NEI

July 29, 2022

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Ms. Suzanne Lloyd, Vice-Chair
International Sustainability Standards Board
c/o IFRS Foundation
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Re: Comment Letter on Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

We appreciate the opportunity to provide comments on Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ('Standards'). We commend the International Sustainability Standards Board (ISSB) for its responsiveness to investors' need for better sustainability-related disclosure.

NEI Investments is a Canadian asset manager specializing in responsible investing, with approximately CAD$11 billion in assets under management. Our approach to investing incorporates the thesis that companies can mitigate risk and take advantage of emerging business opportunities by integrating best environmental, social and governance (ESG) practices into their strategies and operations. As part of our investment process, we utilise sustainability-related financial information to better inform our investment decisions and guide our corporate proxy voting and engagement activities.

Our comments within this letter are only directed to the questions where we seek to provide input. We have not referenced the questions in this letter where we do not seek to make any comments. Our comments in this consultation also support our submission to the ISSB on Exposure Draft IRFS S2 Climate-related Disclosures. Some of our comments are aligned with the UN PRI's[1] submission to this consultation. We would also like to express our overarching support for the submissions of the Canadian Coalition for Good Governance (CCGG)[2], which we have also referenced in our comments below.

Question 1 – Overall Approach

- **1(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?**

[1] UN PRI's submission to this consultation is accessible on their website: https://www.unpri.org/driving-meaningful-data-approach/pri-draft-consultation-response-international-sustainability-standards-board-issb-exposure-drafts/10134.article
[2] CCGG's Submission to this consultation is accessible on their website: https://ccgg.ca/regulatory-submissions/

We are generally in support of the overarching objective of the Standards, though we have identified some opportunities to resolve ambiguity to the benefit of entities and users.

We believe users of the financial information would benefit from additional clarification of the definition 'significant' in assessing the effects of sustainability-related risks and opportunities on enterprise value. The use of 'significant' does not provide enough clarity on the degree of information to be disclosed. The distinction between what would be 'significant sustainability-related risks and opportunities' as opposed to simply 'sustainability-related risks and opportunities' is unclear.

The added element of how to differentiate 'significant' or 'material' sustainability-related risks and opportunities is also unclear – we discuss this in our response to question 8.

We would also seek additional clarity on the rationale behind the use of 'enterprise value' as the appropriate means for assessing impact on an entity from sustainability-related risks and opportunities. We discuss this further in our response to question 2(a).

- **1(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?**

Please see our response to question 1(a)

<u>Question 2 – Objective</u>

- **2(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?**

The rationale for the focus on 'primary users' as defined, is unclear

We note that the terms 'primary users' and 'users' are utilized interchangeably in the Standards. The ISSB could consider eliminating one option in favour of consistency.

More substantively, we question whether the focus of the Standards should be limited to the current definition of primary users and users – who are noted to be those who assess value for the purpose of deciding whether to provide resources to the entity in paragraph 1. Sustainability-related financial information, by its nature, and as acknowledged in paragraph (6(c)), is relevant to and used by various stakeholders. These stakeholders can have a direct impact on the enterprise value and/or cash flow of the company, even if they are not directly providing or withholding capital. If the draft Standard is to become the global standard for sustainability-related financial information, it seems that this information should be applicable to the needs of a broader group of stakeholders who are both affected by entities' decision making and able to impact company performance in return. We would encourage the ISSB to consider if this definition of users is appropriately limited.

The rationale for the focus on 'Enterprise value' is unclear

In addition, we do have concerns about the appropriateness of enterprise value in the determination of what information should be disclosed by entities. The term enterprise value is generally used in a public market context as defined by the ISSB definition as "…the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt"[3]. If the intent is for the Standards to be applicable

[3] [Draft] IFRS S2 Climate-related Disclosures, Appendix A

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to all reporting issuers, including private and public entities and NGOs, we suggest the use of a cash flow metric[4] instead. A cash flow metric would implicitly consider material impacts to an entity's business operations.

A different limitation of the focus on enterprise value is that users of sustainability-related financial information will include not only investors, but other stakeholders as well. These stakeholders may not translate into the enterprise value equation directly, but the degree to which the company potentially impacts upon them will still be relevant to investors. Please see the discussion on double materiality in response to question 17.

That said, we also want to note our support for the explicit focus of the ISSB on recognizing the importance of impacts on cash flows over the short, medium and long term. In our approach to responsible investment we encourage companies to ensure that they adequately consider the impacts of sustainability-related risks and opportunities over different time horizons. This is especially important in the context of sustainability-related issues and related disclosures, given that sustainability issues are often systemic, or linked to systemic issues. Though the risks may not materialize imminently, they could have significant impacts on business, their stakeholders, and society more broadly over a longer timeframe.

- **2(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?**

The definition in the appendix is vague, though paragraph 6 helps to complement the definition by providing some useful context on what could be included as 'sustainability-related financial information'. We support the embedded recognition that sustainability issues are defined by impacts and dependencies on a group of stakeholders (6(c)), as well as the focus on governance issues, and the explanation that these sustainability issues are still applicable if there *could* be an implication for future inflows or outflows even if the potential impacts will not affect current related financial statements. We would encourage the ISSB to ensure these ideals feature in the final version of the Standards. For additional context, please see our response to question 17.

<u>Question 4 – Core Content</u>

- **4(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?**

We are generally supportive of efforts to align disclosure with the TCFD framework and believe the four subsections defining disclosure of governance, strategy, risk management, and metrics & targets are appropriately selected. That said, as detailed in our response to question 1(a), 4(b) and 8(a) we do have some concerns that the term 'significant sustainability-related risks & opportunities' is unclear.

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[4] Note that IFRS Accounting Standards do not employ the term Enterprise Value. However, a similar measure is fair value and while not applicable as an entity-specific measurement in principle it is a market-based value measurement. *IFRS 13 Fair value measurement.*

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- **4(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?**

It is unclear what elevates issues from being 'sustainability-related risks and opportunities' to being '*significant* sustainability-related risks and opportunities'. We echo comments made by CCGG that the draft standards are vague when it comes to distinguishing the difference between the two terms. If it is in fact at the discretion of the issuer to determine what information meets the threshold of '*significant* sustainability-related risks and opportunities' the issuer should also be required to disclose its process for making such a determination. It seems this requirement is currently not captured, or perhaps is not clear in this current draft.

<u>Question 5 – Reporting entity</u>

- **5(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?**

As a responsible investor that incorporates environmental, social and governance factors in our decision-making, we agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements.

- **5(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?**

We believe it is important that the requirement to disclose sustainability-related risks and opportunities extend to activities, interactions, relationships and to the use of resources along a company's value chain. We are supportive of such an approach and appreciate the guidance provided that includes a non-exhaustive list of examples of such instances. That said, we would encourage the ISSB to provide some additional examples to provide entities with more helpful context on how to meet this requirement.

<u>Question 6 – Connected Information</u>

- **6(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?**

We believe that entity specific context is very important in our assessment of a company's approach to sustainability issues. While comparable and consistent data is necessary and useful, we appreciate that in varying contexts it alone may not provide a complete picture of an entity's approach to sustainability-related risks and opportunities. As a result, we are entirely supportive of complementary qualitative information that can contextualize and frame the quantitative data. The connection between discrete sustainability-related disclosures to the real-world implications of those disclosures is ultimately what investors are looking to understand.

We do see some opportunities where the concept of connected information can be better embedded within the Standards. For example, in paragraph 22 the draft Standards note that an entity shall provide quantitative data that explains 'the effects of significant sustainability-related risks and opportunities on

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its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term'. This paragraph only requires qualitative data in the event that no quantitative data is available. However, in such a case where a user is well-positioned to provide the necessary quantitative data to meet the requirements, we would still encourage qualitative data. We would suggest that a reference to the requirement of 'Connected information' (as described in paragraphs 42 to 44) be referenced in paragraph 22, along with explicit reference to the support of entities providing applicable and useful qualitative information and context.

Question 7 – Fair Presentation

- **7(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.**

Consistent with our December 2020 submission on the IFRS Foundation's *Consultation Paper on Sustainability Reporting* [5] we believe that the ISSB should leverage existing frameworks by entities such as the TCFD, SASB, GRI, CDSB and CDP. Any duplication could lead to further fragmentation in sustainability reporting standards if the ultimate approach adds to the number of existing frameworks and standards, instead of fostering cohesion amongst the existing initiatives. That being said, we commend the ISSB in recognising the SASB standards as a starting point upon which an international standard can be created.

We note that while an entity 'shall consider' these specified frameworks, we believe it would be beneficial for entities to also be required to disclose their process and reasoning behind determining which standards and frameworks were deemed applicable for the purposes of determining their own disclosures. This information would be useful for users in determining the reliability and completeness of an entity's disclosure in an instance where an entity chooses not to align its disclosures with a reputable form of standard, guidance or framework, as would have otherwise been expected by a user.

Question 8 – Materiality

- **(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?**

Definition of Materiality aligned with that of the Canadian capital markets

We believe that the definition of materiality by the ISSB aligns with the Canadian capital markets definition[6] and provides clarity about the disclosure of information that could be reasonably expected to influence the user's decision. This definition is also generally consistent with International Accounting

[5] 2020 IFRS Consultation Paper on Sustainability Reporting, http://eifrs.ifrs.org/eifrs/comment_letters//570/570_27662_MichelaGregoryNEIInvestments_0_NEISubmissionsIFRSFoundationConsultationPaperonSustainabilityReportingDec242020.pdf

[6] Form 51-102F1 and Form 51-102F2, information is likely material where a reasonable investor's decision whether or not to buy, sell or hold securities of the issuer would likely be influenced or changed if the information was omitted or misstated

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Standard (IAS) 1 definition [7] of materiality as it pertains to financial information. As such, we believe the standard should use the term materiality when defining disclosure requirements.

The use of 'significant' and 'materiality' is unclear

However, the Exposure Draft has used the term "significant" and "material" interchangeably throughout the (draft) standard. While the definition of materiality has been defined by the ISSB in paragraph 56, the ISSB has not provided a definition of significant. The use of both terms creates some confusion for the reader in distinguishing the difference between the two.

We support CCGG's proposal, and ourselves also believe that the term "significant" should be eliminated and "material" should be used to describe the disclosure requirement for climate-related risk and opportunities.

Companies should disclose their process for conducting a materiality assessment

The standard recognises that it will be the responsibility of the reporting entity to appropriately consider and assess all risks and opportunities that are reasonably likely to be material to it – including looking beyond the list of disclosure topics in the industry-based requirements. However, we have concerns about the lack of required disclosure with respect to how that materiality assessment was conducted. Paragraph 59 of the Exposure Draft requires reporting entities to exercise materiality judgments to determine whether or not a disclosure topic is relevant. There is no specific guidance on disclosure of the materiality assessment process itself.

Users of sustainability-related financial information need to understand how a company is identifying, overseeing, measuring and managing its material sustainability-related risks and opportunities in order to properly assess the impact to an entity's operations and cashflows. The process a company uses to determine what information is material and therefore required to be disclosed is a decision-useful piece of information. In the absence of this disclosure, it is not clear whether an issuer has intentionally decided that a certain sustainability topic is not material, and thus not reported, or if the issuer has simply overlooked the materiality of the topic. The materiality assessment and discussion of the methodology used to perform such an assessment should be a part of the requirements for sustainability-related financial information disclosure as they are relevant to the identification and determination of material disclosure topics. CCGG similarly recommends disclosure with respect to materiality assessments.

Please note we have provided similar comments in our response to the consultation on Exposure Draft IFRS S2 Climate-related Disclosures, questions 3(a) - (b).

- **(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?**

We agree that entities should be required to disclose material sustainability-related risks and opportunities that would occur over the short, medium, and long-term. We do not support a prescribed

[7] IAS 1, Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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definition on what constitutes short, medium, and long-term, though we do believe it is important that entities explicitly define the terms themselves as recommended in paragraph 16(b).

Please note we have provided similar comments in response to the consultation on Exposure Draft IFRS S2 Climate-related Disclosures, question 3(a).

Question 13 – Effective Date

- **(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**

We believe that both [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [draft] IFRS S2 Climate-related Disclosures should have the same effective date. The Standards to be set in [draft] IFRS S1 will be relied upon by the standards recommended in [draft] IFRS S2 Climate-related Disclosures.

We do not have a view on when the effective date should be set by the ISSB. We do, however, strongly support a phased implementation period given the complexities that may arise in having to disclose climate-related data for the first time. We recommend that the ISSB should require that a reporting entity report on its governance and risk management pillars first, with strategy and metrics and targets to follow within a reasonable timeframe[8]. This would be consistent with the intention of the TCFD framework to begin with engaging an entity's board in the foundational work of integrating sustainability-related governance and risk oversight into the governance mechanisms of the reporting entity[9].

Question 16 – Costs, benefits and likely effects

- **(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?**

While we understand that compliance and regulatory costs will be incurred by reporting entities in adopting disclosure requirements and users of sustainability-related information will need increased resources to understand and use the disclosed information, there are significant benefits of having comparable, decision-useful sustainability-related information. The disclosed information will enable a reporting entity and users of the data to make informed decisions regarding sustainability-related risks and opportunities that may impact the entity's current and future business operations.

The proposed requirements will provide for standardised sustainability disclosures globally across entities. The availability of such information would also reduce costs for users of climate-related information by lowering the time spent needed to gather or estimate the data themselves, reducing variability and increasing comparability and reliability of the data.

[8] A reasonable timeframe would be notably lower than three years, where the three year timeframe was recommended by the Canada Securities Association's Proposed NI 51-107 Disclosure of Climate-related Matters. https://www.osc.ca/sites/default/files/2021-10/csa_20211018_51-107_disclosure-update.pdf

[9] As recommended by the Canadian Coalition on Good Governance response to [draft] IFRS S2.

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Question 17 – Other Comments

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

We note that in our December 2020 submission on the IFRS Foundation's *Consultation Paper on Sustainability Reporting* [10], we endorsed the concept of a) 'double materiality' and b) a broader approach to defining sustainability issues.

We continue to support the concept of 'double materiality' as we believe that stakeholders, *including investors*, are looking for information on how companies are impacted by sustainability-related issues *and* how they themselves impact stakeholders in relation to those sustainability-related issues. As an institution that is focused primarily on providing retail investors with responsible investment/ESG themed products, the impact that companies have on stakeholders is a primary concern and one that will directly influence our decision to own stock. It is part of our brand promise. As such, the impact of a company on its stakeholders (including the environment as a stakeholder) is decision-useful information. With the growth in popularity of ESG-themed investment products, we believe the market will increasingly demand this type of information. We believe that this is an important consideration that should frame the development of these global Standards.

While the draft Standards do not explicitly endorse 'double materiality' we recognize that their focus on company value chains, as well as the requirement to consider the long term sustainability-related risks and opportunities facing a company, would require disclosure on key sustainability topics even if there were no near term effects on cash flows. If the ISSB chooses to not explicitly apply a 'double materiality' framework, we encourage the ISSB to ensure these core features remain constant in the finalized Standards.

Recognizing the motivation for the ISSB to initially focus on climate, we also encouraged caution against unintentionally attributing less urgency to other ESG issues. We note and support the broader definition of sustainability-related financial information that recognizes the interrelatedness of sustainability issues in these draft Standards. We would encourage the ISSB to ensure that this remains a focus in the finalized Standards. Additionally, we would endorse an approach by the ISSB to consider the broader importance of specific disclosure across other core sustainability themes, such as social issues, as it has already embarked on in relation to climate-related disclosure through IFRS S2 Climate-related Disclosures.

[10] 2020 IFRS Consultation Paper on Sustainability Reporting, http://eifrs.ifrs.org/eifrs/comment_letters//570/570_27662_MichelaGregoryNEIInvestments_0_NEISubmissionsIFRSFoundationConsultationPaperonSustainabilityReportingDec242020.pdf

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We appreciate the opportunity to provide our comments on Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. We commend the initiative the ISSB has taken to standardise global reporting as it is a challenging, but very needed exercise. Please let us know if you have any questions regarding our comments.

Sincerely,

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