



## Investment Consultants Sustainability Working Group (“ICSWG”)

### Response to The International Sustainability Standards Board (“ISSB”) Exposure Drafts consultation

The ICSWG includes nineteen investment consulting firms in the UK who represent a broad spectrum of the UK investment consulting industry and work closely with a wide array of stakeholders, including asset owners, asset managers, platform providers, regulators and non-governmental organisations. The ICSWG aims to engage with all relevant stakeholders and give added power to asset owners and their ultimate beneficiaries in order to seek genuinely sustainable investment outcomes.

One of the main objectives of the ICSWG is to ensure that the investment industry, including trustees of pension schemes, is better informed and able to account for sustainability risks and opportunities in their investment decisions. Sustainability reporting is a crucial ingredient in ensuring genuinely sustainable long-term outcomes for all stakeholders. The ISSB’s work on the IFRS Sustainability Disclosure Standards is critical for facilitating consistency, comparability and transparency in sustainability reporting standards and disclosures. The ICSWG has contributed to the previous consultations by the IFRS Foundation and welcomes the opportunity to support the ISSB’s advancement of sustainability standards for the benefit of the investment industry and wider society.

The ICSWG has prepared this collective response to the ISSB Exposure Drafts consultation with the focus on the high-level principles. It addresses both Exposure Drafts in one document. The ICSWG’s member firms may respond individually and provide more detailed responses to the ISSB’s questions.

The ICSWG would like to highlight the following key points in our collective response:

- The ICSWG believes a single set of comprehensive sustainability and climate related disclosures is critical for solving the challenge of poor quality and availability of data for all stakeholders to be able to take better investment decisions that lead to sustainable long-term outcomes.
- The ICSWG believes that effective international interoperability of sustainability reporting across different jurisdictions is critical and welcomes the ISSB’s effort to achieve global coherence in reporting standards.
- Ensuring the global adoption of the sustainability standards is essential for institutional investors who invest on a global scale. The ICSWG welcomes the ISSB’s working group seeking to enhance cross-jurisdictional coherence and encourages effective engagement and collaboration with regulatory bodies and policy makers around the globe to implement reporting and disclosure as a legal requirement.
- The ICSWG welcomes the use of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and the Sustainability Accounting Standards Board (SASB) as foundations for the ISSB standards. The ICSWG encourages the ISSB to consider the Taskforce on Nature-related Financial Disclosures (TNFD) framework to incorporate reporting on nature-related risks.



- The ICSWG welcomes the ISSB’s approach to require the disclosure of the cross-industry metric categories, including, importantly, Scope 3 emissions and executive remuneration linked to sustainability and climate related considerations. At the same time, the ICSWG would like to emphasise the significance of forward-looking data and information to allow stakeholders to properly assess sustainability and climate-related risks and opportunities. It is particularly important for investors that the ISSB encourages the use of other metrics of climate transition, beyond emissions, that ultimately translate into financial risk.
- The ICSWG welcomes the ISSB’s requirement to set and disclose sustainability and climate-related targets but would like to encourage target setting to be science-based. The ICSWG would also like to encourage the ISSB to require entities to disclose their governance structures and transition plans, with interim targets and actions taken to meet these targets. Close co-ordination with the work on financial transition plans done by the UK’s Transition Plan Taskforce (TPT) and the Glasgow Financial Alliance for Net Zero (GFANZ) would be highly desirable.
- ICSWG’s **main recommendation** to the ISSB is to ensure that sustainability and climate-related disclosures address the concept of “**double materiality**”. The current focus on Enterprise Value is too narrow, backward rather than forward-looking and has potential for varying interpretations in different jurisdictions. The ICSWG’s preference is to incorporate broader environmental and societal implications and factors impacting people, communities and the environment connected to a reporting entity’s activities and business relationships. As the focus of the ICSWG is towards ensuring more sustainable investment outcomes, driving a reduced carbon footprint for broader society and supporting governments and economies globally on their Net Zero path, the ICSWG would like to strongly encourage the ISSB to include both definitions of materiality in their guidance and disclosure requirements.
- The rationale behind the suggestion above is two-fold: 1) the ability to achieve “real-world impact” for all stakeholders; and 2) the ability to address systemic risks for all investors. If reporting entities are only required to disclose risks where they are “significant” and “material” based on their own assessment, institutional investors are likely to face a lot of undisclosed systemic risks when these entities are aggregated into investment portfolios.
- The ICSWG would like to encourage the ISSB to make sustainability and climate-related disclosures subject to the same oversight as traditional financial statements, requiring assurance by an independent and qualified third party.
- The ICSWG supports the proposal of alignment of sustainability and climate-related disclosures with the same reporting period as the financial statement. While a degree of flexibility is required during the initial period of adoption, the ICSWG would also like to emphasise the urgency of the challenge that the ISSB is attempting to solve and would like to encourage the ISSB to progress more quickly even if it means a more limited scope of adoption at the early stages.
- Similar to the previous response, the ICSWG would like to suggest that a roadmap clearly illustrating the process, steps and development of the reporting standards to be taken by the ISSB to achieve the broader definition of materiality and comprehensive sustainability reporting would be useful for all stakeholders.



The ICSWG welcomes the engagement with the ISSB and the opportunity to contribute towards establishing a global framework for sustainability reporting that provides greater comparability, increased consistency, transparency and accountability, leading to better outcomes for all stakeholders. Our objectives are aligned. We look forward to working with you to reach outcomes that are in the interests of all stakeholders.

### The Investment Consultants Sustainability Working Group members:

- Aon
- Barnett Waddingham
- Bfinance
- Broadstone
- Buck
- Cambridge Associates
- Capita Pension Solutions
- Cardano
- Hymans Robertson
- ISIO
- LCP
- Mercer
- MJ Hudson
- Momentum Investment Solutions & Consulting
- Redington
- Schroders Solutions
- SEI
- WTW
- XPS Pensions Group

**Date: 29 July 2022**