ISSB Sustainability Reporting Standards:

Comments on Exposure Draft IFRS S1 General Requirements

Question 1—Overall approach

(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?

Shift Response 1a and 1b: Questions 1a and 1b go in part to the question of whether the Exposure Draft is sufficiently clear about what constitutes material information about all the sustainability-related risks and opportunities to which the entity is exposed. That is, is it sufficiently clear about what the sources of such risks and opportunities should be considered to comprise. On this point, please see further our response to Question 4 with regard to Strategy.

(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?

Shift Response 1c: Paragraph 41 states that, 'Other IFRS Sustainability Disclosure Standards will specify how an entity is required to disclose or measure its significant sustainability-related risks and opportunities, including those related to its associates, joint ventures and other financed investments, and those related to its value chain'.

Positioned where it is, in the section on the 'Reporting Entity' and following paragraph 40 recalling that entities are required to disclose material information about all significant sustainability related risks and opportunities, paragraph 41 seems then to refer the reader to other standards – not the General Requirements standard – for information on what to disclose about those risks and opportunities. Clearly the standard overall is meaning to guide entities to apply the General Requirements standard where no specific standard is yet developed; and that such standards should then be used alongside the General Requirements standard. However this paragraph gives a contrary impression that in fact the General Requirements standard is not the place to look to for necessary disclosures. If the intention here is to be clear that other IFRS Sustainability Disclosure Standards will provide additional specificity in the case of particular topics (as in the case of Climate Change at present), it would be helpful to make that clear.

Question 2—Objective (paragraphs 1–7)

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

Shift Response 2a: The objective of disclosing sustainability-related financial information is conveyed as being that the primary users of the information should be able to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value. This objective is only met to the extent that it is clear to entities what the full range of sources of such risks and opportunities may be and that all are relevant to consideration of what constitutes material information.

We welcome the recognition in the Exposure Draft of the relationship between an entity's own impacts on people and the planet and sustainability-related risks and opportunities for the entity. Paragraph 6(c) helpfully reflects that, 'Sustainability-related financial information is broader than information reported in the financial statements and could include information about […] the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them.' However, it is not at present sufficiently clear in the draft that the identification and assessment of significant impacts on people connected with an entity's operations and value chain is a necessary foundation for adequately indentifying material sustainability-related financial information. In this regard, please see comments in response to question 4 on 'strategy', which is in turn also relevant to question 8 on materiality

(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?

Shift Response 2b: Use of the term 'sustainability-related financial information' risks misinterpretation regarding the information that is being sought through these disclosures. As is clear both from the text of the Exposure Draft and from the reality of sustainability reporting, material information regarding sustainability-related risks and opportunities is frequently – indeed typically – not financial in form. That said, it has clear financial implications and is therefore relevant to any assessment of enterprise value creation. It is therefore somewhat misleading to label this as 'financial' information, and may lead to a favoring of monetized data that may skew disclosures away from important information that is measured in other units or qualitative in nature.

It would be more appropriate, and less likely to lead to false interpretations, to refer to 'financially-relevant sustainability information': the information that the Exposure Draft is referring to is necessarily (a) about one or more sustainability issues and (b) relevant to an entity's current or future financial situation. This would retain, therefore, the understanding that the focus is on information that is relevant to enterprise value creation over the short, medium and long term, while more accurately reflecting the varied forms or units in which the information not only may, but in many cases should, be expressed.

Question 4—Core content (paragraphs 11–35)

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

Shift Response 4b: Governance: skills and competencies - Paragraph 13 (c) of the Exposure Draft, regarding governance, states that an entity should disclose, 'how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to sustainability-related risks and opportunities'. By using the passive voice, this sentence is unclear where these skills and competencies are meant to be located. Is it saying that the entity should disclose whether and how it ensures that the Board itself includes individuals with the appropriate skills and competencies to take on this role? If so, it would be helpful to say so. Or is it intending to allow that the Board itself may lack those skills and competencies but could equally report that it accesses them through other means to help it in its oversight role. If so, then the language should avoid implying that those with the skills and competencies are those in oversight. It would be clearer to say 'how the body ensures that it ***has access to*** the necessary skills and competences ***to effectively oversee*** strategies designed to respond to sustainability-related risks and opportunities.'

Shift Response 4b: Governance: Business Models - In line with paragraph 13 (e) of the Exposure Draft, regarding governance, an entity should disclose, 'how the body and its committees consider sustainability-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required'. We would recommend adding 'business model' after 'strategy'. Evidence shows that there it is not uncommon for changes in an entity's business model to lead to unforeseen severe impacts on people that result in significant risks to the business. For more on the evidence base for this, see: https://shiftproject.org/resource/business-model-red-flags/red-flags-about/

Paragraph 15(b) states that an entity shall disclose information about, 'the effects of significant sustainability-related risks and opportunities on its business model and value chain'. This would imply that the entity is dealing with a need to address problems for its business model stemming from incoming risks, which may be the case with regard, for example, to climate change or a legislative development. Yet it does not reflect that the business model can be the source of those very risks. For example, a business model that is premised on high-speed delivery provided by low-wage workers can generate significant risk to the business in a health crisis or other circumstances. A business model that is premised in part on monetizing consumer data can generate significant risk to the business where that data is leaked or misused.

Paragraph 14 states that, 'The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities'. In order to meet that objective, we would urge that this two-way relationship between a business model and risks and opportunities be better reflected in the draft. This might be done by focusing paragraph 15 (b) on business model alone along the lines of 'the effects of significant sustainability-related risks and opportunities on the business model and ways that such risks and opportunities may result from the business model; and then having a separate bullet point regarding 'the effects of significant sustainability-related risks and opportunities on its value chain'.

Shift Response 4b: Strategy: impacts as a source of significant risk**.** Shift welcomes the recognition in the Exposure Draft of the relationship between an entity's own impacts on people and the planet and sustainability-related risks and opportunities for the entity. Paragrapah 6(c) helpfully reflects that, 'Sustainability-related financial information is broader than information reported in the financial statements and could include information about […] the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them.' Similarly, paragraph 17 helpfully sets out the close relationship between impacts, risks and opportunities:,

> *'An entity's sustainability-related risks and opportunities arise from its dependencies on resources and its impacts on resources, and from the relationships it maintains that may be positively or negatively affected by those impacts and dependencies. When an entity's business model depends, for example, on a natural resource—like water—it is likely to be affected by changes in the quality, availability and pricing of that resource. When an entity's activities result in adverse, external impacts—on, for example, local communities—it could be subjected to stricter government regulation and consequences of reputational effects—for example, negative effects on the entity's brand and higher recruitment costs. Furthermore, when an entity's business partners face significant sustainability-related risks and opportunities, the entity could be exposed to related consequences of its own. When such impacts, dependencies and relationships create risks or opportunities for an entity, they can affect the entity's performance or prospects, create or erode the value of the enterprise and the financial returns to providers of financial capital, and the assessment of enterprise value by the primary user.'*

Paragraph 72 of the Basis for Conclusions states that, 'The proposal would require an entity to consider: (a) the relationship between the impacts of the entity's activities on the environment and society and the impacts of the latter on enterprise value…'. *However the text of the Exposure Draft does not require an entity to consider these factors. It simply describes them briefly.*

In practice, the relationship between an entity's impacts on people and risks to the business is often poorly understood by entities. This has led to many business risks being both undetected and/or insufficiently well managed, as well as not reported.

- For example, business entities frequently assume that material business risks related to their supply chain will be most likely to occur among their strategic suppliers, where they have the greatest direct exposure. Yet experience shows that issues such as forced labor or child labor frequently arise at many steps removed in a supply chain, can have significant legal and reputational risks for business, and yet are often overlooked in materiality assessments focused on enterprise value creation.
- In another example, extractive companies that assess risks from a primarily technical and near-term cost perspective, ignoring or discounting the gravity of potential risks their activities may pose to local communities, frequently miss the relevance of these impacts to any complete understanding of business risk. Such impacts may include, for example, structural damage to community members' housing, the destruction of indigenous lands, or community concerns

about loss of access to clean water. They may result in loss of life, cultural heritage, livelihoods or health for the people concerned and should be anticipated as likely to generate operational, legal and reputational risk for the companies concerned. Yet these risks grounded in impacts are often missed or discounted in materiality assessments based in narrow assumptions about the nature and origins of business risk.

While SASB standards have picked up on some of these important connections between significant impacts on people and material business risks in their industry standards, the General Requirements Standard should not rely on factors implicit in certain of those standards as a signal of these relationships between impacts and risks. Nor should it assume that one paragraph of description will be sufficient to carry the point.

We would therefore urge the ISSB to include an additional point (c) under paragraph 16 to the effect that the entity shall disclose 'the relationship between its significant risks and opportunities on the one hand and its impacts and dependencies on the other'.

We would further urge the addition of a point (c) under paragraph 20 that would read: 'a description of how these significant risks and opportunities relate to impacts and dependencies in the context of the entity's value chain'.

We would also urge that albeit paragraph 76 of the Basis for Conclusions observes that the Exposure Draft does not refer to the concept of dynamic materiality, the nature of the dynamic relationship between impacts (and dependencies) and risks (and opportunities) be further set out in following para 17. Language might be drawn from the *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* produced by CDP, CDSB, GRI, IIRC and SASB, which provided important clarity on this point. They stated that:

> *'Sustainability topics that a company once considered immaterial for disclosure can become material, based on evidence of an organisation's impacts on the economy, environment and/or people. Likewise, some of these sustainability topics can also become material for enterprise value creation, either gradually or rapidly – as with human capital topics such as racial equity and, more recently, the Covid-19 pandemic.' (p.4)*

Shift Response 4b: Strategy: distinction between disclosures on strategy and risk management:
Paragraph 21 on ***strategy*** states that (a) an entity shall disclose, 'how it is responding to significant sustainability-related risks and opportunities'; and (b) that it shall disclose 'quantitative and qualitative information about the progress of plans disclosed in prior reporting periods'. Paragraph 26 (b) on ***risk management*** states that an entity shall disclose, 'the process, or processes, it uses to monitor and manage the sustainability-related: (i) risks, including related policies; and (ii) opportunities, including related policies.'

It is unclear what the delimitation is between an entity's 'responses' to risks and opportunities and information about the progress of plans on the one hand, and the process or processes through which it monitors and manages those risks and opportunities on the other. While it may be that reporting entity's can draw such a distinction for themselves, it could be helpful for the ISSB to consider how it might more clearly distinguish in the disclosure requirements between factors relevant to the entity's strategy and those seen more accurately as linked to its risk management.

Shift Response 4b: risk management: trade-offs. Paragraph 21(c) states that an entity shall disclose, 'what trade-offs between sustainability-related risks and opportunities were considered by the entity (for example, in a decision on the location of new operations, a trade-off between the environmental impacts of those operations and the employment opportunities they would create in a community, and the related effects on enterprise value).'

It is important to include this kind of information in disclosure and we welcome the text. We would suggest that it be expanded to recognize also trade-offs that may be made between sustainability-related risks (as against between a risk and an opportunity). For example, in addressing the environmental risks related to plastic usage and reducing the amount of plastic in bottles, the risk of child labor in waste picking increases and, along with it, reputational risk. Information on how entities mitigate risks related to people that arise from action on risks related to the environment and vice versa would equally be significant information for users.

Shift Response 4b: risk management: relationship between impacts and risks**.** Paragraph 26(b) states that an entity shall disclose: 'the process, or processes, it uses to identify sustainability-related risks for risk management purposes, including when applicable: (i) how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used); a (ii) how it prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools"

In line with our comments above with regard to the text on Strategy, we would urge the explicit recognition within the text of the relationship between an entity's impacts and the risks to which it is exposed. This could be done simply by adding a new point (ii) to say, 'how it assesses impacts in its operations and value chain and their potential to result in sustainability-related risks.'

This would be in line with the CDSB Framework for Reporting Environmental and Social Information, now a founding guidance document of the ISSB, which states under Requirement 3 on Business Risks and Opportunities that, 'Disclosures shall explain the material current and anticipated environmental and social risks and opportunities affecting the organization and the processes used to identify, assess and prioritise the risks and opportunities,' and explains that information provided is useful where it:

> *'Explains how the organisation identifies, assesses, and prioritises risks and opportunities, including any methods or tools used, and whether and how the processes include:*
>
> > *– An assessment of whether business risks may result, in the short, medium, and long term, from actual or potential negative environmental and social impacts that the organisation itself may cause or contribute to or which may be linked to its operations, products or services through its business relationships...'*

Shift Response 4b: targets and metrics: legitimate sources of meaningful metrics and indicators. Paragraph 28 states that, 'Metrics shall include those defined in any other applicable IFRS Sustainability Disclosure Standard, metrics identified from the other sources identified in paragraph 54 and metrics developed by an entity itself.' It is unclear why the phrase 'metrics shall include' is used since the list is open-ended and clearly no entity can use all sources at the same time. We would propose that it should read 'metrics may include'.

The reference to paragraphs 54 relates to 'metrics associated with the disclosure topics included 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 the metrics used by entities in the same industries or geographies.'

This limitation to 'other standard-setting bodies *whose requirements are designed to meet the needs of users of general purpose financial reporting*' is unhelpful. Given the close relationship between significant impacts on people and significant business risk and opportunity, many of the metrics used by SASB, for example, are metrics related to impacts and their management. This is due to the simple fact that it is information about reducing those impacts of an entity that in turn generate risks, that is most relevant and meaningful for understanding whether the related risks are being effectively managed. These include, for example, quantitative metrics such as lost time injury rates, road accidents and incidents, the percentage of the workforce under collective bargaining agreements, the percentage of racial and gender representation in management, the volume of spills into the environment, as well as qualitative information such as 'Description of management systems used to integrate a culture of safety throughout the value chain and project lifecycle', 'Description of the greatest (1) labor and (2) environmental, health, and safety risks in the supply chain' or 'Discussion of engagement processes and due diligence practices with respect to human rights, indigenous rights, and operation in areas of conflict'.

Other indicators and metrics related to impacts can be found in frameworks of which the primary or partial focus is on information material to a wider set of stakeholders than shareholders alone. These wider frameworks can offer other metrics and indicators that are not currently captured by SASB, for example, but which could be of equal value when reporting on risks and opportunities and seeking to demonstrate how the underlying associated impacts are being addressed. However, the language of the Exposure Draft would seem to exclude them from consideration, and will certainly be interpreted as intending such exclusion. This should not be the case given the valuable resource that they can offer. Rather, entities themselves should be left to determine whether indicators and metrics provided in standards that are not simply designed with the users of general purpose financial reporting in mind are nevertheless of value in meeting their information needs. [On this point, please see also our response to question 7.]

We would therefore urge that the language limiting consideration of metrics to those frameworks 'designed to meet the needs of users of general purpose financial reporting' be removed as an unhelpful limitation on companies looking for sources of relevant and meaningful metrics.

Question 5—Reporting entity (paragraphs 37–41)

(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?

Shift Response 5b: Clarity on the requirement to report sustainability-related risks that originate in the value chain. The requirement to disclose information about sustainability-related risks and opportunities related to the entity's activities, interactions and relationships, and to the use of resources along its value chain is not sufficiently clear.

The draft states clearly in paragraph 37 that, 'an entity's sustainability-related financial disclosures shall be for the same reporting entity as the related general purpose financial statements.' That sets the tone and expectations for the remainder of this section of the draft and does not immediately make clear that events beyond the boundary of the reporting entity will also be subject to disclosure where material for the reporting entity.

Paragraph 40 recalls that Paragraph 2 requires the disclosure of all significant risks and opportunities to which the entity is exposed. It then simply observes that these relate to 'activities, interactions and relationships and to the use of resources along its value chain' and provides some limited examples. Although paragraph 51 of the Basis for Conclusions states that, 'Specifically, the entity **would be required to** disclose information about sustainability-related risks and opportunities related to **activities, interactions and relationships with the parties it contracts and transacts with directly and indirectly along its whole value chain** [emphasis added],' this is not set out in the text itself.

We therefore urge a significantly more explicit expression and explanation of the expectation that entities disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships and to the use of resources along their value chain. This should use the clear language of 'the entity shall disclose' to avoid confusion or a default to a traditional, narrow reading of paragraph 37.

Paragraph 40(a) provides some examples yet the only example related to interactions and relationships with people is about employment practices. Notwithstanding the importance of this example, it keeps a narrow lens on the kinds of interactions and relationships with people that are of relevance to understanding sustainability-related risks and opportunities.

We would therefore urge the inclusion of additional brief examples such as 'the relocation of local communities and their livelihoods' and 'the retention, use or sale of consumer data in ways that increase privacy risks'. This would help reporting entities to broaden their lens and perhaps challenge assumptions about the relevant scope for consideration when looking at how interactions and relationships across their value chain result in risks and opportunity to the business within its reporting boundary.

Shift Response 5b: constraints on whether investments in the value chain are considered in scope as sources of sustainability-related risks and opportunities

Paragraph 40(c) gives the example, with regard to activities, interactions and relationships along an entity's value chain of 'investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture). It is not clear why this limiting factor of 'control' is introduced in relation to investments. It does not pertain to other aspects of the value chain – clearly an entity does not 'control' a first tier or third tier supplier and that is not a constraint on the need for disclosure of material information. If the limitation was introduced with a view to, for example, avoiding double counting with regard to emissions, this would not be relevant in the case of social risks and opportunities. For example, a 25% shareholder in a mining venture that has a tailings dam collapse or has miners trapped and killed underground is not removed from resulting business risk, nor are there any perverse consequences of all shareholders needing to disclose the resulting risks for their own businesses.

The Basis for Conclusion states simply and clearly that: '

> *…just as financial statements recognise these investments and report aspects of the performance of associates and joint ventures, sustainability-related financial information related to those investments is relevant to the users of general purpose financial reporting in assessing the enterprise value of the reporting entity. The way in which information about sustainability-related risks and opportunities arising from joint ventures, associates (affiliates) and investments affects assessments of enterprise value may differ depending on facts and circumstances and the nature of the risks and opportunities.'*

This is clear and straightforward and does not place any limit of 'control' on the investments, but allows that whether and to what extent information about them affects enterprise value may differ. We would therefore urge that this constraint of 'control' on investments be removed from the text.

Question 6—Connected information (paragraphs 42–44)

(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?

Shift response 6b: importance of explaining all connections between material information. We would strongly agree with the importance of information that speaks to the connectivity between sustainability-related risks and opportunities. In earlier comments we have urged greater clarity on the point that many significant *risks* are related to *impacts connected* with the business, and that this should be reflected in the standards, not just as a point of description or observation, but as something that needs to be reflected in the information disclosed by entities. This will be an important underpinning for these requirements with regard to the connectivity of information, in order that a holistic set of information is provided to users

Question 7—Fair presentation (paragraphs 45–55)

(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.

Shift response 7b: legitimate sources of meaningful metrics and indicators. As noted in our response to question 4 with regard to 'targets and metrics', the limitation on the sources to which entities may look in identifying disclosures to 'those standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting' is unhelpful and unnecessary.

To recap:

- Given the close relationship between significant impacts on people and significant business risk and opportunity, many of the metrics used by SASB, for example, are metrics related to impacts and their management.
- This is due to the simple fact that it is information about reducing those impacts of an entity that in turn generate risks, that is most relevant and meaningful for understanding whether the related risks are being effectively managed.
- Reporting frameworks and standards that consider information that is material to a wider set of stakeholders than shareholders alone, include not only some impact-focused metrics and indicators similar to those provided by SASB, but also different and additional ones that can be equally relevant to a company seeking to disclose material information about an impact-related risk.
- However, the language of the Exposure Draft would seem to exclude them from consideration, and will certainly be interpreted as intending such exclusion. This should not be the case given the valuable resource that they can offer.

To elaborate further: Paragraph 64 of the Basis for Conclusions comments that disclosures developed for purposes such as public policy needs might not be helpful in enabling assessments of enterprise value by users. This ignores that fact that they also might indeed be helpful in this regard. As the Basis for Conclusions goes on to note, the Exposure Draft already states in paragraph 53 that when there is no IFRS Sustainability Disclosure Standard specific to a sustainability risk or opportunity, 'management shall use its judgement in identifying disclosures that…are relevant to the decision-making needs of users of general purpose financial reporting'. Management should equally be allowed to use its judgement with regard to indicators and metrics provided in standards that are not designed solely with the users of general purpose financial reporting in mind. The fact that those standards aim to serve a broader audience does not mean that the information they seek to elicit is of no value to the users on which ISSB standards are focused.

We would therefore urge that the language of paragraph 54 be amended to read:

‘In making the judgement described in paragraph 53, management shall consider, to the extent that these do not conflict with an IFRS Sustainability Disclosure Standard, the metrics associated with the disclosure topics included 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 relevant to*** *the needs of users of general purpose financial reporting, and the metrics used by entities in the same industries or geographies.’*

Shift response 7b: important reference points for the identification of disclosure topics

Paragraph 51(b) states that, ‘To identify sustainability-related risks and opportunities about which information could reasonably be expected to influence decisions that the users of general purpose financial reporting make on the basis of that information, an entity shall refer to IFRS Sustainability Disclosure Standards, including identified disclosure topics. In addition to IFRS Sustainability Disclosure Standards, an entity shall consider…the ISSB’s non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures)’.

Here and elsewhere the reference to ISSB non-mandatory guidance names the CSDB Framework application guidance for water- and biodiversity-related disclosures, but not the CDSB Framework for Reporting Environmental and Social Information which is equally part of the ISSB’s non-mandatory guidance. Where the issue is one of targets and metrics, that exlusion is reasonable since the CDSB Framework does not include targets or metrics. However the issue in paragraph 51 is the identification of risks and opportunities. The CDSB Framework is of significant relevance here both in that it provides principle-based guidance to the identification of sustainability-related risks and opportunities and in the fact that it indicates a number of environmental and social topics in particular need of consideration by entities in the context of any materiality analysis.

We would therefore urge that paragraph 51(b) be amended to include reference also to the CDSB Framework for Reporting Environmental and Social Information

Question 8—Materiality (paragraphs 56–62)

(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?

Shift response 8b: the essential relationship between impacts and risks in the application of materiality.
The potential for the definition and application of materiality to capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity is in good part a function of whether the risk identification, assessment and management processes are sufficient. In this regard, please see our response to Question 4 with regard to strategy, where we note a need to further explain and guide entities with regard to the frequently intrinsic and often dynamic relationship between the significant impacts of an entity and its risks and opportunities.

(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?

Shift response 8c: sufficiency of the Illustrative Guidance. Risks and opportunities relating to water and biodiversity have proven to arise in how a company manages either: a) social impacts (such as on the health or livelihoods of local populations) that flow from water and biodiversity impacts; or b) social impacts connected to related mitigation strategies such when conservation projects may put at risk an indigenous populations' access to land and cultural heritage.

However, the draft illustrative guidance misses the opportunity to illustrate how the CDSB Framework for Disclosing Environmental and *Social* Information can inform an entity's disclosures that may have identified sustainability-related risks and opportunities relating to water and biodiversity. Paragraph IG121 notes that "One of the guiding principles of the CDSB Framework states that connections shall be made between environmental, social, and other information (via general purpose financial reporting), which supports connected information" but this is not supported in the examples that follow.

We therefore suggest that the section be reframed to offer illustrative guidance for applying the CDSB Framework application guidance for water- and biodiversity-related disclosures *and* the CDSB Framework for Disclosing Environmental and Social Information.

We further suggest that paragraph IGI 24P

- Bullet point *a) Governance* - be amended so that the last sentence reads "...to tackle compliance with water-related regulation, social license risks, and engagement with stakeholders given the need to collaborate with stakeholders to achieve effective water management, and to identify and address severe water-related social impacts".
- Bullet point *b) Strategy* be amended to read *"…*as well as the entity's biodiversity strategy, performance, and resilience, whether these are supported by policies, strategy and targets to address related social impacts, and taking into account regulatory and market trends, and environmental changes".
- Bullet point *c) Risk Management* be amended to read "…which suggests entities describe the systems and processes used for assessing, identifying, and monitoring water-related risks and opportunities, whether, and how these systems and processes take into account water-related social impacts, are integrated with existing risk management systems and processes, and are stakeholder inclusive
- Bullet point d) Metrics and targets be amended by adding an additional paragraph that reads "Moreover, primary users will often benefit from similar disclosures of metrics and targets for the delivery of any social policies and strategies relevant to the company's biodiversity strategy, performance, and resilience. Requirement 2 of the CDSB Framework for Disclosing Environmental and Social Information provides guidance for what should be included in social targets and metrics".

Shift response 8c: absences of disclosures regarding the material assessment process. Paragraph 66 of the Basis for Conclusions states that there is no proposed disclosure on how materiality assessments have been made due to a concern that such disclosures may be boiler plate. While this risk exists, it is in no way limited to disclosures on materiality assessment processes. If an entity is so inclined, it may take a boilerplate approach to disclosures on aspects of governance and strategy among other areas.

Rather than seeing that risk as a reason not to seek disclosure, the ISSB should frame the requirement for disclosure in a way that would limit the potential for a boilerplate response. It is important for the users of general purpose financial reporting to have some insight into the factors considered and approach taken by an entity in identifying significant risks and opportunities, in order to have sufficient understanding of, and confidence in, the conclusions reached.

We would therefore urge the ISSB to include a disclosure requirement regarding the process by which materiality assessments have been made, taking due care to frame it in a manner that can minimize the risk of a boilerplate response. For example, this might include indicating that entities should describe how the particular realities of their business model, activities, resource needs, operating, sourcing or market contexts, and value chain relationships, including impacts and dependencies, have informed the assessment process.

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

(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?

Shift response 10d: Supporting integration of disclosures without obscuring distinctions in the treatment of environmental and social risks

We would support the ISSB in making 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 if the same information is relevant across a number of such risks and opportunities. We would agree that it is more helpful to the users of the information for entities to make integrated disclosures in these circumstances.

At the same time, we would underline the need for clarity in such disclosures on the scope of their application. For example, if an entity is reporting on the role of a Board committee in the governance of sustainability-related risks, it should be clear whether that role applies across all such risks, or is in practice limited – for example – to environmental risks and does not include discussion of social risks. In current reporting, the frequent loose or partial use of the term ‘sustainability’ – as if it pertained only to environmental matters – obscures a lack of any substantial attention to, or oversight of, social risks.

We would therefore urge that the ISSB be clear that integrated disclosures should not undermine clarity with regard to exactly which risks or opportunities are covered by a particular cross-cutting disclosure of the kind suggested.

Question 15—Digital reporting

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)?

Shift response 15: suggestions relating to the development of a Taxonomy**.** There is a long history of 'social' sustainability issues being a varied and poorly defined and understood set of issues driven by developments of the moment – such increased legislation on child labor and forced labor, the rise of investor and regulatory attention to diversity and inclusion, scandals regarding data privacy etc – rather than any clarity of thought as to how such issues relate to each other or a consistent approach to their classification. Thus topics of 'labor rights' can get listed next to 'human rights' ignoring that the former is part of the latter. Or 'labor rights' may be termed 'labor practices' to soften the term and implied expectations, or narrowed in scope (while sometimes broadened in factors considered) to 'employee relations'. Different terminologies of human capital and human rights may overlap and then individual topics that relate to both – such as pay equity and health and safety – be listed separately. Or issues may be reflected by function such as 'human resources' and 'supply chain management'.

There is a great risk of perpetuating this type of listing without the necessary rigor of reflection and expert input regarding to how these constructs and terms relate to each other, in logic, law and practice. It is entirely feasible to provide a clear and sufficiently simple architecture that helps reporting entities, providers of capital, regulators and others to understand clearly what issues relate how to each other and to the overarching concept of 'social' topics. The admitted complexity of many of the individual issues does not necessitate complexity and confusion in how they are represented.

At the same time, there are many reasons – some of which will be hard to escape – why the same concept may be referred to differently by different reporting entities, sometimes due to political sensitivities, cultural factors or internal concerns about perceptions. For example, in our own analysis, over many years, of companies' social reporting, we have seen multiple terms used to refer to what might generally be classified as 'child labor', and where the variations may not all be ones that can reasonably be rejected.

We would therefore urge the ISSB that when they undertake the work on the taxonomy to support digital reporting – an objective we unreservedly support – they ensure that there is significant social expertise in the mix to enable it to be undertaken in a both rigorous and pragmatic manner with regard to the nature, meaning, inter-relationships and articulation of social issues.

Question 17—Other comments

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

Shift response 17: value chain definition. Paragraph 51 of the Basis for Conclusions notes that a definition of the 'value chain' has been provided. This definition is 'The full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates'. It is further elaborated that, 'A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include those in the entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.'

The aimed for inclusiveness of this definition is appropriate and the examples provided are helpful. There remains a question, however, as to whether it would be understood to include relationships that are tied to an entity's operations but which may not be seen as integral to how it creates its products or services, such as relationships with public security services at a mine site or cleaning staff in an office setting. There are many well-documented cases of where actions by public security services that formally protect a mine site, for example, have led not only to significant impacts on local communities but very significant negative consequences for the companies concerned. We would recommend that the explanation of the definition and examples reflect relationships with such service providers which may also be a source of significant risk for a reporting entity.

Shift response 17: clarity on key reference points regarding the UN system's conclusions regarding matters important in considering sustainability. Paragraph 30 of the Basis for Conclusions observes that:

> *'The concept of sustainability is frequently linked to 'sustainable development', which was defined in 1987 as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs,' (World Commission on Environment and Development, The Brundtland report: Our Common Future, Oxford University Press, Oxford, 1987). The UN's definitions of sustainability, its sustainable development goals and international policy pronouncements, identify matters that the UN has concluded are important in considering sustainability, such as:*
> - *climate change (the UN Framework Convention on Climate Change);*
> - *biodiversity (the UN Convention on Biological Biodiversity);*
> - *oceans (the UN Convention on the Law of the Sea);*
> - *desertification (the UN Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification Particularly in Africa); and*
> - *human rights (Universal Declaration of Human Rights).'*

The references with regard to human rights fail to adequately reflect the breadth of issues addressed in key UN documents in the same manner as the reference to environmental issues do. It should be expanded, at a minimum, to include references to the UN Covenant on Economic, Social and Cultural Rights, the UN Covenant on Civil and Political Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights. While there are many more UN conventions that address more specific human rights issues that are recognized by the UN as important to social sustainability, those named here provide a minimum breadth of coverage and are the standard reference points.

Shift response 17: Use of term 'social communities'. Paragraph 30 of the Basis for Conclusion continues by stating that:

> *'National provisions on limiting environmental and social damage can also inform how the entity evaluates the impact of its activities. The terms sustainability and sustainable development, therefore, apply widely across social and ecological communities and apply to current and future generations; the terms also cover environmental and social notions of justice, health, welfare, preservation and acknowledgement of planetary boundaries.'*

It is unclear what is envisioned by the term 'social communities'. While it may be appropriate to refer in this context to 'ecological communities' we would urge a more appropriate representation of the array of social issues of relevance. Potential terms could be 'social matters', 'social issues' or 'social phenomena'.

Shift response 17: greater clarity on the nature and sources of change in assessments of materiality

Paragraph 76 of the Basis for Conclusions entitled 'Dynamic materiality' states that:

> *'If approved, the Exposure Draft proposals would require an entity to reassess its materiality judgements at each reporting date to take account of changed circumstances and assumptions. The material sustainability-related financial information disclosed by a reporting entity might change from one reporting period to another as circumstances and assumptions change and as materiality judgements and the assessments of enterprise value by users of general purpose financial reporting evolve. The risks and opportunities that users reflect in their assessments of enterprise value can change from one reporting period to another. Some refer to this as 'dynamic materiality', although that term is not used in the Exposure Draft.'*

We have commented in relation to question 4b with regard to strategy, that it would be important to reflect more fully in paragraph 17 of the Exposure Draft the dynamic nature of the relationship between impacts (and dependencies) and risks (and opportunities). We would also urge that this paragraph in the Basis for Conclusions be amended to avoid implying that the changes in the materiality of sustainability-related financial information that are largely random and subject to exogenous changes in 'circumstances' and 'assumptions' or evolving methods of materiality assessment.

In reality, many of the developments that make information on sustainability-related risks material are a predictable result of impacts (for example impacts related to privacy or discrimination resulting from the use of consumer/end-user data that lead to legal or reputational risk for business; or impacts related to the use of land contested by communities that lead to operational and reputational risk for business). Such developments may also be the product of predictable legislative developments such as the introduction of legislation requiring human rights and environmental due diligence of companies.

As noted in our response to question 4b with regard to strategy, this often predictable, dynamic relationship between significant impacts and significant business risks is clearly captured in the *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* developed by CDP, CDSB, GRI, IIRC and SASB. They stated that:

> *'Sustainability topics that a company once considered immaterial for disclosure can become material, based on evidence of an organisation's impacts on the economy, environment and/or people. Likewise, some of these sustainability topics can also become material for enterprise value creation, either gradually or rapidly – as with human capital topics such as racial equity and, more recently, the Covid-19 pandemic.' (p.4)*

We urge that the discussion of dynamic materiality in the Basis for Conclusions be amended and expanded to more accurately recognize the often predictable nature of changes in the materiality of information regarding sustainability-related risks.