IFRS® Sustainability Disclosure Standard General Requirements Exposure Draft

Summary of IR US Community Discussion

Notes:

• Session convened by the Integrated Reporting U.S. Community

• Session held on Zoom on June 16, 2022

• Moderator was Mary Adams

• Poll results and discussion comments provided for each question (comments are transcript of oral conversation)

• Chat was more free-flowing and is provided in total in Appendix A

Question 3: Scope

Sustainability-related risks and opportunities that cannot reasonably be expected to affect assessments of an entity's enterprise value by primary users of general purpose financial reporting are outside the scope of this [draft] Standard.

Poll:

Agree	23%
Disagree	54%
Neutral	23%

Comments:

Alex Gold: I mean, I can kick it off. I stayed neutral to this, just because I agree with the need to cut off somewhere. Otherwise, every issue could potentially be seen as important to someone somewhere at some point, especially when you talk about the timeframes we're looking at, which are, and I quote, "into the short, medium, and long-term." It's quite an expansive scope, to begin with. So it makes sense to try to focus on investors given this is trying to inform financial reporting.

What I think would be important is that IFRS is defining only a certain specific class of issues, risks, and opportunities that are covered by the standard and thus, subject to the detailed requirements that you might get assured against. I think it would be nice to specify that thee standard doesn't preclude other forms of sustainability reporting elsewhere – perhaps it already does this?

Mary Adams: Good. Bill's got his hand raised.

Bill Baue: Thank you, Mary. I would strongly agree with this scope if this were an ESG reporting standard because ESG is exclusively looking at enterprise value from an outside-in risk and impact perspective. What's the impact of the outside world on the entity?

However, IFRS has decided to frame this as a sustainability standard. Once it makes that decision, it seems to me utterly incoherent to say that you're limiting it to an enterprise value assessment because sustainability is a much broader term. The term "sustainability" doesn't make sense if you apply it just at the enterprise value because sustainability is a systems-based concept. This is something that I think cuts to the core of the ISSB altogether, is that it's framing itself around sustainability, but applying essentially an ESG approach. I'll leave it at that.

Mary: Thanks, Bill. That's helpful. Anyone else?

Paul Thompson: Mary, I noticed that Nick Shepherd has made a few comments in the chat box, which are quite interesting along similar lines to what Bill has just mentioned. I'm not sure whether Nick is keen to verbalize his remarks.

Nick Shepherd: I agree a hundred percent with Bill. I mean, to me, this is the whole problem that some of us foresaw when the integrated reporting approach was wrapped in under the Financial Accounting Standards Board. I think what they're trying to do is take control of sustainability agenda and limit the breadth of disclosure relative to non-direct financial issues. I think it goes back, as I said in the note, to the whole issue of materiality. The word they're using for scope, the definition and use of scope, to me has the same limitation as the whole issue they're using from materiality.

I won't jump ahead to that. The other issue that Bill raised is the definition of the word sustainability. I mean, we have to be so careful. Sustainability can be used in a going concern definition. In other words, is the organization sustainable or it can be used in the definition of are we conducting business in a way that our planet is sustainable to live on? Those are profoundly different questions.

Mary: Anyone else want to take up a contrary view?

Alex: Can I just ask though? The integrated reporting framework, as it now stands, is all about the effects on enterprise value. I don't see how this is a perversion of that. Maybe I'm hearing incorrectly.

Bill: Well, that might have been a problem with the IIRC framework from the get-go. There was certainly input in 2013 that raised this flag. In some ways, it's an issue that's existed for the full past 10 years vis-a-vis IIRC and SASB as well. Input was also given to SASB around this very question of using the term sustainability, but then not delivering on that.

Mary: Is there anything to be said for making progress that getting companies to start on this journey or is it not enough? Quick answers and then we're going to have to move to the next question.

Bill: I'll just say really quickly that this could all be resolved by acknowledging that this is just about ESG. That's an appropriate purview for IFRS to address this at an enterprise value level. The moment that it makes claims around sustainability, it's actually doing major damage to the field, largely speaking, is my belief.

Question 4: Core Content

Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity shall provide disclosures about:

(a) governance—the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities;

(b) strategy—the approach for addressing sustainability-related risks and opportunities that could affect the entity's business model and strategy over the short, medium and long term;

(c) risk management—the processes the entity used to identify, assess and manage sustainability-related risks; and

(d) metrics and targets—information used to assess, manage and monitor the entity's performance in relation to sustainability-related risks and opportunities over time.

Poll:

Agree	100%
Disagree	0%
Neutral	0%

Comments:

Participant: I did mean to disagree, [chuckles] just to be difficult. I don't think it's sufficient, really. The piece that's missing for me connects a bit with the conversation before around there's a lack of definition of these sustainability-related risks and opportunities and no disclosure required of the process to identify them. Just sort of what are those topics? How are they identified? How are we actually-- I mean, getting at an impact, potentially. That just seems like to me a big gap. I would stick that in strategy or before we even do that.

I know we all want to go like, "I love building on TCFD format. Everybody's starting to get used to it, but it's not for me-- I think it is important because I don't, no offense to any of the SASB folks, but I don't think that's sufficient for what we need to identify what our material sustainability-related risks and opportunities for each organization that's reporting.

Mary: Thank you. That was very helpful.

Alex: I think there is guidance that you should start with the SASB standards, with the CDSB guidance, and with what's been nominated by peers. I agree that that's probably not enough, those three. There is a section in there that talks about how the sustainability-related risks and opportunities relate to the relationships that the company has and how it draws on natural capital and the like. It gets back to that six capitals framework. Weaving in an assessment of these resources and relationships, the six capitals, into the consideration of sustainability-related risks and opportunities would be a good move here.

I certainly wouldn't want an organization to just go to SASB and CDSB and their peer review and say, "Okay, we've identified them now."

Paul: Just one comment from-- If I may, Mary. As you know, I've got my roots in Europe and carefully monitoring the progress of the European Financial Reporting Advisory Group, EFRAG, which is developing European sustainability reporting standards. This core content matches pretty closely with the approach also being adopted by EFRAG, not that that, therefore, makes it right or wrong. I was looking for divergences. I couldn't really see anything. There, I use the word material differences in approach on core content. That's all.

Question 5: Reporting Entity

An entity's sustainability-related financial disclosures shall be for the same reporting entity as the related general purpose financial statements. For example, if the reporting entity is a group, the consolidated financial statements will be for a parent and its subsidiaries; consequently, that entity's sustainability-related financial disclosures shall enable users of general-purpose financial reporting to assess the enterprise value of the parent and its subsidiaries.

An entity shall disclose the financial statements to which the sustainability-related financial disclosures relate.

Poll:

Agree	42%
Disagree	25%
Neutral	33%

Sten White: I'm not sure if there's any debate here. As you can see, everyone's 100% agree. It's really just a scope of what an entity is defined. I did find maybe one thing I was thinking about that could be up for discussion is there are disclosures that sometimes are expected in sustainability of your suppliers. How do they differentiate that within the framework? Curious to hear any thoughts on this from the group.

Alex: I think something like this is probably-- Although it's extremely dry, I think it's probably some of the most important stuff because we've all been involved in sustainability reports where the company has decided not to report something important simply because it's not favorable.

So what this Reporting Entity element is good for is it basically says, "Do you need to report on your whole organization?" You can't just report on this one aspect of it that is your prime performer, and then everything else, you can just quietly say it's not there.

Sorry, Sten, it doesn't get to your point. I think stuff like this needs to be supported wholeheartedly so that sustainability reporting can be trusted, really.

Sten: Thanks. It looks like Nick, you had a point about what they've said at the end there. Did you want to--

Nick: Yes. To me, it's just a risk issue that we should be aware of. In the past, we've had financial surprises because of the way that consolidation and reporting financial requirement is set up. In particular, something like Enron who is able to essentially not disclose significant financial information which would certainly apply to people's judgments about the viability of the organization, but because of the way financial reporting allowed them to deal with what they called special purpose entities that were really controlled by them, but weren't financially in control, they didn't have to report anything.

My concern would be if we continue to use the same criteria as financial reporting, there might be a risk that things would end up getting hidden. In other words, negative environmental issues, for example, could get hidden in terms of the way the financial structuring was established. It's just a concern.

Question 6: Connected Information

An entity shall provide information that enables users of general purpose financial reporting to assess the connections between various sustainability-related risks and opportunities, and to assess how information about these risks and opportunities is linked to information in the general purpose financial statements...

Example 1: an entity may face decreasing demand for its products because of consumer preferences for low-carbon alternatives. It may need to explain how its strategic response, such as closing a major factory, affects its workforce and communities, as well as the effect of the closure on the useful lives of assets and impairment assessments.

Poll:

Agree	85%
Disagree	0%
Neutral	15%

Comments:

Sten: Okay, great. We've put an example here around products being affected by demand of low carbon alternatives and how maybe a company would disclose on their strategic response, how it's affecting their costs, their operations, and it's affecting their workforce, but also their assets. Another one I thought is if a company has done an assessment, like a manufacturing company on the risk of floods within the factories, if they've had 20% of their factories they've assessed might be at risk of floods due to climate change, how is that affecting their costs? How are they investing? There's many different examples. Does this really cover this connected information? We'll put up the poll.

This is interesting. General agreement, and then some people are neutral. No one has disagreed. We'd love to hear why people agree or a bit unsure about this one.

Mary: I'll chime in. I think that this gets to the heart of that missing piece, right? The idea of integration is really about the connectivity and it's the part we're all still learning. It's hard to put that into a standard, but it's an absolutely critical element of making all this work.

Alex: Yes, I agree with the need for it, but I did say I was neutral about it because it's really about the level of specificity expected of companies when disclosing the connections between sustainability issues and the financial statements. An entity may face decreasing demand for its products because of consumer preferences for local carbon alternatives, but that's not going to be the only reason they might face decreasing demand, so how do you section out the percentage that's attributable to low carbon alternatives, which then is going to be potentially audited as part of a financial statement, which we're seeing with the SEC ruling where they have to now separate out climate-related line items?

The problem is that it's trying to meet these investor demands for comparability and standardization, but this is something that inherently is not comparable or standardizable. If we over specify the need to connect sustainability impacts to financial results, we may end up with just this chilling effect where no one wants to say anything is going to have an impact because they don't want to be liable for some audit that isn’t really auditable in the same way that financial accounts are.

I think here, again, additional guidance on what they are asking for in terms of connectivity and maybe a safe harbor or something, where someone can actually come out and say, "Look, I think this might have an impact. It could have a financial impact in the future," but then they're not liable at some point in the future when they've never actually accounted for it in the financial statements because there's no way to do that.

Sten: Great. Any other comments on connected information?

Mary: We've got a quiet group today. Oh, good. [Participant name]

Participant: [Comments requested to be removed]

Alex: I guess this needs to be accompanied with a standard for connectivity. What does connect-- What does linked mean? Are you actually liable to do that? I did work in Australia where they have a climate-related audit standard. When I was incorporated in corporate over there and we had the reporting audited, I had to attest that climate-related impacts will not have a significant impact on the business. Of course, what's the definition of significant, right? And how do you attest to whether something like a hurricane or cyclone will or will not have a significant impact in the next year? Which is of course the timeframe for a financial statement.

Mary: Nick has his hand up.

Nick: I agree with the point you're making and the point that [Participant] made. I think this is a big issue. To me, this comes back to the, as you both said, the whole connectivity issue. To me, if we are able to build the bridge between the financial reporting and the various capitals within the integrated reporting framework, we start looking at risks for different perspective, but that's the whole issue of materiality.

If you're only going to assess materiality by looking at financial risk and risk to the investor and to the use the basis that, well, if it's good for the investor, it's good for everybody else, I just don't think that's true. That's why I think that difference between what I would call the North American direction somewhat and the EFRAG direction is significantly different because of that whole double-check in terms of stakeholder interest. Again, I was neutral on this, but to me, it's a bit of a motherhood statement.

Yes, sure, I agree that you need to do this risk assessment, but against what criteria is the whole issue.

Alex: I think, again, I'm highlighting the trade-off. If you make this too prescriptive, you may have a chilling effect. One of the greatest advances in my view in the last decade or two is the fact that people in companies are now realizing that this is important for their business. Making those logical financial connections is also important, but you don't want to be scared to do that because then, you're going to be expected to do account for it in an auditable way.

Mary: I'll just mention that the way I've been thinking and doing some work, as some of you know in the last year or so, is now using the value chain as the organizing principle rather than the chart of accounts and thinking about where's work being done, and then matching the different kinds of data, both financial and non-financial sustainability at the work level. I think that's going to have to happen to have true connectivity. It's not that's more about making it work internally, it's more about integrated thinking, not integrated reporting.

I don't know where that will all end up in terms of the reporting side.

Participant: I think I was just really happy to see that there was this reference to connected information, even though it's not perfect yet. I just thought it was a good baby step to actually get it in here in some form. I didn't get too critical about exactly what's there. It's just the fact that it's there, I think, is really important that it will start getting people thinking about, even though we don't have all the answers on this one.

Question 8: Materiality

Sustainability-related financial 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.

Poll:

Agree	62%

Disagree 0%

Neutral 38%

Comments:

Paul: For me, I'm not a religious man, but materiality is pretty much the Holy Grail of what we're doing right here. In fact, on the next slide, we have a graphic where what we are presenting to you is if you're like a significant divergence of approach that is currently emerging around sustainability reporting, the approach of the ISSB is still very much on singular or financial materiality, whereas the approach that is being forged in Europe headed by the European Financial Reporting Advisory Group is one of double materiality.

While I'm at it, just to elaborate a little bit more on that, in Europe, the politicians are really setting the agenda for sustainability reporting. The politicians in Brussels have decided there are certain critical environmental and social policy objectives that need to be addressed sooner rather than later, and corporate sustainability reporting is going to help boil the wheels, if you will, of achieving those objectives.

In Europe, the approach of the European Financial Reporting Advisory Group-- Basically been charged with developing the standards that will put into effect regulation that is around-- Very close to being finalized. EFRAG's got this double materiality approach, the outside in and inside out. In other words, not only our companies come to report on how they are impacted by the environment and society, but they're also expected to report on how they will impact on environment and society.

It's that latter piece which is outside of scope of financial materiality. A big divergence here is underway. Let's put it to the polling. I've got a good sense that some people are going to be rather disagreeable on this. [chuckles]

[pause 00:24:25]

Mary: Last chance.

Paul: Okay. That's really truly the last chance, Mary. I guess not surprisingly, given the discussion that we've had this far on this webinar, we seem to have a majority that are disagreeable with the approach that the ISSB is adopting. It will be interesting to hear why people disagree. Also, for those that agree, it will be interesting to hear from you as to why. A lot of remarks popping up in the chat box. We've got quite a modest number of people on the call. If you want to weigh in and express your views, please go ahead.

Nick: I'm happy to jump in. I think your point is right on, Paul. I think there's a significant difference between the two approaches. One coming from a more financially traditionally invested-driven climate, and one coming from a much more socially-driven climate. I think it's very significant if we really look at the underlying question of the whole emergence of corporate social responsibility, going back 20, 30 years and the accountability of organizations to talk about how they're acting as a member of society and how they're treating people and their contribution to things like mental health.

If we look at an example in the US, like Activision Blizzard, which was certainly a key example because it was the first time the SEC had ever stepped into a non-traditionally financially created issue and started an investigation. You have to ask yourself that if there hadn't been double materiality, would that issue would ever been disclosed under any of the direction that we're heading in right now if we use materiality definitions like this? I would suggest you, the answer is probably no. I think it is a significant issue. I think that sort of outside in and inside out is pretty critical.

Bill: Perhaps true to expectation, I'll chime in here and just say that even if one were interpreting this purely from the perspective of investors as primary users, investors that are interested in financial-only impacts, the idea that accompanying inside-out impacts do not have financial implications is simply incoherent. I don't think that that holds water as an assumption.

Furthermore, I think that if we take a reasonable investor, in order to interpret this in a way that *only* addresses financial impacts that are not inside-out – ie *not* company impacts on the outside world – we would have to assume that a reasonable investor is sociopathic in the sense that they literally don't care about their impact on the real world. It would be similar to me as an individual saying, "All that matters is the way that the world impacts me. The way that I impact the world doesn't matter."

I'm concerned that even on its face, single materiality is an incoherent and untenable concept. It just seems like it makes much more sense to just acknowledge double materiality, at least as far as I can tell. It's the only intellectually coherent way to approach this.

Paul: Thanks for the remarks that have thus far come through. I have been following pretty closely what's going on in Europe with the EFRAG. They've already pushed out the first tranche of core standards on European sustainability reporting. Quite a lot of paperwork, and they're quite sophisticated taking the inside out how the business impacts on society in the wider environment. It obviously raises greatly the sophistication of sustainability reporting.

Inevitably, you start to come into the crosshairs of politics, I guess, for want of a better word, in terms of Europe is a different place right now in terms of their policy objectives vis-a-vis North America and has perhaps been [laughs] for many decades, and never the twain shall converge. I would be interested to hear those that agree with the approach of the ISSB. We've got thus far a lot of people chiming against.

Alex: I actually said that I agreed with it because I think it fits their purpose. I think there's a lot of disagreement in today's discuss over the purpose of it and what they should be creating standards for, but I think what I like about this is that they've used a standard conceptualization of materiality that allows for flexibility by reporting companies. It didn't say it has to equal 1% of a line item, and thus we're doing that. It didn't put that in and it does allow for someone to interpret this in a way that does include external impacts. I don't think it precludes that.

It just depends on some sort of engagement with the common information needs of financial capital providers. Relying on that might be a problem, but I felt for their purpose, it's fine. We might disagree over whether IFRS should be taking a broader purpose, but I thought this was fine for what they're trying to do with their focus on investors and enterprise value.

Mary: I keep thinking about the fact that a huge driver here is the investment community realizing there are systemic risks that they can't avoid, and so trying to change behaviors and change how companies think. To the extent that a company is thinking about systemic risks, which, of course, it should, that's not as far as you're talking about in terms of the double materiality, but it's a huge step forward, in many cases, to say we have to acknowledge and address our systemic risk because the markets are going to make us ensure that we do.

Is that enough? That's the crux of our discussion here, right? [Participant], did you have something?

Participant: [Comments requested to be removed]

Paul: Thank you, [Participant]. Any more final remarks on materiality?

Mary: I was just going to point out, Paul, that which in the chat made the point about conflicting definitions of materiality, just frustrations with results. What's his predictions? I don't know. Anyone wants to comment on that? Rich, you want to chime in?

Rich J: The issue for me is about that-- In doing financial reporting for a global company, you want to be sustainability reporting or creating integrated report. You want to be able to sit back and say, "How do I set my materiality standard and have a policy that covers your reporting global?" Well, we have three different proposals with three different definitions of materiality.

If you add in the fact that the conceptual frameworks of the ISSB and the FASB and even a different materiality definition, at least when you explained it all out, the definitions might be similar, but then the explanations are different from the one offered by the ISSB. It just creates frustration with the preparer. Obviously, the assurance providers can have their own definition, so auditors set their own definition. Then the investor using information and is not sure what they have in front of them.

If they really understand how it was prepared and how insurance would apply, they don't know what they're looking at. It doesn't really clarify a lot. Then if you go from company to company, you don't have comparable information real. You think you do, but you really don't because you have different materiality definitions. That's the point I'm trying to make.

Paul: Thanks, Rich. To get you to the mix as well, of course, we've heard discussions around dynamic materiality, which is where things are trickling down from double materiality into financial materiality. I guess in the longer run, some things that fall outside of scope of financial materiality one day will be financially material, and I guess it's just a question of at what point you factor all that in.

Of course, one of the big problems with sustainability reporting is actually who is the audience, who's it directed at? Clearly, the ISSB's-- Their feeling is that it's primarily investor-driven. The approach in Europe is, "Hey, this reporting is for everybody that stands to be impacted in some way or another on the activities of the business," so the multi-stakeholder approach prevails.

Question 17: Other Comments

What are any other important comments/issues that we should outline in our community's response?

Comments:

Participant: I actually realized my questions are actually probably covered in Question 13 and 11 anyway, but I'll just throw it out there just to see, I'm curious what everybody else is thinking. Question 11 talks about statement of compliance and saying that we are in compliance, similar to I think what was in the IRR framework, and the GRI has something similar as well.

I found it handy that the actual term, the sentence that's needed was actually in the IRR framework rather than leaving it vague. Does anyone have comments on that? Then the other question I had for the group was the effective date because the more I look at it, the longer I think it's going to take to actually implement any of this and be able to use it.

Originally, I was like, "Oh, six months," but now, I've gotten a lot more cautious. Again, I just like to throw that out and see if anyone else has thoughts on the statement of compliance or the effective date, and if that's something that we should be commenting on as a group.

Paul: If I may, I don't have any remarks in relation to the first question on the statement of compliance, but in terms of timing us, lots of people are complaining in Europe right now that EFRAG is moving too quickly. It's just the whole thing in Europe is moving just too fast for people to keep up. Then I heard somebody say, "Well, you know what? The climate isn't going to wait." The climate is setting the agenda, certainly in relation to the climate issue, which, of course, is one of many sustainability issues, but often seen as being perhaps the most time-sensitive issue.

I would be interested to see whether anybody has in your remarks in relation to your statement of compliance question?

Mary I thought I saw Ken start to chime in or it might have been--

Ken Witt: No, didn't have anything to add on this one, but I appreciate the point about the dynamic materiality. I think that's the ultimate objective is to make sure the companies are assessing that impact. Then as things move forward, the stakeholder demands on disclosure of that information will move it down into the impact on the financial statements.

Paul: Mary, just one other comment that I have in relation to other comments, I guess not surprisingly, given my background is the SME or the small business piece, if there is one. Is there something on the minds of these standard setters right now or is it something they're going to come two years down the track? In Europe, there has been a very strong focus on SMEs and in fact, there are plans to have any European sustainability reporting status specifically for voluntary use by smaller businesses, smaller enterprises.

Ken: I think they were going to be hugely impacted by requests for Scope 3 information from people who were having to comply with the SEC standard and the ISPS standards.

Alex: The only other comment I'd want to add is to the greatest extent possible, it would be good to see the integrated reporting framework maintained as some separate guidance moving forward because it's a lot easier to engage corporates when there's a single document or a single set of guidance that you can use when it comes to integration and thinking about value creation in terms of the six capitals and the like, as opposed to trying to point them to all the different ways it's been inserted into the new standards and ensuring that they comply with all that scattered element.

Even if they do genuinely bring it into the standards, it is good to have that separate guidance in some way for us to use to try to keep on driving the point home with corporates.

Nick: I think that's a key point, Alex. I think if we go back to the goal of the whole integrated reporting approach, it was to recognize that the key change that has happened in business is to shift towards a knowledge economy. To a great extent, that has been associated with no longer focusing mainly investment in intangible assets, but intangible assets. Therefore, things like the workforce have become much more important. The reality is that financial capital is still the driver of the creation of many of those other intangible capitals.

I think the integration of that reporting framework with the direction, fast behind the direction of trying to build it into the financial report framework is critical because if we could go back, I think was the old Wendy's advertisement years ago. It is, "Where is the meat?" The question is, for many investors, "Where did my money go?" What's happening in a lot of cases, their money is going into the creation of value-creating capabilities that, A, the expense is not recorded and B, the existence, continuation, or sustainability of those intangible assets have been created. It's also not reported on because they're intangible.

I think there is a very significant role for addressing the other six capitals. Of course, the other issue is the externalities where cash flow wasn't even involved at all. That, of course, was the other key part of trying to bring this all in the segment product.

Appendix A: Meeting Chat

00:20:15 Nick Shepherd: I think the limitation of scope aligns with the limited materiality which to me is a problem. On this basis few organizations would address human capital as having financial impacts.

00:20:44 Bianca Barilla: What is the definition of “reasonably”?

00:21:21 Nick Shepherd: I also have an issue with what the definition of "sustainability means." Is it defined anywhere - I am not sure.

00:22:15 Rich J.: I agree with Nick's comment. I'd like the materiality definition to match that of the IASB definition, i.e., no quantitative metric underlying it. Additionally, I don't understand the references in the ISSB proposals that refer to "significant" risks or "significant" material risks.

00:27:43 Bill Baue r3.0 he/him: Typing my comment in for ease of sharing: I would strongly agree with the scope of enterprise value if this were an ESG framework, as ESG is exclusively interested in enterprise value in the context of outside-in risks / impacts (world's impact on enterprise). But seeing as IFRS has (mistakenly, I strongly believe) framed this as a *sustainability* standard, which by definition takes a systems-level approach -- hence it would need to address system value in the context of both outside-in *and* inside-out risks & impacts (enterprise impacts on world).

00:30:09 Nick Shepherd: A key issue with EFRAG approach is that I believe that it supports double materiality?

00:31:50 Participant: Would love to see ISSB incorporate double-materiality - eventually both directions support long-term value

00:32:10 Bill Baue r3.0 he/him: @Nick yes, EFRAG supports double materiality. I would add that this concept was *not* introduced by EU Sustainable Finance workstream (taxonomy etc) but rather was ensconced from the get go in GRI.

00:32:49 Nick Shepherd: On the last point the danger might be a repeat of ENRON and "off balance sheet" special purpose entities. Sustainability problems could be hidden using financial approaches to ownership / consolidation?

00:34:43 Bill Baue r3.0 he/him: I agree. In fact, I don't see how ISSB can possibly justify *not* taking a double materiality approach in a *sustainability* standard.

00:37:40 Nick Shepherd: To me this is a bit of a "motherhood statement" that you cannot disagree with but which will be impacted once again by financial vs stakeholder materiality.

00:47:45 Nick Shepherd: Great example is the Activision Blizzard issues - how will these be addressed in the future even under the proposed SEC rules. These do not address organizational behaviour. That is why we MUST have double materiality. Nor is there an appetite for it by companies.

00:50:15 Rich J.: In the SEC climate-related disclosure proposal, they define materiality consistent with the definitions from U.S. Supreme Court. So, 3 major proposals with 3 different materiality definitions. Frustration will result among preparers, investors and assurance providers.

00:53:41 Nick Shepherd: Bill makes a great point - the challenge is that many investors are still trying out what questions to ask to determine what risks exist.

00:57:21 Nick Shepherd: We already have history that companies do not see their workforce as "material" because few issues are addressed as part of reporting. Yet these are the dore drivers of value creation. If we don't force the change its not going to happen.

01:00:33 Bill Baue r3.0 he/him: On the systemic risk front, Rick Alexander of Shareholder Commons makes a strong case that single materiality doesn't address the needs of universal investors, who hold not single enterprises but essentially hold the entire economy, so enterprise A's impact on the external world (inside-out) amount to Enterprise B's external world impact on it (outside-in).

01:02:03 Bill Baue r3.0 he/him: https://theshareholdercommons.com/wp-content/uploads/2022/05/2022-05-04-one-small-step-from-financial-materiality-to-sesquimateriality-a-critical-conceptual-leap-for-the-issb.pdf

01:02:46 Nick Shepherd: Yes, there should be a stated desire to explain the linkage between both cash flow and the creation of intangible capitals as well as cash flow and externalities. After all this was he goal of IIRC 6 capitals?

01:06:01 Bill Baue r3.0 he/him: On the materiality question, double materiality and dynamic materiality are actually both insufficient. What's really needed is context-based materiality (imho) which integrates sustainability thresholds (ie the carrying capacities of the capitals). Here's an article by Evan Harvey of Nasdaq on this: https://web.archive.org/web/20220427074028/https://cfi.co/finance/2022/04/evan-harvey-nasdaq-understanding-materiality-history-context-purpose/ And here is a UN report on Context-Based Materiality: https://www.unrisd.org/en/library/publications/making-materiality-determinations-a-context-based-approach

01:08:54 Bill Baue r3.0 he/him: Can you pls post those links in the chat so we can copy? Thx

01:09:45 Paul Thompson: (a) submit your own letter at https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/

(b) respond to the survey at https://ifrs.qualtrics.com/jfe/form/SV_7UGHv6thNXMzGho

01:09:49 Mary Adams: https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/

01:10:02 Bill Baue r3.0 he/him: Thx for the excellent session Mary & team!

01:10:05 Mary Adams: https://ifrs.qualtrics.com/jfe/form/SV_7UGHv6thNXMzGho

01:10:23 Roslyn Roberts: Thank you all!

01:10:25 Rich J.: Thank you for an excellent discussion.