Emmanuel Faber, ISSB Chair
Sue Lloyd, ISSB Vice-Chair
International Sustainability Standards Board
IFRS Foundation

European Round Table for Industry

27 July 2022

<u>Subject</u>: ERT response to the IFRS S1&2 consultations

Dear Chair Faber and Vice-Chair Lloyd,

As Chair of the CFO Platform of the European Round Table for Industry (ERT), and on behalf of the CFOs of the ERT, we commend the ISSB on the publication of both, the exposure drafts IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Disclosure) and IFRS S2 (Climate-related Disclosures).

As a forum of 59 CEOs and Chairs of multinational companies with headquarters in Europe, ERT strongly believes that globally accepted, transparent and meaningful sustainability reporting can contribute to accelerating the transition to a sustainable economy.

1. ERT strongly supports the ISSB's objectives

We strongly support the initiative of the IFRS Foundation and the establishment of the International Sustainability Standards Board (ISSB) to develop globally accepted standards for sustainability reporting that can be adopted worldwide. Global alignment of reporting standards for sustainability matters is crucial to provide a comprehensive view of a company's sustainability performance. A single trusted set of standards reduces reporting costs of preparers and increases credibility of such reporting with users. Additionally, it allows preparers to build public trust through greater transparency of their sustainability initiatives.

High-quality standards should be based on the principles of legitimacy, independence, transparency, public accountability, and a thorough, well-governed, and evidence-based due process. Stakeholder engagement and due process must be inclusive and allow for timely and high-quality input from the business community. Preparers and users need to be involved in the development process of internationally accepted sustainable reporting standards to ensure that the sustainability reporting standards are implementable for the preparers and at the same time meaningful for users (e.g. investors) focusing on disclosures with direct relevance. We therefore welcome the possibility to comment on the published exposure drafts to highlight the view of large multinational European preparers.

2. Alignment of standards is essential

We commend the ISSB for building upon existing standards and frameworks in the published exposure drafts IFRS S1 and IFRS S2. Incorporating content from both TCFD (Task Force on Climate-related Disclosures) and SASB (Sustainability Accounting Standards Board) allows for the continued application of already well-established and widely used metrics and standards. We would like to emphasise that there is no need to create completely new standards but to consolidate, converge, and select certain already developed solutions from existing ones. The main objective should be to align these different solutions and combine them into a set of global and consistent standards.

ERT welcomes the full integration of the Value Reporting Foundation (VRF) into the ISSB and the deepening of the announced collaboration between the ISSB and GRI to coordinate work programs and standard-setting activities. The aim should be alignment of disclosures, guidance, concepts and definitions and close collaboration on standard-setting activities to reduce the reporting burden for companies.

3. Dialogue across jurisdictions is vital to improve interoperability and coherence

We strongly encourage the ISSB to enter into a deep and continuous dialogue with national standard setters and regulators to establish the IFRS S as global baseline in all relevant jurisdictions. This applies both to the current climate related exposure drafts, as well as further topical exposure drafts and standards that will be developed.

Separate and differing sets of standards for sustainability reporting in different jurisdictions or between global and national level - that in a worst-case scenario might be even contradictory - must be avoided. Preparing different reports based on differing standards would lead to a de facto double reporting – and, in consequence, to unnecessary additional costs and reduced validity and comparability. At the same time, this fragmentation would also lead to additional costs and lower quality of information for the data users. Global financial markets need reliable and consistent data on the sustainability performance of undertakings.

Therefore, interoperability and coherence between the IFRS S and standards developed by other institutions and regulators is of utmost importance to ensure the comparability and usefulness of disclosures as well as to reduce reporting burdens for preparers. A dialogue across jurisdictions is necessary to align reporting requirements. Such alignment applies both to reporting concepts and content, and to digitisation of reporting, i.e. digital technologies and a “digital taxonomy” as proposed by the ISSB.

ERT as forum of business leaders from Europe’s largest employers would especially like to highlight the **necessity for close and constructive cooperation and collaboration between the ISSB and the European Financial Reporting Advisory Group (EFRAG) and the European Commission** to pave the way for a complete integration of the global baseline as developed by the ISSB into the European regulatory framework. We would also support alignment with the SEC and its proposal. We strongly welcome the ISSB’s efforts and the steps undertaken so far in this direction.

4. Fine-tuning the technical criteria

With regards to the technical contents of the IFRS S exposure draft, we would like to make the following comments:

a) **Materiality** in terms of the significance and reference of the reported information is a key concept that should apply, as only material information is likely to influence the assessment process and decisions of stakeholders. Regarding the exposure drafts IFRS S1 and IFRS S2 we would reiterate that preparers should only be required to report material information about the significant sustainability-related risks and opportunities to which they are exposed. We strongly suggest looking into options on how to reconcile the materiality approaches followed by the ISSB and the EU. We expect the collaboration between ISSB and GRI to contribute to improve the understanding of financial materiality in an ESG context as some ESG related risks and opportunities are not easy to foresee from a financial perspective only.

b) We also encourage the continuous dialogue with national standard-setters and jurisdictions to come up with **globally identical definitions for the same concepts**. Concepts like “value chain” should be consistently defined on a global level to ensure interoperability. ERT recommends to clearly define the boundaries of the value chain to clearly set the scope for preparers. A broad definition of the term “value chain” would create difficulties in reporting data outside the control of an undertaking (problems of verifiability, quality and control of the data). Accountability principle is to be considered to define where companies are legitimate to act and to report versus the areas where they cannot take any commitment. We would recommend setting the focus on first tier suppliers and customers (if the downstream perspective is relevant) and limiting disclosure requirements to select and relevant indicators.
It might be difficult for preparers with very complex supply chains to fulfill reporting requirements that cover the whole value chain as smaller suppliers might not be equipped to deliver the required information, and the downstream value chain might expand into a multitude of different activities in certain sectors.

c) ERT also welcomes the **reference to SASB Standards and the CDSB Framework** in such cases where no IFRS Sustainability Disclosure Standard exists for specific sustainability matters. However, we would welcome more illustrative examples and more guidance as provided usually for IFRS.

d) Referring to metrics and practices used by entities from the same industry or geography, it would be difficult to apply in many cases, taking into consideration the already considerable number of different standards and frameworks that companies have to take into account. Disclosures used by other companies might be entity-specific and could therefore be difficult to copy and implement in other entities. It would be more useful to **refer to existing standards and metrics for the specific industry**.

e) ERT welcomes the option to include information required by an IFRS Sustainability Disclosure Standard by **cross-reference**. That would avoid double reporting and lower reporting costs for preparers.

f) We would also recommend **adding more guidance and clarifications on the potential provision of a retrospective restatement that intents to correct a prior period error**. It should be clarified in which cases a restatement is actually needed or required. It should be limited to significant and material errors only. We would appreciate some guidance on the materiality of errors. It would be overly burdening for companies to change data in case of minor non-material deviations. Additionally, restating disclosures that have been published years ago seems to be little value also for users of the sustainability reporting as years old data will not help to assess future risks and chances for the preparers. The restatement should be limited to the last comparative period.

g) ERT would like to stress that the disclosure requirements as set out by the IFRS S1 and S2 should not oblige preparers to report on sensitive and confidential information that could be used by competitors to reverse engineer strategic decisions, get deep insights into the company’s strategy or gain a direct competitive advantage.

h) We would also suggest taking into account the possibilities of digital technologies when developing the reporting standards. There is a wide array of different technologies available, like Blockchain, which should be taken into consideration. The necessity to report more in depth on the value chain and the implied need to collect more data from the value chain make the use of modern technologies and increased digitalization a must.

i) ERT would also like to highlight that reporting requirements on forward-looking information (for example based on a variety of scenarios) should be included in a proportionate way as they are difficult to verify and audit. As a general guideline, reporting requirements as set by the IFRS S1 and S2 should be auditable for the statutory auditor in a reasonable assurance engagement. However, preparers should have sufficient time to transition from limited assurance to reasonable assurance.

We invite you to take these concerns and suggestions into account to ensure that the framework will be workable for companies and leads to high-quality sustainability reporting.

Yours sincerely,

Dr. Nicolas Peter

Member of the Board of Management of BMW AG, Finance
Chair, ERT CFO Platform

This Letter represents the views of the entire ERT Membership, consisting of 58 major multinational companies headquartered in Europe covering a wide range of industrial and technological sectors:

A.P. Møller-Mærsk, AB Volvo, ABB, Air Liquide, Airbus, AkzoNobel, ArcelorMittal, ASML, AstraZeneca, BASF SE, BMW Group, bp, Capgemini, CIR, Deutsche Telekom, E.ON, ENGIE, Eni, Ericsson, Ferrovial, GSK, Hacı Ömer Sabanci Holding, HEINEKEN, Heubach Group, Holcim, Iberdrola, Inditex, Investor AB, KONE, L'Oréal, Leonardo, Mercedes-Benz Group AG, Merck Group, Michelin, MOL, Nestlé, Nokia, Norsk Hydro, Orange, Rio Tinto, Roche, Rolls-Royce, Royal Philips, Saint-Gobain, SAP, Shell, Siemens, Smurfit Kappa Group, Solvay, Sonae, Techint Group of Companies, Telefónica, thyssenkrupp, TITAN Cement, TotalEnergies, Umicore, Vodafone Group, Wolters Kluwer