To: commentletters@ifrs.org

22 September 2023

Mr. Emmanuel Faber, Chair
International Sustainability Standards Board (ISSB)
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Faber

Re: Request for Information – Consultation on Agenda Priorities

The Sustainable Business Management Committee (SBM.C or Committee) of the Institute of Management Accountants (IMA®) is writing to comment on the Request for Information Consultation on Agenda Priorities issued by the International Sustainability Standards Board (ISSB or Board) on 4 May 2023 (RFI).

IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. IMA has chartered SBM.C as standing advisory committee, and among its responsibilities is advocacy on behalf of the profession by participating in regulatory and standard-setting due diligence processes activities as they relate to sustainable business. The SBM.C includes individuals with sustainable business expertise in reporting, management, consulting, and education. The SBM.C reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the SBM.C can be found at www.imanet.org (About IMA, Advocacy, Sustainable Business Management Committee).

In 2021, IMA issued a Statement of Position on Sustainable Business Information and Management (SOP, available on our Committee homepage). This SOP expresses nine fundamental principles that are essential to building a successful and sustainable accounting and
reporting ecosystem in a way that meets global demands for sustainability information, and at the same time, promotes trust and facilitates meaningful action.

Our letter herein reflects our principles by addressing the seven main questions posed in the request for information, supplemented with the Committee’s rationale and any applicable suggestions.

**Question 1 - Strategic direction and balance of the ISSB’s activities**

**Question 1a**, the SBM.C suggests prioritizing the four activities in the following order:

1. supporting implementation of ISSB Standards IFRS S1 and IFRS S2 with a particular emphasis on connectivity
2. enhancing the Sustainability Accounting Standards Board Standards
3. researching targeted enhancements to ISSB Standards
4. beginning new research and standard setting projects

**Question 1b**, Please explain the reasons for your ranking order: The SBM.C notes that with the recent release of ISSB S1 and S2, companies and professionals worldwide will be facing implementation challenges. Many companies have not fully evaluated applicability, or designed the reporting infrastructure to disclose complete, accurate and verifiable information. Therefore, the Board should prioritize assisting the companies impacted by the new standards and provide public clarifications as needed. Related to this is how the information is integrated into management commentary in a national context so that disclosures are anchored into broader disclosures about the reporting entity. Considerable effort should focus on connectivity given the ISSB employs a financial concept of materiality which implies that there is a clear nexus between what is disclosed under S1 and S2 and how these items are reflected or affect the financial statements. Moreover, we are aware of the practical challenges faced by preparers in delineating what falls within IFRS Accounting (A) and Sustainability (S) standards, particularly around risks and opportunities.

Aligned with supporting the implementation of S1 and S2, the Board should enhance the current SASB Standards. The rapidly changing global regulatory environment creates the need for reevaluation of the current standards. The Board should consider enhancing the SASB industry-specific and materiality elements based on the ever-changing climate risks and opportunities, global alignment, or implementation feedback. From our perspective, preparers find great utility in the SASB standards, particularly when they are considering their initial reporting agendas on sustainability matters.

Lastly, the Committee views “researching targeting enhancement to the ISSB Standards” as a key task on the Board’s agenda. Specifically, we recognize the stakeholder demand for integrated, comparable reporting in a way that promotes trust, transparency, and accountability. More disclosure mandates do not necessarily mean the delivery of information that is decision useful.
An integrated report focuses on a company’s business model and describes the interrelationships between economic, environmental, social, and governance-relevant topics, by focusing not only ESG related elements per se but wider range of intangibles related to social, intellectual, or organizational and human capitals. To improve information on intangibles in a broader corporate reporting perspective, efforts should be coordinated in setting standards for both financial reporting and sustainability reporting to ensure that the information required in both reporting areas is complementary and does not overlap.

With respect to connectivity, we note that among the most significant, systemic risks to the capital markets are stranded assets that may result from transitional risks. For example, meeting announced “net-zero” or similar commitments means that assets (or intangible, unrecognized value) are subject to potential impairment with timing as the critical component. We emphasize that IFRS Foundation give the accounting and reporting of these risks and potential impairment – which requires a careful and meaningful consideration of connectivity – the highest priority. This may require a reconsideration and developing the means for measuring expectations over a longer term than under current financial reporting standards in a way that satisfy the rigorous demands for reliability.

IMA has been in the forefront of addressing internal control over sustainability reporting (ICSR): the requisite systems, oversight, and governance processes for the delivery of meaningful and reliable information to the capital markets and other resource providers. We emphasize that companies are earnestly building the capacity or resources to implement S1 and S2, along with the ability to comply with the mandates of other government and authoritative bodies. In our view, this is different from capacity building which we believe should be left to the market and other actors to address. As the global standard setter, it is critical for the ISSB to consolidate and refine the body of knowledge to make it fit for purpose and relevant to the context of mandatory reporting within the financial filing.

Question 1c, Should any other activities be included within the scope of the ISSB’s work? We believe the Board should maintain focus only on primary users of general purpose financial reports, tailored to material risks and topics for each sector and industry as determined by SASB. SASB followed an iterative process, including public comment, to identify issues material to each sector and to establish disclosure topics. These topics are both qualitative (narrative) and quantitative. The Committee believes the industry specific materiality provides stakeholders with a more transparent view of a company’s risks and opportunities.

In the absence of a well-articulated conceptual framework, it would be helpful for the ISSB to define the field of what it believes constitutes sustainability through a statement on topics that are covered in existing standards and the development of standards in the future. By analogy the IASB has defined the elements of the financial statements and accounting standards with the context of the financial statements and their amplification. The Committee considers the establishment of
some topic boundaries of great assistance to preparers in the evolution of reporting on sustainability.

Question 2 - Criteria for assessing sustainability reporting matters that could be added to the ISSB’s work plan

Question 2a, Do you think the ISSB has identified the appropriate criteria? The Committee suggests ISSB consider alternate criteria.

Question 2b, Should the ISSB consider any other criteria? If so what criteria and why? The Committee suggests the ISSB consider the extent that the matter is critical for company’s value creation process. Sustainability is key to enterprise value by aligning value-to-business and value-to-society perspectives. In practice, we observe the increasing relevancy of value creating ESG disclosures and the adjacent shift of policy makers looking to business to develop models that deliver returns but also solve problems of people and planet. It concerns us that a great deal of weight has been placed on materiality which is likely to undermine the comparability of information. A capital-providers perspective does not, in itself, limit the reporting of impacts or externalities, and impact investor are a good example of investors with a specific interest in impact information. Similarly, the changing role and expectations of corporations means that a narrow shareholder primacy perspective, with a narrow focus on generation of cash flows is inadequate in discharging the accountability and transparency obligations to a wider set of stakeholders.

Question 3 - New research and standard-setting projects that could be added to the ISSB’s work plan

Question 3a, Should the ISSB prioritize a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them? We think exercising the activities noted in Question 1 will drive a demand for the next project(s). We believe accepting and tracking feedback from stakeholders, specifically businesses and investors, will steer the Board to focus on a project that creates value for both the business and the user of the report.

However, under the category of “new research” we note the complete absence of any attention to the significant issues around transformative technology and the daunting fragmentation challenges that remain, even after the consolidation of several reporting standards under the IFRS/ISSB umbrella. We observe that standard setters in both the financial reporting and sustainability reporting area are continuing to develop standards by spending significant resources focused on human language and with inadequate forethought about machine language, digital reporting, and the growing relevance of AI tools. This also relates to the very real burdens that well meaning preparers are experiencing to comply with the array of fragmented standards around the world. Of course, addressing connectivity to financial reporting, as addressed above, is an important step in
reducing fragmentation. This must be incorporated into standard-setting from the beginning of new projects rather than a bolted-on afterthought. These practical considerations are critical, in particular, to the preparer community which will incur most of the costs of implementing new standards.

Question 4 - New research and standard-setting projects that could be added to the ISSB’s work plan: Biodiversity, ecosystems and ecosystem services?

The SBM.C would like to reiterate the importance of industry specific risk and disclosure guidance. Questions 4a and 4b are comprised of many environmental risk and opportunity projects; however, the significance of these projects is dependent on the specific company and industry. Therefore, we cannot suggest the importance of one project over another without industry context, further supporting the need for industry specific guidance.

Question 4c, Which of the materials or organisations referenced in paragraph A13 should be utilised and prioritised by the ISSB in pursuing the project? The committee thinks the other entities here can prove useful in identifying key sustainability topics and creating disclosure parameters. These materials can also provide alternate perspectives from a geographical and stakeholder standpoint.

Question 5 - New research and standard-setting projects that could be added to the ISSB’s work plan: Human capital

Question 5a, Within the topic of human rights, are there particular subtopics or issues that you feel should be prioritised in the ISSB’s research? The SBM.C suggests priority topics as:

1. Alternative workforce
2. Labor conditions in value chain
3. Workforce composition and costs
4. (Other) Capability of CEO and other executives

We think these topics are most relevant to the value chain. We suggest ISSB continues to emphasize the value chain as it did in the S1. Human capital usually includes only employees or workforce, but the capability of executives is the key element for managing various capitals for value creation. This aspect should not be left untouched.

Question 5b: We believe human capital risks and opportunities vary across business models, geography, industry, and sector. For example, the workforce of an agricultural company is going to significantly vary in structure and composition from that of a tech company. In the example provided, the workforce impact on the value chain is almost non-comparable. Therefore, we think
the Board should consider industry specific human capital disclosures or enhance human capital disclosures to drive comparability.

In addition, we observe that item (4) addresses the capabilities of the CEO and other senior executives, but it omits the critical leadership of the Board of Directors. We suggest that the phrasing of this point become more inclusive and reflect the governance of both the Board as well as corporate officers.

Question 6- New research and standard-setting projects that could be added to the ISSB’s work plan: Human rights

The Committee reiterates its response to Question 5b. Human rights risks and opportunities vary across business models, geography, industry, and sector.

Question 7- New research and standard-setting projects that could be added to the ISSB’s work plan: Integration in reporting

Question 7a, How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB’s new two-year work plan?: As noted in our response to Question 4, the committee supports prioritizing activities and projects through research and open communication with stakeholders to identify value-creating disclosures and guidance. Our committee is comprised of various stakeholders (financial statement users, preparers, management executives etc.), creating a diverse perspective of accounting professionals. Overall, we agree with the ISSB upcoming projects and initiatives to enhance the global baseline for sustainability disclosure. We suggest focusing on industry specific disclosure and integration reporting to drive value creation for both the user and the Company.

Question 7b, Do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)? As indicated in our SOP, we observe that standard-setting should aim for connectivity and avoid the unnecessary challenges created through separate silos. We believe there should be a formal joint project with the IASB. The organizations should agree on creating comprehensive system mentioned in A38, a project on “Integration in reporting” to be undertaken as a joint project with the IASB as mentioned in A50. The aim of this project should be a corporate reporting framework that considers both financial and sustainability-related information and thus contributes to integrated reporting, focusing on value creation by the company, considering the important role of intangibles in this context. It is essential that the ISSB and IASB coordinate their work on this.
Question 7c, In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from:

(i) the IASB’s Exposure Draft Management Commentary?
   • The Committee agrees and provides the explanation at Question 7b.

(ii) the Integrated Reporting Framework?
   • The Committee agrees with building the integrated reporting framework, provided that it can be reconciled – with clarity – to financial reporting and sustainability reporting standards. We have observed that many preparers find the integrated framework confusing and challenging to implement, and they are not hearing a great demand for the six-capitals approach from the investor community. Therefore, we suggest a principles-based approach that is informed by but does not necessarily adopt the specific content elements. In sum, we suggest concepts such as connectivity need to be further elaborated to ensure there is a meaningful ‘through line’ between the financial information and other information provided by the reporting entity.

Question 7d, Do you have any other suggestions for the ISSB if it pursues the project?

Please see our suggestions within the responses to questions above. As mentioned above, we would like to emphasize the importance of addressing materiality within the S1 and S2 ISSB standards. We suggest the top priority be “supporting implementation of ISSB Standards IFRS S1 and IFRS S2 with a particular emphasis on connectivity and materiality”.

Question 8 - Do you have any other comments on the ISSB’s activities and work plan?

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We would be pleased to discuss our comments at your convenience.

Paul Juras
Chair, Sustainable Business Management Committee
Institute of Management Accountants