

The Chair and Vice-Chair of the International  
Sustainability Standards Board

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Dear Chair Faber and Vice-Chair Lloyd,

**Re: Railpen's comment letter in response to the International Sustainability Standards Board's consultation on Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information**

Railpen is an investment manager and fiduciary adviser to one of the UK's largest pension funds. We, and our ultimate client, have an inherently long-term investment horizon. We strongly believe that our members' financial best interests are connected to the ways in which companies attend to long-term sustainability risks and opportunities. It is vital therefore that we, as investors in companies, can avail ourselves of timely, reliable, comparable, and decision-useful information on the ways in which corporates manage sustainability-related business risks. At a more general level, capital market participants require access to information that facilitates price discovery and efficient capital allocation. As a result, we strongly welcome the International Sustainability Standard Board's (ISSB) Exposure Draft for General Requirements for Disclosure of Sustainability-related Financial Information. Our response to the IFRS Foundation's 2021 Consultation was also strongly supportive of the approach proposed. In making these endorsements we flag our membership of the ISSB's Investor Advisory Group (IAG), and our having co-signed an IAG letter in May supporting the Exposure Drafts.

We support in particular the adoption of SASB (Sustainability Accounting Standards Board) standards as an essential part of the global baseline for the assessment of enterprise value. We observe in the market strong investor demand for the use of SASB standards across both public and private markets. We routinely use SASB standards today in the course of our investment analysis. We are also encouraged by the rapid take up of SASB disclosure by corporates, and we continue to encourage companies to disclose according to SASB standards. We are enthused by ISSB's intention to improve the global applicability of SASB standards and metrics.

We also believe there is significant room for harmonisation and consolidation of disclosure standards. Like many others, we are often taken aback by the sheer number of ESG initiatives in operation today. We think it is highly commendable that the leadership of SASB, VRF (Value Reporting Foundation), IIRC (International Integrated Reporting Council), and CDSB (Climate Disclosure Standards Board) have had the courage and foresight to combine their collective strengths into the ISSB. We also reserve praise for the public commitment to work with the GRI (Global Reporting Initiative) for greater simplification of disclosure standards. In this spirit we also commend the use of the Taskforce on Climate-related Financial Disclosures' (TCFD) four pillar framework – which has attained market acceptance – in the Exposure Draft. [C.f. Consultation Question 4].

It is essential that the ISSB disclosure requirements are sector-specific. Though some consultation respondents might be unfamiliar with sector specificity, and might push back on this aspect as a result, we strongly encourage ISSB to listen to the needs of the disclosure *users* – of which Railpen is one – in the final standard design. Corporate sustainability disclosure must be decision-useful for investors. If reported information is irrelevant to a particular company's or sector's business activities, it is not decision-useful for an investor, and amounts to a wasteful reporting burden for a preparer. The SASB standards are a well-tested set of reporting standards that focus on materiality, and are attentive to the reporting burden of preparers. Sector specificity improves relevance, comparability, and reduces reporting burden for preparers.

We understand and support the General Requirements' focus on enterprise value (sometimes referred to as a 'single materiality' approach or 'outside-in' factors). [C.f. Consultation Question 2]. We argued in our 2021 IFRS consultation response that while long-term investors need a broader data set (including factors that relate to so-called 'double materiality' or 'inside-out' factors), focussing on enterprise value has pragmatic advantages. We are supportive of a 'building blocks' approach whereby ISSB can provide a comprehensive global baseline, and additional investor needs can be serviced by other reporting standards that build upon (but are interoperable with) ISSB requirements. We believe the Exposure Draft is well positioned to enable a 'building blocks' approach. [C.f. Consultation Question 14]. We flag here that we take a slightly different view when it comes to climate-related disclosures. In that instance we believe investor needs are best serviced by the inclusion of certain 'inside-out' factors, including but not limited to the 'Just Transition', biodiversity, and impacts on asset prices.

We welcome the focus on material information related to enterprise value. We support the onus being placed on company Boards/ management teams to undertake to identify what is material to their own business, with reference to high quality standards like SASB. However we encourage a requirement for preparers to report clearly on the basis upon which they have determined which sustainability issues are material to their business. [C.f. Consultation Question 8].

We commend the efforts to make reporting formats digitally sophisticated with a taxonomy allowing for tagging and machine readability. [C.f. Consultation Question 15]. We agree with ISSB that the sustainability disclosures should be produced at the same time at related financial statements such as an annual report/ 10k. [C.f. Consultation Question 9]. We welcome the ability for preparers to disclose sustainability information in the same location as financial disclosures, as integrated reporting should be the mirror image of a company board's integrated thinking. [C.f. Consultation Question 10].

We hope that this response has been of interest. We would be happy to discuss further any of the issues raised above.

Yours sincerely,

**Michael Marshall**  
Head of Sustainable Ownership  
Railpen

## About Railpen

Railpen is the trading name of Railway Pension Investments Limited, which is authorised and regulated by the Financial Conduct Authority (FCA). Railpen acts as the investment manager for the railways pension schemes and is responsible for the management of around c. £37 billion of assets on behalf of over 350,000 members. We also operate as an authorised master trust in respect of our Industry-Wide Defined Contribution arrangement that operates for the benefit of members with c. £1.7bn of DC funds included in our total assets under management.

‘Sustainable Ownership’ is Railpen’s approach to incorporating sustainability considerations into the investments it manages on behalf of members. Railpen’s work is enabled by the Trustee’s related investment belief: “Incorporating and acting upon climate risk and other environmental, social and governance factors are significant drivers of investment outcomes and part of our fiduciary duty”.

As one of the largest UK pension funds, and one of the few remaining occupational pension schemes with open, immature, Defined Benefit (DB) sections, we recognise the impact of corporate sustainability on our long-term investments. We have been, and remain, enthusiastic champions for improvements to the quality and completeness of corporate sustainability disclosure, as reflected in our levels of policy engagement and company stewardship focussed on this topic.

You can find out more about our work, including our Net Zero Plan, 2021 Stewardship Report and 2020 Sustainable Ownership Review on our [website](#).

## Appendix: Index of consultation questions

### Question 1 — Overall approach

The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.

- a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?
- b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?
- c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear?
- d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

### Question 2 — Objective (paragraphs 1–7)

The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value. Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital.

Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information.

Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include 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 that have not yet met the criteria for recognition in the related financial statements.

Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets.

The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.

- a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?
- b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

### **Question 3 — Scope (paragraphs 8–10)**

Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures. The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP).

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

### **Question 4 — Core content (paragraphs 11–35)**

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates. This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well-established work of the TCFD.

#### **Governance**

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be: to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

#### **Strategy**

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be: to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

#### **Risk management**

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be: to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

#### **Metrics and targets**

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be: to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

- a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?
- b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

#### **Question 5 — Reporting entity (paragraphs 37–41)**

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements. The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- its employment practices and those of its suppliers, wastage related to the
- packaging of the products it sells, or events that could disrupt its supply chain;
- the assets it controls (such as a production facility that relies on scarce water resources);
- investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and
- sources of finance.

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

- a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?
- b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?
- c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

#### **Question 6 — Connected information (paragraphs 42–44)**

The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

- a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

- b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

**Question 7 — Fair presentation (paragraphs 45–55)**

The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.

To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB’s non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity’s risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

- a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?
- b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

**Question 8 — Materiality (paragraphs 56–62)**

The Exposure Draft defines material information in alignment with the definition in IASB’s *Conceptual Framework for General Purpose Financial Reporting* and IAS 1. Information ‘is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity’.

However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value. Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.

The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.

- a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?
- b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?
- c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?
- d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

#### **Question 9 — Frequency of reporting (paragraphs 66–71)**

The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

#### **Question 10 — Location of information (paragraphs 72–78)**

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital. However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.



The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information. Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

- a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?
- b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?
- c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?
- d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

**Question 11 — Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)**

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

- a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?
- b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?
- c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent

possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

**Question 12 — Statement of compliance (paragraphs 91-92)**

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

**Question 13 — Effective date (Appendix B)**

The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

- a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.
- b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

**Question 14 — Global baseline**

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

**Question 15 — Digital reporting**

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of

information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation.

The Exposure Draft and [draft] IFRS S2 *Climate-related Disclosures* Standards are the sources for the Taxonomy. It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

#### **Question 16 — Costs, benefits and likely effects**

The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits.

- a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
- b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

#### **Question 17 — Other comments**

Do you have any other comments on the proposals set out in the Exposure Draft?