues outlined above constructively.[13] In fact, it could be sub-optimal and result in unintended consequences such as companies over-weighting ESG factors that may be easier to quantify or adopt operational targets that would be easily met through the normal course of the business (e.g. in relation to compliance).

Where companies face challenges in identifying the right metrics or targets for certain ESG issues, they should endeavour to disclose these issues, in addition to describing the process undertaken, so investors and stakeholders can understand the rationale and meaningfully input into the process. In addition, the remuneration committee should be able to use their discretion and tools such as clawback provisions to adjust remuneration following unusual events.

Comprehensive and detailed disclosures of linkages between executive compensation and ESG factors are important for investors to ensure the integrity of compensation and reduce risks of pay padding, backward looking performance targets and other potential unintended consequences.

In order to prevent the abuse of ESG-linked pay, investors also have a role in holding issuers accountable, ensuring that selected ESG factors genuinely stimulate systematic progress towards sustainability ambitions, and do not reward executives for business as usual (e.g. maintaining compliance with laws and regulations) or for improving perceptions regarding sustainability performance (e.g. by tying pay to inclusion in sustainability indices, which are rarely specific to companies' ESG performance). Doing so, however, requires comprehensive, reliable, consistent, and comparable disclosure for investors to interpret and utilize in engagement and exercise of voting rights and investment decision-making.

Strategy

Understanding companies' strategy on addressing (or enhancing) sustainability-related risks and opportunities is a core part of how most investors look to integrate these risks and opportunities. However, we have identified points where the requirements in paragraph 15 (and associated requirements in the latter paragraphs) do not currently meet their stated disclosure objective.

On reporting significant sustainability-related risks and opportunities [15(a)], we see a significant amount of overlap with the materiality assessment and have made recommendations in question 8 on how this can be simplified. Additional points have also been raised in question 17 on the disclosure requirements regarding the time horizons [16(b)].

In terms of reporting on the effects of these risks and opportunities [15(b-e)] there was support from all signatories interviewed on these disclosures. Signatories highlighted that these disclosures must be integrated into what entities already do, as investors require a holistic overview of an entity's

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[13] PRI (2021), ESG-linked pay: What does the research say? Available at https://www.unpri.org/executive-pay/esg-linked-pay-what-does-the-research-say/7863.article.

business model, strategy, and financial performance. In particular, they recognised that it is important this is not seen as a separate process for preparers. We are supportive of the way this has been reflected in the disclosure requirements.

When reporting on the effects to the business model and value chain [15(b)], the disclosure requirements are split between these two aspects, our comments and recommendations are below:

- Business model: Although this is relevant information for investors, we are concerned that this will not be applied consistently by entities as there is no guidance in the ED on what should be disclosed under the business model. We are not suggesting that additional disclosures be added to this section, however we recommend the ED is **clear on what is expected of entities and/or whether this disclosure will be at the discretion of the management**. At the very least, we recommend that the ED includes **some examples on what disclosure should include for entities' management**.
- Value chain: Investors generally recognise the value chain as an important source of risk and/or opportunity to the business' operations. Signatories involved in the interviews were supportive of the requirements to report a description of the current and anticipated effects of these risks and opportunities on its value chain and where these are likely to be concentrated (whether a quantitative or a qualitative measure) [20(a-b)], as they summarise the key insights expected on the value chain. However, there is no requirement for the entity to define its value chain, which risks verifiability of this data. We recommend a **clear definition of the value chain is required** – see also our response to question 5(b).

Regarding reporting on strategy and decision-making [15(c)], our comments and recommendations are:

- 'how it is responding' to the risks and opportunities [21(a)] – Signatories that were interviewed identified this as a key part of understanding the business and its management's ability to react to events or controversies. However, these signatories cautioned that this disclosure should not be focused on a specific time horizon but be relevant for all risks and opportunities across all horizons. We recommend that the disclosure specifies that this applies to risks/opportunities '**in the short, medium and long term**'.
- Trade-offs considered by the entity in its decisions [21(c)] – We believe that trade-offs are an important aspect of understanding the nuances of companies' decisions and signatories that were interviewed have highlighted that this is data that is not available from any data source. However, many signatories that were interviewed did not consider the stated level of detail – i.e. on every decision made by an entity – to be relevant for their decisions, as they saw this to be within the remit of management. We recommend that **this disclosure is reported at an entity level (i.e. aggregating the trade-offs) unless management (or its primary users) believe a more granular reporting is required on specific cases**.

  We are also concerned about the consistency of this disclosure (where this is possible, given its qualitative nature). As a result, we also recommend the ED includes **further guidance for management on considering trade-offs** – see our response to question 6a.

  Finally, **we recommend that entities be required to specify the source of the reported trade-offs**. This would help to promote comparability between jurisdictions with different scopes of reporting on trade-offs. For example, under the EFRAG Exposure Draft ESRS 1 on general principles for sustainability disclosure, entities would mainly disclose trade-offs arising from actions or action plans that generate them [Exposure Draft ESRS 1, 126], which is a narrower scope than the trade-offs recognised in this ED [21(c), 44(b)].

On reporting on the effects to an entity's financial performance [15(d)], the disclosure requirements are not prescriptive in setting out a need to report the effects by line item, but the ED does expect the entity to report both current and expected effects on financial performance, position and cashflow. In principle, this would link sustainability-related information to the enterprise value of the entity and inform investors' assessment of their expected financial performance. In comparison, current disclosure (where reported) may be in separate reports. These disclosures give management flexibility on which specific elements are relevant to disclose and/or the level of detail. Signatories involved in the interviews were generally supportive of these disclosures.

Similarly, on the resilience of the strategy to risks [15(e)], disclosure requirements are very broad as they require entities disclose their '*capacity to adjust to the uncertainties*' [23] (from the risks). The ED provides a level of flexibility to the entity on whether this disclosure is quantitative or qualitative but does require the entity to disclose links to strategy and cash flows. This will allow for a level of connectivity with financial performance that reinforces the statements made above. One additional requirement set by the ED is that if it is quantitative information, an entity can disclose '*single amounts or a range*' – here feedback from signatories in the interviews was that it would be inappropriate to report a single amount as it would reflect a false sense of certainty and should be accompanied by a narrative explanation. As a result, we recommend that the entity can **only disclose a range and is accompanied by additional contextual narrative (e.g. on likelihood).**

In practice, for issues like climate, signatories involved in the interviews recognised that this would be implemented through scenarios. In these applications, in particular, we believe the disclosure requirement to include '*how the analysis was undertaken and its time horizon*' will ensure comparable and verifiable data.

<u>Risk management</u>

We believe the disclosure requirements are largely appropriate to the stated disclosure objective and welcome the integration of <u>both</u> risks and opportunities into the wider management processes of the business. However, we have identified specific points where the requirements do not currently meet their stated disclosure objective below:

- Process(s) to identify, assess and prioritise risks for risk management purposes [26(b)]: These disclosure requirements are relevant to signatories as they disclose methodologies and the reasoning used to identify and prioritise risks. Given the qualitative nature of risk management disclosure, we recognise that consistency of the data may not be feasible, but we have the following recommendations:
    - **Clearer guidance in the ED on how to implement the requirements, including on terminology and data expected in the disclosure**, such as the risk-assessment tools and input parameters that are referenced in paragraph 26 (b-ii and b-iii). This will help improve the consistency of the information.
    - Where disclosure is required on '*whether [the entity] has changed the processes used compared to prior periods*' [26(b-iv)], we recommend an additional requirement on **why this has changed and the implications of the change are also disclosed**. This will help improve the verifiability of the data.
- Process(s) to identify, assess and prioritise opportunities [26(c)]: We have identified two key points of divergence in the approach compared to the one on risks [26(b)], which will believe will cause confusion and thereby effect comparability of the data. Firstly, there is no reference to management processes, so we recommend that **text is added to reference 'management processes'.** Secondly, there is a lack of granularity on requirements where all of the requirements for risks are also relevant to opportunities, so we recommend that **the same requirements are included as paragraph 26(b)(i)-(iv)**.
- Process(s) to monitor and manage risks and opportunities, and their related policies [26(d)]: this sets very high-level requirements that link back to governance disclosure in paragraph 13(e), which risks consistency of the data. We recommend that **additional guidance and examples are included on what data is to be expected from the entity**.

<u>Metrics and targets</u>

Unlike the other disclosure requirements on most of the core content (i.e. governance, risk management etc.) [11] – which are agnostic of issues – requirements on metrics and targets depend on the specific issue an entity is reporting. For example, see PRI's consultation response on climate [S2]. The comments below relate to the disclosure requirements specified in the general requirements. We have identified below points where the requirements do not currently meet their stated disclosure objective. Where no comments are made, take that we have no further comments and identify this is decision-useful for signatories

- The entities are required to disclose metrics for <u>each</u> activity that they undertake [29] and is reinforced by requirements that entities must '*disclose the industry or industries*' in the standard that it uses – whether IFRS sustainability disclosure standards or SASB standards [55]. This sector-level of disclosure is informative for investors and provides a link to their investment processes, especially where they are undertaking thematic investing around specific industries or activities. However, not all signatories have indicated this level of granularity, where depending on their strategy, only entity level information will inform their processes. As a result, we recommend that the ED should be clear that **entities should ensure that all assumptions and methodologies remain consistent across individual activities either: (i) ensure that all reporting can be aggregated to an entity level (i.e. preventing any overlap in reporting); or (ii) also disclose aggregate information**.
- The ED then refers to disclosure of metrics in managing and monitoring risks and opportunities and those for measuring performance [30], where the former is used to inform the risk management disclosure requirements [26]. However, there is a lack of clarity in the ED on whether entities need to allocate all metrics and targets into these separate categories (i.e. whether for monitoring or for performance), which raises concerns about the consistency of this data and the potential consequences on risk management. We **recommend the ED clarifies this disclosure requirement and how this should be reported in practice**.
- As these metrics can be defined by one or more standards or guidance documents [54], there is a lack of verifiability of the sources of information. We recommend that the entity **discloses the standards and technical guidance applied in implementing these metrics** – see also comments on materiality in question 8a.
- We recognise that the disclosure of metrics developed by the entity [31] may, by definition, not be comparable with other entities. However, one point of disclosure we would recommend is that if an entity is required to disclose what it considers 'significant' assumptions to calculate targets [31(c)] we recommend that they are also required to **define why it is significant to the entity** (e.g. scale of uncertainty). We believe this will improve the verifiability of the data.
- Finally, we recognise a disconnect in the comparability and verifiability of disclosure for metrics that follow these standards [30] versus those that are developed by an entity [31], where requirements are far more granular for the latter. As the standards may not all require the same information accompany the metrics, we **recommend that paragraph 30 includes the same additional level of disclosure under paragraph 31(a)-(c), including the comment raised above**.
- Signatories involved in the interviews considered the disclosure of entity's performance against targets as the minimum, in line with paragraph 33(a), and welcomed the additional requirements set out in this paragraph[14].
- Investors require consistent data across time to inform their decisions. As a result, we welcome the disclosure requirements in paragraph 34, which also requires explanations of what has changed and why (if a change occurred).

[14] This includes additional explanatory information on '*an analysis of trends or significant changes in its performance*' and '*revisions to its targets and the explanation for those revisions*' [33].

5. REPORTING ENTITY (PARAGRAPHS 37-41)

a. Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

Yes, as this ensures a level of comparability in the data from the financial statements and the sustainability-related financial information. Differences in the scope or scale will add confusion and/or difficulty in processing the data and integrating this into investors' decision-making. Fundamentally, investors with an investment objective to achieve a risk-adjusted return will want to connect this data back to the financial statements. As all our signatories will have this as the primary, or one of their primary investment objectives, we support this approach.

We also believe that this provision is necessary to interpret the ED's own disclosure requirements on financial position, financial performance and cashflows [22].

b. Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

The disclosure requirements on the value chain are currently unclear. The definition in Appendix A[15] of the value chain and the list of examples in paragraph 40 (with reference to employment practices, assets, investments and sources of investment) do help clarify the scope of this disclosure. Interviews with signatories indicate that many do need information on the value chain, particularly on their investments' direct customer and supplier and (where possible) on customers and suppliers further along the chain.

However, there is no clarity in the ED on the scope of the assessment of the value chain required. Based on Appendix A and paragraph 40 (without further clarity) entities will have complete flexibility to define the scope of their value chain. Although, we recognise that some level of flexibility will ensure relevant data for investors, as management's assessment would depend on the sector, operational context etc. of the reporting entity, we currently see the disclosure may not be comparable or verifiable. This is especially of concern, given the role this context provides for disclosure on strategy – see comments in question 4(b). To address this, we recommend that **entities should be required to define the scope of their value chain assessment**, which should include:

- At least include **how far along their value chain, the reporting entity's assessment has and what has not been considered** (level 1, 2 etc. for suppliers and/or customers).
- **Where possible, locations of suppliers and customers, scale of supply/proportion of sales etc.** This level of detail should be optional and down to management to identify what it deems is relevant.

We also have concerns about whether the examples in paragraph 40 provide sufficient steer for entities to report consistently on its supply chain. We recommend that **a definitive list/guidance is provided in the ED (rather than just examples)** to ensure the consistency of reporting.

Finally, the scope defined by the example in paragraph 40(c) is unclear: '*investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting*

[15] This is defined by the ISSB as: '*The full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates.*

A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include those in the entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.'

activity through a joint venture)'. We recommend that **the ISSB clarifies whether investors' investments will be included within the scope of the value chain**.

c. Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

Yes, this will ensure connectivity with the financial statements, which is relevant to investors. See further comments in question 5(a).

6. CONNECTED INFORMATION (PARAGRAPHS 42-44)

a. Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

Although the intention is clear and well recognised by investors (i.e. that sustainability-related information should not be reported or considered in silos), the requirements on connectivity are currently very broad and unstructured and risks not providing comparable data for investors.

Our concerns stem from the ED's guidance on how entities should undertake the required assessment and whether the resulting disclosure can inform investors' decision-making. On undertaking the assessment, paragraph 43 only requires that an entity '*describe the relationships between different pieces of information*' and that this information '*shall be clear and concise'*. All remaining points in paragraphs 43 and 44 reference potential factors that a company could consider – including '*connecting narrative information on governance, strategy and risk management to related metrics and targets*' – and examples of what this information could look like. Although this provides a level of flexibility, as the limited guidance risks consistency of the data across entities we recommend:

- Refining the **section to focus on the key examples of data that are relevant to primary users**, from paragraphs 43 and 44, this includes: '*connecting narrative information on governance, strategy and risk management to related metrics and targets*'; '*explain how its use of natural resources and changes within its supply chain could amplify, change or reduce its significant sustainability-related risks and opportunities*'; '*link this information to the potential or actual effect on its production costs, its strategic response to mitigate such risks and its related investment in new assets*'; and '*linked to information in the financial statements and to specific metrics and targets*'. **All remaining examples in these paragraphs should be transferred to a new section in the illustrative guidance**.
- **Provide signposting to future standards and/or guidance on how entities should disclose on multiple sustainability-related risks and opportunities**. We recognise that there is currently no consensus on reporting or assessing the trade-offs or aggregation of multiple issues, but recognise that this is a relevant disclosure requirement to be included in the ED. As a result, we recommend that the ED requires entities **to refer to the 'most recent pronouncements of other standard-setting bodies and initiatives'** when undertaking this assessment. This approach is in line with the ED's requirements in paragraph 51(c) on identifying and disclosing risks and opportunities.

b. Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

Yes, we agree with the proposed requirements. We believe the connectivity will provide a strong underpinning for disclosure in the general purpose financial reporting to capture all financially material data and ensure coherent corporate reporting disclosure. This data is relevant for our signatories, as they all have an objective to achieve financial returns in their investments.

Given the definition of materiality applied in the standard [BC76], we believe that for the ED to meet its own proposed scope, the standard must require entities to disclose on the links between sustainability-related risks and opportunities and information in general purpose financial reporting.

Looking to the examples provided of sustainability-related financial information in paragraph 6 (see commentary in question 2b), all forms of information recorded refer to a link (whether directly or indirectly) back to financial performance. The clearest link is where sustainability-related risks and opportunities, do not meet the requirements for recognition in the current financial statements [6(b)]. For example, it may not meet the criteria under IAS 38 (on intangible assets) as the entity may not have control over relationships in its supply chain or training of its staff. By reporting sustainability-related financial information on changes to specific line items (like an asset/liability), the entity's reporting will therefore capture disclosure that is financially material in the short, medium and long term and is not recognised in the financial statement. For investors to integrate this information into their decision-making, it is important for them to be able to see how, or the extent to which, this is manifested in the financial statements.

However, we do recognise overlaps in the disclosure requirements under these paragraphs and those under strategy on the effects to financial position, performance, and cash flows [22]. To avoid any confusion, and risks on consistency of the data, we recommend the ED **is clear how far (if at all) these requirements for connectivity go beyond the disclosure requirements under strategy**.

7. FAIR PRESENTATION (PARAGRAPHS 45-55)

a. Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

The proposal to present fairly the sustainability-related risks and opportunities is a principle-based requirement based on the qualitative characteristics in Appendix C [47(a)]. For entities that are following the International Accounting Standards Board (IASB), these terms will be familiar as they are informed by the IASB's Conceptual Framework for Financial Reporting. PRI is not able to comment on the comparison of the qualitative criteria in different jurisdictions. We recommend **that the ISSB undertake this assessment (if it has not already) to assess these differences and include guidance in Appendix C on how entities operating in these different jurisdictions should apply the concepts differently when following the IFRS Sustainability Disclosure Standards.**

The ED also recognises the need to '*provide additional disclosures when compliance with the specific requirements in IFRS Sustainability Disclosure Standards is insufficient*' [47(a)]. We agree with this approach as it allows for the entity's management to identify where data on sustainability-related risks and opportunities should go further, which would ensure relevant data is reported to investors that reflects the company's operational context. Although, this level of flexibility to the entity is acceptable, we recommend that **to ensure comparable data, the ED is clear that these data points must meet all of the related disclosure requirements that accompany similar disclosure, as set out under governance, strategy, risk management and metrics and targets**.

On the aggregation of data, the ED requires that data '*shall be aggregated when it shares those characteristics [on sustainability-related risks and opportunities] and disaggregated when it does not share them*' [49]. This requirement is very broad, and we believe this may risk comparability of the information. We recognise that this approach has been taken as aggregation of the data would depend on the entity's context. However, we recommend that **additional guidance is provided on what 'characteristics' the entity should consider when deciding about the level of aggregation**. Reference is made in paragraph 49 to geographical location, geopolitical environment, and environmental context (through the example of a water-stressed area), but this list could also include the operational context of the business (the business unit, activity etc.).

b. Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to

consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

[51] To identify sustainability-related risks and opportunities about which information could reasonably be expected to influence decisions that the users of general purpose financial reporting make on the basis of that information, an entity shall refer to IFRS Sustainability Disclosure Standards, including identified disclosure topics. In addition to IFRS Sustainability Disclosure Standards, an entity shall consider:

(a) the disclosure topics in the industry-based SASB Standards;

(b) the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures);

(c) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting; and

(d) the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

The sources of guidance listed in paragraph 51 cover a range of disclosure standards and additional reporting requirements to identify sustainability-related risks and opportunities. Signatories involved in the interviews welcomed that the ED was building on previous, well-established standards [51(a)-(b)] and provides entities with a level of flexibility to account for new developments [51(c)] and learn from their peers [51(d)]. We do not have any recommendations for additional sources. However, we have concerns that a lack of guidance how to apply these sources (a-d) could risk comparability and verifiability of the data.

Comparability is at risk as each entity may approach the requirements in paragraph 51 differently, for example: an entity reporting for the first time may consider different standards/guidance documents to one that has reported for many reporting cycles. We recognise that this flexibility is by design, but recommend that **the ED references (or maintains a live list of) widely accepted standards and guidance that emphasise the needs of investors, including SASB and CDSB** (as referenced in paragraph 54), but **also CDP and the GRI**.

We also recommend that to improve the transparency of the data, entities are required to **disclose the standard(s) they used and the associated technical guidance applied**. This would also help investors verify the methodologies that are applied.

More generally:

- We found reference to the 'disclosure topics' within the IFRS Sustainability Disclosure Standards [51] and associated definition in Appendix A unclear. In particular, it was not clear whether these topics refers to an issue (e.g. climate) and/or whether it corresponds to an entire standard or specific requirements within a standard. As a result, we **recommend the term 'disclosure topics' is either applied more consistently in the ED or removed when referencing the IFRS Disclosure Standards**.
- We **recommend that this section on identifying sustainability-related risks and opportunity should be included into the section on materiality** as these concepts and processes are interrelated – see response to question 8(a).

8. MATERIALITY (PARAGRAPHS 56-62)

a. Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

'*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, which provides information about a specific reporting entity*.' [56]

The definition of materiality is clear and well recognised as this follows the International Accounting Standards Board's (IASB's) Conceptual Framework for Financial Reporting. By focusing on primary users, investors' data needs are set at the centre of the intended disclosure on sustainability-related financial information.

However, the application of materiality, as set out by the ED, is currently not clear and risks comparability and verifiability of all reporting by the entity as the data is the basis of deciding what all data an entity discloses [60]. Our concerns are based on inconsistency in the standard on the process that entities should undertake in identifying and prioritising material sustainability-related risks and opportunities. For example, we have identified three points in the ED with different guidance:

1. **Materiality assessment** – an entity is expected to undertake an assessment that considers both relevance and/or magnitude of the risk or opportunity on the entity's general purpose financial reporting [58]. Additional guidance is provided on what types of information the entity should consider when undertaking this assessment [IG1-10].
2. **Risk management** – entities are required to first identify risks and opportunities [26(a)] and then disclose process(es) to assess and prioritise these for risk management [26(b)] and opportunities [26(c)]. Although the first step inputs directly into the materiality, the focus shifts to the processes (at the very least for risks – see comments in question 4(b)).
3. **Fair presentation** – entities are provided with guidance on how to identify material sustainability-related risks and opportunities and the metrics to report alongside this [51-54; IG11-IG24].

To improve the clarity (and thereby consistency) of the process entities should undertake applying materiality, we recommend that the ISSB:

- Remove reference to 'significant' – see our response to question 1.
- Clarify the steps to apply materiality, which builds on what is already set out in the ED:
    a. **Undertake a materiality assessment on which risks and opportunities are material for the entity in the short, medium and long term.** We recommend that the ED should require entities to undertake this assessment using the SASB materiality map as a starting point; then consider any further entity level requirements using all available IFRS Sustainability Disclosure Standards and all resources listed in paragraph 51 – even if the requirements of these standards/guidance go beyond issues identified as material by the SASB materiality map. We believe this will future-proof the standards to integrate additional IFRS standards over time to consider whether an issue is material whilst narrowing the potential scope of all issues that an entity could consider.

       In response to this process, entities must disclose: (i) which risks and opportunities are considered material; (i) which are not material; and (iii) why they are not material.

    b. **For each risk and opportunity, identify all relevant disclosure requirements** in the IFRS Sustainability Disclosure Standards and if no disclosure requirement exists, apply other disclosure standards recommended by the ISSB in paragraph 54. **Entities must disclose: (i) which standard(s) is(/are) used**, as noted in question 7(b); **and (ii) identify relevant disclosure requirements**.

    c. **For each requirement, the entity should identify which specific disclosure requirements (under governance, strategy, risk management and metrics and targets) are considered material**. This follows on from paragraph 60, where entities are not required to disclose on all requirements in a standard if an entity does not deem it material.

       In response, entities must disclose: (i) which requirements it will disclose; (ii) which it will not disclose; and (iii) why it will not disclose on a specific

requirement. The disclosures listed must be based on the standards identified by the entity in (b).

d. **Input the material risks and opportunities into processes and disclosure requirements for risk management and strategy** in compliance with disclosure requirements in with paragraph 26 and 15(a) (respectively).

e. **Reassess materiality by going through these steps in each reporting period**, in compliance with paragraph 59.

The above steps build on the disclosure requirements and procedures already specified in the ED (cross-referenced above), with an added level of specificity for proposed steps (a) and (b), listed above.

- Provide additional guidance and examples of sustainability-related financial information specified in paragraph 6(c) and 6(d), as specified in our response to question 2b.

b. Do you consider that 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? Why or why not?

In general, we believe that the disclosure requirements do have the potential to capture the breadth of risks and opportunities. Our primary concern remains whether there is sufficient guidance to ensure consistency (and comparability) of the disclosure data. See commentary in question 8a for suggested changes to the process.

c. Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

The ED and Illustrative Guidance provides some commentary on identifying this information, but does not go far enough to provide steer on how entities that are at different stages of reporting on sustainability-related disclosure should approach their materiality assessment. For example, a reporting entity could be disclosing publicly for the first time, they may have only disclosed on a specific issue (e.g. climate) or they have been disclosing publicly for years. Lack of clarity on guidance could affect the consistency of the data reported by entities in these situations. See our recommended approach on process in question 8a.

For the illustrative guidance, we recommend that the ISSB **outline multiple illustrative 'profiles' of entities and sets out a clear decision tree for each profile, with information to match the steps listed above** – see our response to question 8a. We believe this will improve comparability of the identification processes, and by extension, the results across entities.

d. Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

The PRI is not able to comment on whether there are any local laws or regulations that prohibit the disclosure of information required by the ED. If this has been identified by the ISSB and/or through consultation responses as a potential constraint in jurisdictions, we agree with this proposal.

We support the requirement set by the ED that the entity must still '*identify the type of information not disclosed and explain the source of the restriction*' [62] given that this information will be relevant to investors. Knowing what relevant information has not been disclosed will allow investors to consider using other sources of data, such as estimates or engage directly with the entity to access this information.

9. FREQUENCY OF REPORTING (PARAGRAPHS 66-71)

a. Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

Yes, we agree that it should be provided at the same time as the financial statements. This will ensure connectivity in the data that is reported, thereby ensuring relevance of the data for investors.

Note, we also recognise that the ED does not mandate interim reporting, but it does allow for entities to report updated data points (rather than all data). only where there is a local requirement (due to government requirements, securities regulators etc.) [69]. This additional reporting will improve the timeliness of the data for investors without duplicating the information in the annual reports [70].

10. LOCATION OF INFORMATION (PARAGRAPHS 72-78)

a. Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

Yes, we agree with the approach set out in the ED, which leaves a level of flexibility to entities on the location set out in the standard. Although we recognise that this could make it difficult for investors to identify the exact location of the relevant information or data point, many interviewed signatories indicated they obtain raw data through data service providers, who collate the information from the variety of public sources for financial and sustainability-related data. Ultimately, as long as these locations do not prohibit the access of the information and can be retrieved by all current and potential users, we largely agree with the proposal on location.

b. Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

PRI is not able to comment on this.

c. Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?

As long as the location is clearly identified [77], the information is made available at the same time [75] and remains accessible [75], this approach would be acceptable.

We support the requirement under paragraph 76 to ensure that any cross-referenced data is still subject to the same checks and/or audit as the general purpose financial reporting. Interviewed signatories highlighted this requirement would need to be met by entities to ensure verifiability of reporting.

d. Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

'When IFRS Sustainability Disclosure Standards require the disclosure of common items of information, an entity shall avoid unnecessary duplication. For example, when an entity integrates its oversight of sustainability-related risks and opportunities, the disclosures on governance shall also be integrated rather than provided in the form of separate governance disclosures for each significant sustainability-related risk and opportunity.' [78]

No, it is not clear from paragraph 78 that separate disclosure is not expected. Although the statement is clear to '*avoid unnecessary duplication*', this is subject to each entity's interpretation of what it deems 'unnecessary'. In particular, with the example given, it could be implied that the entity does not need to integrate its oversight of sustainability-related risks and opportunities, in which case they could report on governance separately for each risk and opportunity.

As noted in the commentary on strategy (question 4), signatories involved in the interviews preferred that entities' disclosure on sustainability-related risks and opportunities is integrated. As a result, we recommend that the requirement in paragraph 78 is unequivocal and states that **all common items of information across risks and opportunities shall be included under the headings of the core content**. We recommend that **the example used in the ED should also be updated to reflect this statement**.

11. COMPARATIVE INFORMATION, SOURCES OF ESTIMATION AND OUTCOME UNCERTAINTY, AND ERRORS (PARAGRAPHS 63-65, 79-83 AND 84-90)

a. Have these general features been adapted appropriately into the proposals? If not, what should be changed?

In general, most of the general features have been appropriately translated from the IASB's standards to the General Requirements ED. We have identified below key changes that we believe will improve their application to the standard.

Comparative information is relevant to investors as it informs their assessment of investments' performance against previous period(s). Our comments and recommendations on the disclosure requirements are as follows:

- We agree with the optional inclusion of '*relevant to an understanding of the current period's sustainability-related financial disclosures, the entity shall also disclose comparative information for narrative and descriptive sustainability related financial disclosures'* [63]. However, we recommend that the ED **make it clear that this would be defined by the entity's management**.
- Although, we recognise that it is not practical for entities to adjust all historic reporting [65] for changes that occur in prior periods, for example for changes in data collection methods, the current disclosure risks verifiability of the information and could have consequences on some investors' assessments and models. Therefore, we recommend that the ED also requires the entity to disclose: **(i) why it was not practical to make adjustments to prior periods; (ii) what period(s) would be affected; and (iii) (where possible) management provide commentary on what the potential consequences are on the prior period results** – e.g. whether these are an under- or overestimate.

With estimations, signatories interviewed recognised that there will be uncertainty in the outcome of the sustainability-related data. In particular, the entity is required to disclose metrics '*that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties*' [79]. However, it is unclear what the ED refers to as the 'nature of uncertainty', which could risk consistency of reporting. We recommend that the ED **includes a clear definition of what the term ('nature of uncertainty') means** – for example, whether this refers to the direction of the uncertainty (e.g. an under/overestimate).

The majority of the disclosure requirements relate to uncertainty surrounding forecasts. Our comments and recommendations on the disclosures are as follows:

- '*Disclosure of information such as explanations about possible future events that have uncertain outcomes*' [81] – this is considered the minimum level of detail required on uncertainty for investors. We recommend that **the results of this assessment on the value,**

timing, certainty and likelihood of the effects should be reported for all events that the entity has deemed material. Some of this may already be captured in reporting on metrics, but this is an important level of detail that will be relevant to some investors.

- '*[D]isclose information about the assumptions it makes about the future and other sources of significant uncertainty… when there is significant outcome uncertainty*' [83] – this requirement is welcome, as it allows investors to normalise (i.e. adjust data from different entities to comparable figures) this data and prioritises where there is significant uncertainty. However, this risks a lack of comparability of the data across entities, as primary users would not have access to consistent information on all events. We **recommend that the ED cross-references this requirement to ensure that assumptions consistently accompany all metrics and targets that refer to forecasts**.

Finally, on material prior period errors, the ED distinguishes this from changes in estimates [89] and refers to these errors as '*mathematical mistakes, mistakes in applying the definitions for metrics and targets, oversights or misinterpretations of facts, and fraud*'. We recognise the scope of this part of the ED and agree with its interpretation. We also recognise that the requirements in paragraph 90 are all relevant.

b. Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

Yes, we agree. This will improve the comparability of the information. Where possible, we recommend that information is reported as far back as feasible, as historic data is a crucial aspect of the data needs of investors. In particular, historic data is often used to forecast data.

c. Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

Yes, we agree with the proposal to maintain consistency between the sustainability-related financial disclosure and corresponding financial data. This allows for consistency of data for signatories and helps minimise additional costs/resources for signatories to normalise the data.

As we are not aware of any circumstances for which this requirement cannot be applied, we recommend **that the phrase '*to the extent possible*' is removed**. This will ensure that investors have the necessary information (provided by management) to normalise these results.

12. STATEMENT OF COMPLIANCE (PARAGRAPHS 91-92)

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements. The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards

a. Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

We agree with this proposal as it helps signatories understand whether the entity is in compliance with the IFRS Sustainability Disclosure Standards. This will inform the verifiability of the sustainability-related data.

13. EFFECTIVE DATE (APPENDIX B)

a. When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.

PRI is not able to comment on this.

b. Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

PRI is not able to comment on this.

14. GLOBAL BASELINE

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

a. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

In our view there are no aspects that would limit the ability of IFRS Sustainability Disclosure Standards to be used as a global baseline. In particular, the General Requirements and accompanying Illustrative Guidance build off well-established concepts and standards in specifying guidance and disclosure requirements.

On financial reporting, it builds on the approach of the International Accounting Standards Board (IASB), whilst allowing for the use of other accounting standards in conjunction – see response in question 3. We also recognise the harmonisation of voluntary sustainability-related standards, with flexibility given for the provision of new standards in the ever-evolving space of sustainability-related reporting – see response in question 7(b).

Overall, we believe the ED will ensure a common set of sustainability-related reporting requirements that are compatible with existing and emerging standards, which will improve the likelihood of their adoption across jurisdictions.

15. DIGITAL REPORTING

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 Climate-related Disclosures Standards are the sources for the Taxonomy. It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

a. Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

PRI is not able to comment at this stage on the Taxonomy and will look to comment on the Exposure Draft of Taxonomy. We are also not able to comment on digital reporting.

16. COSTS, BENEFITS AND LIKELY EFFECTS

a. Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

PRI is not able to comment on this.

b. Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

PRI is not able to comment on this.

17. OTHER COMMENTS

a. Do you have any other comments on the proposals set out in the Exposure Draft?

Time period

The reporting entity is required to describe '*significant sustainability-related risks and opportunities and the time horizon over which each*' could affect information reported under strategy [16(a)]. It is also on the entity to define its short, medium, and long term [16(b)] time horizons. The ED recognises that this time period could vary, depending on a number of factors, like the entity's business planning horizon [18]. We believe this level of flexibility is useful to account for differences in the entity's context (business structure, capital investments etc.) [18] and is supported by signatories interviewed[16].

However, as the horizons are a key part of framing the risks and opportunities in disclosure on strategy, governance, risk management and metrics, many signatories also recognised the risk to consistency (and thereby comparability) of the data across entities if organisations do not apply consistent definitions of these time horizons. Note, we are less concerned whether entities would attempt to hide the data in the long term (for example), as the ED clearly requires risk management to cover these risks as well.

To improve consistency of the data we recommend that the ISSB **considers a <u>minimum</u> for each horizon that all entities** will apply to define their horizons. For example, to allow for better global alignment, the minimum could be aligned with the EU's EFRAG Exposure Draft ESRS 1 on General Principles [ESRS 1 - page 18][17], meaning the following lower bounds would apply:

- **Short term:** N/A
- **Medium term:** Over 2 years
- **Long term:** Over 5 years

[16] Signatories' own definitions of these horizons differ, and they see it as part of their job to normalise and/or adjust values.

[17] Although this is subject to approval by the European Commission, we do not expect these definitions to change and believe this alignment will improve the interoperability of the data with the EU.

Note that length and nature (e.g. whether minimum/a range) of specified horizons may need to vary by sustainability issue and be further specified in the issue-specific IFRS Sustainability Disclosure Standards. For instance, in our consultation response on [Exposure Draft IFRS S2 *Climate-related Disclosures* we have suggested] defined ranges for short, medium and long-term horizons based on the EFRAG Exposure Draft ESRS E1 on Climate change [Exposure Draft ESRS E1, page 23][18] for transition risks.

Information on context

Ultimately assessing sustainability-related risks and opportunities requires investors to understand the context of the reporting entity. For example, this could include: for environmental information, a baseline of the pressures on the environment; for social information, the jurisdictional context/legal requirements on human rights (regulations on labour, indigenous context etc.); or when inputting into an assessment of macro factors, the wider economic, social and environmental context of the entity.

Signatories interviewed recognised that contextual information (in general) is key to their interpretation of sustainability-related risks and opportunities. These signatories recognised that some of this information will be captured by asset owners, investment managers and their service providers and is a key part of what distinguishes these organisations in the financial market. However, for these assessments to be undertaken we recognise that there are some core data points that the business should consistently report on to enable investors' interpretation. Signatories interviewed have stated that the public disclosure of this information by companies is also more verifiable than the estimation or investigations that service providers will undertake to collect this data.

Our comments and recommendations are below on core data points for context that we have identified:

- Industry – there is already a disclosure requirement for entities to report their industry [55], but as stated in the response to question 1c, we do not see clear guidance on disclosure of the 'General features' – see recommendations in question 1c. This ED does not also reference an industry classification system that a reporting entity should use, although reference is made in the Climate-related Disclosures to the Standard Industrial Classification System (SICS). If the SICS system is required, it is unclear if disclosure is then required at Thematic sector, sub-sector, or industry basis for all disclosure requirements in the ED. We recommend that the ED includes a **clear requirement to disclose the entities industry/industries and specifies the classification system all entities should apply and the level within the system disclosure is required**.
- Value chain – **a definition of how far along the value chain is a minimum**, and then who and where these suppliers and/or customers are operating could provide additional context beyond this – see comments raised in question 5(b). This builds on recognition that service providers are also limited by what data is publicly reported about the value chain. We believe that disclosure of this information on context is required to comply with the current disclosure on strategy within the ED.
- Location – we recommend that entities also disclose on the **location of their overall entity and (where possible) on individual plants/factories**. This should be at the very least at the scale of the country these are operating in. This information will allow investors that require more detailed assessments to have a good understanding of the more systemic risks related to the location, laws that apply, national target a company is subject to etc.

[18] Although this is subject to approval by the European Commission, we do not expect these definitions to change and believe this alignment will improve the interoperability of the data with the EU.

Addressing investor data needs

Investors are not homogenous, and their needs vary depending on their investment objectives, strategy, mandate, and other characteristics. All investors need sustainability-related information that informs their assessment of their investments' financial performance. However, investors also increasingly need information to assess and interpret a company's sustainability performance[19] and their alignment to long-term sustainability goals and thresholds (i.e. sustainability outcomes[20]).

The PRI welcomes the standard's recognition that sustainability-related financial information captures all information that results in changes to the entity's enterprise value in the short, medium, and long term. This includes the direct financial implications of an entity's actions, impacts and dependencies on people, the planet, and the environment, but also indirect implications due to effects of systemic risks - such as exceeding planetary boundaries – on the wider economy, market, or sector the entity operates in. We also recognise that some of the metrics and targets required by the standard, could play a dual purpose: to inform investors' assessment of enterprise value and as indicators of sustainability performance or positive and negative contributions to sustainability outcomes – for example, the emissions of an entity's factory/plant. With this, the standard will enable disclosure of information that captures elements of an entity's sustainability performance and its positive and negative contributions to sustainability outcomes.

However, disclosure focused on enterprise value will not serve the needs of all investors, particularly those that are looking for a broader understanding of an entity's sustainability performance and outcomes. The standard does not require disclosure: (i) of the entity's contribution towards the sustainability outcomes (which could also contribute to systemic effects); nor does it (ii) require disclosure on indicators of performance that are currently not expected to influence enterprise value, as these impacts and dependencies are only on stakeholders external to the entity.

Therefore, the PRI supports the 'building blocks' approach to enable companies to report information that goes beyond the ISSB's focus on enterprise value, reporting against relevant jurisdictional initiatives and/or the Global Reporting Initiative (GRI)[21]. However, to implement this approach in practice, we believe the standard must also ensure consistency in their conceptual frameworks and alignment in common disclosures.

Firstly, for **consistency in conceptual frameworks**, standard setters should ensure consistency in:

- **Their reporting design/structure**, to ensure common (relevant) data is accessible to investors, which includes reporting on governance, strategy, risk management and metrics/targets, even if this information is not included under the same headings;
- **The terminology and their definitions**, to ensure comparability of the data across the standards, particularly when referring to common disclosures; and
- **Their reporting concepts**, which includes the qualitative characteristics (e.g. relevance) that underpin the standards.

Secondly, for **alignment in common disclosures** that can serve both reporting of information that is relevant to an entity's enterprise value and its sustainability performance and outcomes, standard setters should ensure alignment of disclosure on:

- **Relevant aspects of the entity's governance, strategy and risk management processes**, which may be reported independent of the specific sustainability-related issue.

[19] Sustainability performance refers to how an investee's operations and products positively/negatively affect people and the environment.

[20] Sustainability outcome refers to how an investee's sustainability performance contributes to sustainability goals.

[21] See slide 6: https://www.ifrs.org/content/dam/ifrs/meetings/2022/june/cmac-gpf/ap6-issb-update-and-issb-exposure-drafts.pdf

- **Common indicators for metrics/targets** for specific issues, which play a dual purpose for investors.

In line with this, the PRI welcomes the recently announced collaboration agreement between the IFRS Foundation and the GRI. We look forward to hearing more about the collaboration as it develops and how we can best support this initiative.