Consultation response

Comment letter to the International Financial Reporting Standards Foundation consultation on sustainability reporting

AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled more than €3.4 trillion in 2021, directly supports more than 4.9 million jobs in Europe, and generates billions of euros annually in income, trade and research and development.

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Executive summary

The International Sustainability Standards Board (ISSB) has published the Exposure Draft International Financial Reporting Standards (IFRS) S1 General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Exposure Draft) and the Exposure Draft IFRS S2 Climate-related Disclosures (Climate Exposure Draft). The initiative has the opportunity to deliver a global baseline for enterprise value reporting on sustainability matters and support the interoperability between international and regional standards in order to promote convergence and facilitate implementation by reporting entities.

It will be vital to ensure that there is international alignment and greater consistency in sustainability reporting standards that can be reached through close cooperation with national and regional standard setters. The ISSB should also aim to tackle a broad range of sustainability reporting issues in order to demonstrate that the global baseline will incorporate issues beyond climate reporting. Further clarification is needed regarding the definition of certain key concepts and the boundaries of forward-looking information. In addition, the implementation of reasonable safe harbour provisions for forward-looking information would help provide legal security for companies. With these refinements, the ISSB has the potential to develop a comprehensive global baseline of high-quality sustainability disclosure standards.

Introduction

The American Chamber of Commerce to the EU (AmCham EU) welcomes the publication of the General Requirements Exposure Draft and the Climate Exposure Draft by the ISSB and the opportunity to contribute our views to the public consultation.

AmCham EU's Sustainable Finance Task Force was created in order to provide insight and expertise to policy makers. Our Taskforce brings together a unique range of companies from both the financial and non-financial corporate sectors. We hope our comments are helpful to the ISSB's delivery of the final standards.

Establishment of a global baseline

AmCham EU supports the objective of a well-functioning global capital market which integrates Environmental, social and governance (ESG) considerations. We therefore welcome the creation of the ISSB to improve the consistency and comparability of sustainability reporting. We believe that the role of the ISSB is critical to deliver a global baseline for enterprise value reporting on sustainability matters. The ISSB standards could have substantial benefits in reducing global fragmentation in this space.

A global set of sustainability-reporting standards has the potential to provide more comparable and accessible corporate disclosure on sustainability, reduce administrative burdens and deliver more decision useful information. Additionally, international convergence of reporting standards will also reduce complexity and cost.

We urge the ISSB to continue to build strong momentum by working closely with international organisations and jurisdictions to enable the inclusion of the global baseline into jurisdictional requirements. In particular, we support the objective of seeking endorsement by the International Organisation of Securities Commissions (IOSCO) in order to support the adoption of the baseline in it member jurisdictions.

International coordination and interoperability

In order to ensure that the reporting provides a meaningful and holistic view of the sustainability profile of an undertaking's global operation, international convergence is key. AmCham EU fully supports the 'baseline and build' approach pursued by the ISSB.

International cooperation and greater consistency in sustainability reporting standards would help financial markets to better integrate sustainability risks and opportunities. These standards should rely on established, broadly recognised terminology to facilitate adoption. In order for the 'baseline and build' approach to work in practice, it is vital for the ISSB to work in close cooperation with national and regional standard setters. Specific areas where we see opportunities for the ISSB to lead include:

- Digital reporting: ISSB can lead the development of universal digital taxonomy underpinning globally comparable digitised reporting.

- Lexicon: ISSB can lead the development of internationally accepted definitions and terminology for sustainability reporting.

The ISSB must ensure that the establishment of the global baseline remain an inclusive process which seeks to integrate feedback from both public and private sector interests in all jurisdictions.

For example, to ensure as much compatibility as possible with national disclosure requirements for financial filings, the Task Force on Climate-Related Financial Disclosures (TCFD) makes clear that companies should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings.[1] We would welcome a statement in the ISSB Exposure Drafts clarifying that the approach of jurisdictional materiality applies in conjunction with the International Accounting Standards Board's (IASB) Conceptual Framework, with the entity highlighting any potential divergence between the two.

The ISSB should continue to work closely with the national and regional authorities to determine whether a clear, concise and common definition of financial materiality that meets investors' information needs can be achieved. A common definition is critical to harmonise disclosure across jurisdictions as it would allow for consistent, interoperable and substitutable reporting. At present, definitions and timelines for financial materiality in a number of key jurisdictions may not satisfy the reporting requirements for the ISSB. In the lack of a common definition of financial materiality, the ISSB should work with jurisdictions to ensure that reporting against one jurisdiction's materiality definition or requirements satisfies the requirements of another or is accepted by them.

We also welcome the flexibility offered by the IFRS to permit application of IFRS Sustainability Disclosure Standards (SDS) to any Generally Accepted Accounting Principles (GAAP) financials, as this would better accommodate to varying reporting frameworks across different geographies.

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[1] FAQ, Taskforce on Climate-Related Financial Disclosures, 'Does the Task Force Define Materiality?' – Link.

Beyond climate

We commend the ISSB for delivering the General Requirements Exposure Draft alongside the Climate Exposure Draft. It is essential that the ISSB tackles the broad range of sustainability reporting issues in order for the standards to be responsive to market demand for high quality ESG information and to demonstrate that the global baseline will incorporate issues beyond climate reporting. We welcome the broader set of General Requirements to provide standardised requirements for disclosing sustainability-related financial information with the objective of providing primary users with a meaningful set of sustainability-related financial disclosures.

We would encourage the ISSB to further consider the data needs of investors in determining whether further exposure drafts should be developed, covering wider environmental, social and governance-related risks, as well as allowing for the identification of relevant opportunities. Consideration should be given to the interlinkages between the mitigation of climate-related risks and other environmental and social risks.

Should the ISSB consult on further standards, we would highlight the importance of building from existing standards and the need for any further standards to be interoperable and function as a global baseline. This approach would require due consideration of the different jurisdictional approaches - which may be more variable than those for climate - and focus on the issues that are most material.

When looking beyond climate, disclosure should be limited to relationships which companies have control or influence on, ie direct / tier 1 suppliers in order to operationalise and provide consistent, comparable information across enterprises. Reporting on value chain impacts would require information or data along the specific standard on supply chain reporting that may not be available, especially during the early stages of implementation. Therefore, a specific standard on value chain reporting should be developed to drive consistency of information, minimise risk of overbroad and potentially unreliable data from extended parties within an entity's supply chain, and set attainable expectations for consumers of this information.

Climate

Regarding the Climate Exposure Draft, we welcome the possibility of an entity to disclose qualitative information if it is unable to disclose quantitative information (paragraph 14). It is important that users are not presented with qualitative information that could imply a false sense of precision. The ISSB's rightly recognises that 'at this time the application of climate-related scenario analysis for entities is still developing' and that certain sectors 'are just beginning to explore applying climate-related scenario analysis to their businesses' (paragraph 15). We therefore welcome the possibility for an entity to use an alternative method or technique to assess its climate resilience if it is unable to use climate-related scenario analysis.

Building on established standards

The ISSB rightly intends to build upon the recommendations of the TCFD in the Climate Exposure Draft and to incorporate industry-based disclosure requirements across all material sustainability issues derived from SASB Standards in the General Requirements Exposure Draft.

The established due process procedures under the IFRS Foundation which are now available to the ISSB can strengthen the value of these reporting frameworks even further.

As currently drafted, paragraph 51 implies a requirement to consider SASB and most recent pronouncements of other standard-setting bodies when defining disclosures in areas not covered by the existing IFRSs. We recommend that, in the absence of IFRS, specific standards referring to other standards should be optional and disclosed if done so (in other words an entity 'may consider' instead of 'shall consider').

Recognising the limits of forward-looking information

There are currently no requirements in financial reporting for forward-looking information; companies are often required to disclose risk and uncertainties that could potentially be material but there is no requirement to model impact on future performance and cash flow. Forward-looking quantitative information is inherently speculative and subjective, and thus may have limited value for comparability. Allowing each company to define low, medium and long term themselves will lead to inconsistency.

Sharing the forward-looking information requested may also raise confidentiality concerns. Investment plans, acquisitions and joint ventures are highly confidential and cannot reasonably be shared with the public. The disclosure required by paragraph 21 c (trade-offs between impacts), could reveal potentially confidential and/or sensitive information. Disclosure should either be optional, recommended or required - unless prejudicial.

Similarly, in many cases internal goals, targets, plans and analyses may not be used for management planning purposes and may not be as fully developed or documented with all the detail that the proposed disclosure requirements entail. Related disclosure should be required only when senior management and the board use these tools in decision-making.

Create reasonable safe harbour provisions

In general, we would support the creation of reasonable safe harbour provisions so that companies have some relief in providing sustainability disclosures, particularly in the early days of reporting or for disclosure topics where it is particularly difficult to obtain quality, accurate, and / or complete information.

More specifically, we would call for the implementation of this safe harbour regarding forward-looking information in order to provide legal security for companies if they do not disclose confidential matters, such as planned acquisitions, or transactions that were not foreseen at the time of the disclosures.

Clarify definitions

We call for greater clarity in the definition of 'materiality' as well as to what it applies. 'Significance' should be clearly defined (and differentiated from 'materiality'), and clear guidance is needed on how 'materiality' is identified. Similarly, we would also call for a clearer definition of the 'impacts' that are being assessed.

For instance, ‘information about the entity’s governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows’ is broad and could capture almost any decision. Similarly ‘significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity’s enterprise value’ is very broad. These concepts should be defined more precisely so that – in the above examples – ‘could’ is understood to mean reasonably foreseeable, whereas ‘an effect’ is understood to mean ‘material effect’.

Consolidated reporting

We welcome the Exposure Drafts approach to match the consolidated reporting framework for financial statements covering a parent and its subsidiaries. For example, we support the Reporting Entity being the same reporting entity as the related general purpose financial statements, as per paragraph 37 of the Sustainability-related Disclosures Exposures Draft. Equally, we welcome the Climate Exposure Draft’s specifying that the reporting entity discloses at the level of the consolidated accounting group (the parent and its subsidiaries), while recognising that unconsolidated affiliates require separate reporting.

However, this can be clarified further in the final recommendations. We would welcome this being made more explicit in the final text. We would therefore recommend that the boundary for reporting sustainability information should mirror that of the financials, including a company's upstream and downstream value chain.

However, this boundary can be complicated in its application, especially in the case of mergers or acquisitions, or when including suppliers in a company’s upstream operations which are beyond their operational control. Companies go through mergers and acquisitions on a frequent basis, sometimes with multiple small entities. Their impact would be minimal to include in terms of disclosures (eg, emissions calculation where, for the most part, these small entities have no systems in place or way to calculate sustainability information). In this case, we would recommend retaining the companies’ ability to report at a consolidated level and adding thresholds to determine when an entity could be exempted from the boundary. In this respect we also note that jurisdictions may also be prescriptive with regards to reporting boundaries.

We would also welcome guidance on sustainability reporting connected with separate financial statements in accordance with the International Accounting Standards (IAS) 27 ‘Separate Financial Statements’ or similar requirements of another GAAP, as in many jurisdictions there are exemptions available from preparing consolidated financial statements. We would expect that such guidance might help support the interoperability of international standards.

Timing

We would like to recognise the accelerated speed with which the ISSB has produced its first exposure drafts. This is a significant undertaking and responds both to the growing demand for high-quality and globally comparable sustainability information for the capital markets as well as the accelerated timetable of certain jurisdictions in building their own frameworks.

With regard to the timing of the disclosures themselves, it would be useful to clarify that the sustainability-related financial disclosures can be provided in a separate sustainability report and to outline what the timing of the reporting is expected to be (for example up to 180-days after fiscal year-end).

Conclusion

In conclusion, AmCham EU's Sustainable Finance Task Force would like to thank the ISSB for the constructive approach outlined in its consultation paper. We believe that the suggested initiative represents an opportunity for meaningful progress in the field of standardising sustainability disclosure at the international level.