

28 August 2023

Mon. Emmanuel Faber  
Chair of the International Sustainability Standards Board  
IFRS Foundation  
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Canary Wharf  
London E14 4HD  
**United Kingdom**

Dear Mon. Faber,

Thank you for the opportunity to comment on the International Sustainability Standards Board (ISSB)'s Request for Information (RFI) on Agenda Priorities. This letter highlights some overarching comments for consideration from the New Zealand External Reporting Board (XRB) in relation to the strategic direction of the ISSB.

### **1. Prioritise deep engagement to develop a legitimate international consensus**

For many years, the market has criticised the “alphabet soup” of sustainability reporting initiatives that have resulted in a complex reporting landscape for both entities and preparers. We acknowledge that, while the ISSB is aiming to address this issue with development of a global baseline, it is a challenging exercise.

We recommend that, rather than continuing to develop further disclosure requirements under the IFRS S series, the ISSB engages in deep and cohesive international dialogue to build an international consensus. We acknowledge that this will require substantial efforts by the ISSB with regards to capability and capacity. Specifically, we encourage the ISSB to work with other standard setters—including the Global Reporting Initiative (GRI) and the European Financial Reporting Advisory Group (EFRAG)—to continue to seek consolidation of existing requirements, when appropriate (particularly with regards to different primary users), in order to streamline the reporting landscape.

The ISSB should avoid adding more requirements to this reporting landscape when such requirements would add to the complexity and burden for companies. Therefore, when identifying potential projects, the ISSB could consider existing voluntary and mandatory reporting requirements, including their maturity, and whether to build upon these rather than creating new requirements.

However, we caution against the ISSB considering that responses to this agenda consultation constitutes this international dialogue. Building an international consensus cannot be done via a hub and spoke model with the ISSB at the centre, rather it requires the ISSB to step into a facilitator role, where the overarching goal is about the consensus itself, not that the ISSB is the decision arbiter.

We also express concern about the suggested scope of work in the agenda consultation as it potentially overreaches what can be legitimately defined via the process of standards setting. For example, defining what is a “just transition” is the realm of politics and public debate, and is inherently place-based, so is well beyond the mandate of any standards setter.

## **2. Refocus efforts on the development of a conceptual framework, a long-term plan and defining the standards architecture**

Building on this international consensus work, the XRB supports the calls from IOSCO and the United Kingdom’s Financial Reporting Council (FRC) to review and update the IFRS Conceptual Framework for Financial Reporting to ensure it is applicable to sustainability-related financial reporting and embeds the concept of integrated thinking. This is indeed needed to support both the application of the standards but also the ISSB’s standards setting work programme.

The rationale for releasing IFRS S1 and IFRS S2 despite the absence of a conceptual framework for sustainability was the urgency of the climate crisis. However, it is now important to refocus available resources on conceptual underpinnings, including with regards to other standards and standards setters on which the IFRS standards rely. This includes with other standards such as the GRI standards which, in practical terms, are an important avenue into determining the material topics to then apply the detail of IFRS S1. We emphasise that collaborative work requires shared objectives and great clarity over those shared objectives. Relying on generic aspirations for “connectivity” or “interoperability” may undermine the credibility of the work of the ISSB, as well as the credibility of those on whom the connectivity relies, such as the Global Sustainability Standards Board (GSSB) or the International Accounting Standards Board (IASB).

Subsequent to the development of the international consensus and conceptual framework, the XRB also supports calls by others such as EFRAG to develop and publicise its overall direction of travel in sustainability reporting, i.e., the target universe of all topics that are intended to be covered in ISSB standard setting, also beyond the time horizon of the next workplan. Without that, it is challenging to provide adequately informed feedback to this consultation. We further note that not providing this strategic information to the global community risks harming the IFRS Foundation’s due process, especially with regards to full and fair consultation.

We also support the point made by the FRC that there are fundamental questions to be answered about the ISSB’s existing, planned, and proposed work plan and how it is all intended to fit together within the architecture of its proposed standards. Without clear communication of how the ISSB envisions this architecture, there is a risk that any future project that is not consistent with this architecture will create further confusion and lead to disjointed disclosures.

## **3. Addressing the systemic risks to the financial system should remain front and centre**

We acknowledge that the ISSB is focused on addressing investors’ information needs. However, we are concerned that the consultation takes an overly narrow and short-term view of investors needs. We are thus concerned that the ISSB’s standards are unable to address the original concerns of the Financial Stability Board in terms of addressing the systemic risks to the financial system. We

consider that disclosure requirements should reflect how entities are addressing existential climate and other sustainability-related risks and to incentivise them to address these risks in a robust way. In Aotearoa New Zealand Climate Standards, we have attempted to address this concern by adding a clear purpose statement (that they are designed to “*support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate resilient future*”).

We suggest that the ISSB should explicitly incorporate a wider stakeholder perspective in defining its long-term research topics, because policy and public expectations will ultimately translate into investor demand. We argue that this narrow view will limit the strategic relevance and usefulness of the disclosures. It also presents a potential risk to jurisdictions looking to apply ISSB standards as they will not contribute to overarching policy objectives by solely focusing on investor needs.

**4. The ISSB should work with the IASB on integrated reporting, management commentary, and connectivity before scoping or undertaking further work on standards.**

The XRB strongly supports the comments made by the FRC on connectivity of information:

*‘Connectivity of information’ is a guiding principle of the Integrated Reporting Framework which states that integrated reporting “should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation’s ability to create value over time.” ‘Connectivity’ is therefore crucial to integration of reporting and should include connections not only between sustainability-related information and information in the financial statement, but it should also address connectivity across narrative reporting. Therefore, it would be highly beneficial for the ISSB to work with the IASB to enhance the Management Commentary Practice Statement to enable the integration of information to address connectivity between sustainability-related information, financial information, and broader narrative reporting.*

We have also identified ‘coherence’ as a core principle connecting financial and climate reporting. Pages 91-92 of our [Climate-related Disclosures Staff Guidance for All Sectors](#) emphasises this matter. However, we acknowledge that further work is likely required to support coherence in practice.

The XRB welcomes the opportunity to work with the ISSB in setting global standards. Our recommendations and responses to the specific questions posed by the ISSB are provided in the Appendix to this letter. If you would like to discuss the comments in this letter in more detail, please contact Amelia Sharman, Director Sustainability Reporting ([amelia.sharman@xrb.govt.nz](mailto:amelia.sharman@xrb.govt.nz)), or me.

Yours sincerely



April Mackenzie  
Chief Executive, External Reporting Board

## Appendix

### Question 1 - Strategic direction and balance of the ISSB's activities

(a) From highest to lowest priority, how would you rank the following activities

\_\_\_3\_\_\_ beginning new research and standard-setting projects

\_\_\_2\_\_\_ supporting the implementation of ISSB Standards (IFRS S1 and IFRS S2)

\_\_\_1\_\_\_ researching targeted enhancements to the ISSB Standards

\_\_\_4\_\_\_ enhancing the Sustainability Accounting Standards Board (SASB) Standards

(b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritise within each activity.

(c) Should any other activities be included within the scope of the ISSB's work? If so, please describe these activities and explain why they are necessary.

(a) and (b)

1 - The ISSB standards are new and unproven, on topics that are rapidly evolving. Yet, they may be used as a baseline for mandatory reporting in several jurisdictions. Therefore, the first priority of ISSB resources should be on the continuous improvement of IFRS S1 and IFRS S2.

We were concerned with the description of “researching targeted enhancements to the ISSB Standards” as it is described in the RFI page 14 as “providing guidance for the disclosure of climate-adjacent risks and opportunities related to nature and the ‘just transition’ to a lower-carbon economy.” Read in this context, it would indeed expand further the scope of IFRS S2 instead of focusing on getting the baseline right. Moreover, “climate adjacent” is neither defined nor consistent with the TCFD approach. However, we acknowledge the recent ISSB agenda paper ‘Researching targeted amendments to ISSB standards—Path forward’ which reframed this work as ‘educational material for nature and social aspects of climate-related risks and opportunities’ rather than amendments to IFRS S2.

2 – For the same reason, supporting implementation of IFRS S1 and IFRS S2 is also critical. However, we have ranked this as a second priority as making sure the standards are improving at pace is still more important than publishing guidance documents. We caution against the risk of a growing corpus of overcomplicated guidance material to “patch” issues from the first iteration of the standard.

3 – While doing research before commencing new workstreams is good practice, the ISSB does not operate in a vacuum. While we are interested in seeing the international discussion progress on these topics, we are somewhat concerned with the descriptions of the role of ISSB when describing the intended scope of work. We encourage the ISSB to engage in deep and cohesive international dialogue to build an international consensus but also caution against the ISSB considering that

responses to this agenda consultation constitute this international dialogue. We suggest that ISSB should take a step back from defining large and complex scopes of work and be more focused on where it can add the most value.

4 – We consider that enhancing the SASB standard should be the lowest priority. This is because a focus on comparability reduces the scope for sustainability reporting to achieve what should be its fundamental objective of enhancing entity-level strategic reassessment. For example, some entities are likely to find themselves across many sectors, and the multiplication of specific measures not all relevant to their specific situation will make it harder for the organisation to focus on its transformation (i.e., creating a cumbersome compliance exercise instead of focusing on the more in-depth strategic thinking required by entities to address contemporary sustainability challenges). We consider that any major rework on SASB standards could hinder important work on other topics such as interoperability with other standards’ architectures.

(c) Yes. In May 2023 New Zealand hosted an Asia-Pacific forum for standards setters and regulators on climate reporting, which highlighted the need for more discussion and collaboration between jurisdictions, on top of the formal ISSB processes. The ISSB could play a further role in making these global conversations toward alignment happen, with a greater level of peer-to-peer engagement and participation from staff of many jurisdictions, which formal consultations do not typically allow.

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

- (a) Do you think the ISSB has identified the appropriate criteria? Please explain your response
- (b) Should the ISSB consider any other criteria? If so what criteria and why?

(a) Overall, the structure of the criteria makes some sense (1) Is there a problem? 2) Is there a demand? 3) What is the market for it? 4) Is it feasible?), but we suggest a further improvement. These criteria are solely focused on institutional investors, while the use case for these standards is going to be wider. Some jurisdictions will use mandatory disclosure to support policy objectives. Plus, investors respond to public demand. For example, around three quarters of the adult New Zealand population expect their retirement savings and investment fund providers to invest their funds responsibly or ethically<sup>1</sup>. We suggest that the ISSB takes a wider view to inform its long-term research, as consumers concerns will eventually translate into investor demand.

We also emphasise the importance of understanding the heterogeneity of investors in applying the first criteria (“importance of the matter to investors”). Applying the rigour of a clear intervention logic which specifies assumptions will be vital.

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<sup>1</sup> [From-Values-to-Riches-2022-Charting-consumer-demand-for-responsible-investing-in-Aotearoa-NZ.pdf \(responsibleinvestment.org\)](#) page 8

(b) We suggest either expanding criteria 1 to other stakeholders or adding a criteria “the importance of the matter for stakeholders such as governments and the public” to reflect that these standards will now have several uses cases, one of these being a policy lever, which will ultimately influence investor decision making.

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

- (a) Taking into account the ISSB’s limited capacity for new projects in its new two-year work plan, should the ISSB prioritise 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?
- (b) If more than one project, which projects should be prioritised and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects). Please explain your response.

(a) and (b) As explained in our cover letter, we think that the ISSB should focus its resources on other matters. However, if the ISSB was to go ahead on some of these topics, we consider these to be the priorities in the New Zealand context:

**Priority - Biodiversity, ecosystems and ecosystem services (BEES):** The New Zealand economy relies considerably on BEES. There is a significant overlap between climate-related risks, and land use, land use change and forestry (LULUCF).

**Priority - Other: Water and marine resources:** Both are significant live issues in New Zealand, and we see strong linkages with climate-related risks, with immediacy of the financial risk. Healthy rivers and ocean ecosystems (66%), and sustainable water management (65%) are among the investments themes that New Zealanders care most when selecting an investment fund.

**Priority - Human rights:** The XRB applauds the intention of the ISSB to broaden its coverage to social topics. We see human rights reporting as important for two reasons: 1) Human rights (90%) abuses is the highest issue of concern for the New Zealand public when making investments.<sup>1</sup> [New Zealand has a strong history of protecting and promoting human rights at home and internationally](#) and advocate for human rights and support the development of international standards. Supporting strong rules-based international human rights mechanisms is critical to safeguarding existing rights, protecting against serious violations, and realising the rights of minority populations worldwide. 2) We do not see how reporting on scope 3 environmental impacts can be trusted in value chains where the basic human rights are ignored. Human rights violation is a symptom of opaque value chains driven solely by costs savings, which usually correlate with environmental degradations. Therefore, we see human right reporting as a good proxy for other form of impact reporting.

**Not a priority - Integration in reporting:** Not as defined in this RFI. See also our cover letter.

**Not a priority - Human capital:** Entity level is not the most critical location for the systems change required to support workforce reskilling that is needed in light of climate change and other disruptions and therefore the link with IFRS S2 seems weak.

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

(a) The research project on biodiversity, ecosystems and ecosystem services is described in paragraphs A3–A14 of Appendix A to the Request for Information. Please respond to these questions:

Of the subtopics identified in paragraph A11, to which would you give the highest priority? Please select as many as applicable. Please explain your choice and the relative level of priority with particular reference to the information needs of investors.

- Freshwater and marine resources and ecosystems use
- Land-use and land-use change
- Pollution (including emissions into air, water and soil)
- Resource exploitation (for example, material sourcing and circular economy)
- Invasive non-native species
- Other—please specify

(b) Do you believe that sustainability-related risks and opportunities related to biodiversity, ecosystems and ecosystem services are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be:

- (i) substantially different or
- (ii) substantially the same across different industries, sectors or geographic locations

(a) No comment. The XRB has not carried out any direct engagement with stakeholders regarding the prioritisation of subtopics at the level of standards.

**(b) (i) Substantially different.**

Sustainability is all about context and thresholds effects.

We also observed, through our work on sector scenario analysis in New Zealand, that:

- entities within a same sector but with different business models would not focus on the same risks;
- entities within a sector, with similar business models, but in different regions will not focus on the same risks;
- some entities are operating across several sectors and need to heavily adapt their focus to their situation, instead of adding up the risk of all sectors relevant to them.
- “Industry” and “Sector” are very loosely defined concepts that poorly applies at the level of a single organisation. Many organisations’ operations actually either sit across several industries/sectors or at the very least present strong dependencies on other industries/sectors.

Overall, our conclusion is that organisations always present a mix of activities, business models, geographic locations and specific constraints that is different enough to lead to different risks, priorities and set of available options.

We could provide detailed (anonymised) examples to illustrate this if requested.

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

- (a) Within the topic of human rights, are there particular subtopics or issues that you feel should be prioritised in the ISSB’s research?
- (b) Do you believe that sustainability-related risks and opportunities related to human rights are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be

- (i) substantially different or
- (ii) substantially the same across different industries, sectors or geographic locations.

(a) No comment. The XRB has not carried out any direct engagement with stakeholders regarding the prioritisation of subtopics at the level of standards.

**(b) (ii) substantially the same**

There is a universal declaration of human rights for a good reason: All human beings should benefit from the same basic rights. Therefore, we do not see why there should be different measures of performance based on the sector or the location of the activity. That said, some sector-specific standards could be used on top of a general standards to ask for more information, for example by



requiring disclosures at a lower level of aggregation (such as development of metrics at operational site level). They should be developed after the core standard though and are therefore of a lesser priority.

Note that whilst there is an explicit mention of workers in the value chain and indigenous communities, we cannot identify own workforce or consumers and end-users as affected groups covered. Hence, prima facie, the scope of this standard would not cover all relevant affected stakeholder groups.

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

(a) The integration in reporting project could be intensive on the ISSB's resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realise the full value of the IFRS Foundation's suite of materials. 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? Please explain your response.

- Integration in reporting project is a higher priority
- Integration in reporting project is a lower priority

(b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, 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)? Please explain how you think this should be conducted and why.

- Formal joint project
- ISSB project

(a) See our cover letter.

(b) **Joint project.** See our cover letter.

**Question 8 - Other comments**

Do you have any other comments on the ISSB's activities and work plan?

Yes. Please see our cover letter.