



25 July 2023

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Via email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Dear Sir/Madam,

**Consultation: To enhance the international applicability of the SASB standards**

The ESG Subgroup of the Corporate Reporting Users' Forum (CRUF ESG) welcomes the opportunity to provide the International Financial Reporting Standards (IFRS) with our comments on this consultation.

The CRUF was established in 2005 and we have been holding regular meetings since. CRUF ESG have prepared this comment letter based on discussions in CRUF meetings and have reflected input from other CRUFs globally. As always, we do not seek to reach a consensus within the CRUF but to reflect a broad spectrum of users' views. We have highlighted any contrasting views in our response. Our comments are based on our professional experience as users of corporate reporting.

**Question 1 - Methodology objective**

The Exposure Draft describes the proposed methodology to amend non-climate-related SASB Standards metrics to enhance their international applicability when they contain a jurisdiction specific reference.

(a) Are the scope of the intended enhancements and the objective of the proposed methodology stated clearly in paragraph 8? If not, why not?

- Yes

The scope and objective are clear enough. However, we note the need for a fuller due process approach to updating these standards if they are to have standing on a global basis. It is not appropriate that the SASB standards should become rules for global reporting without going through full due process consideration and open consultation in each case. We are disappointed that this consultation itself has not been open for the full due process consultation period; we are clear that the ISSB needs to show a clear intent to follow full due process going forwards.

We would also encourage that, rather than trying to internationalise all SASB standards at once, consideration should be given to focusing attention on those SASB standards that fit alongside any work given priority in the ISSB's overall agenda plans over the next two years. The CRUF intends to highlight this same point in its letter in response to the ISSB's consultation on its agenda priorities.

**(b) Are the constraints of the objective as listed in paragraph 8 (preserving structure and intent, decision-usefulness and cost-effectiveness) appropriate? Why or why not?**

• Yes

We were broadly supportive of the creation of the SASB standards and saw them as a helpful step forwards, particularly in the context of the US market where greater standardisation was needed and a rule-focused culture for corporate reporting predominates. We recognise that a sector-based approach to sustainability reporting makes sense and that the SASB model provides a logical framework from which the ISSB can build. We therefore welcome the moves by the ISSB to adopt the SASB standards, and to make them more internationally applicable. We believe that the constraints that are mentioned are sensible approaches to standard-setting generally, and so are appropriate. We therefore believe that they will help preserve what is positive about the SASB standards while making them less parochial.

**(c) Should any other objective(s) or constraint(s) be included in the proposed methodology? If so, what alternative or additional objective(s) or constraint(s) would you suggest? How would these add value to the proposed methodology?**

• Yes

We would strongly encourage a shift to a principles-based approach within the proposed methodology. The current methodology seems to be highly rules-based and we are concerned that this is simply not capable of applying internationally where a vast range of rules will exist. This vast range of rules will regularly include jurisdictions and situations where no rules at all exist.

In this context, we believe that the current approach, leaning on whatever rules apply in jurisdictions of a company's operations, brings a real risk of missing the core intent of the standards. This is amply illustrated by the Example of Revision Approach 3 given in the consultation (paras B6-B8), which proposes a default to asking for reporting against local standards. Where no local or minimal standards exist, this would in effect remove any obligation for reporting whatsoever. This creates the real risk that investors will lose significant information where preparers are operating in markets with low or no standards – as the disclosure then required against the rule would be nil or negligible. It is often in respect of such markets that reporting is of most value to investors.

We believe that this argues strongly for a principles-based approach to standard-setting rather than a rules-based one, and we firmly believe that this is the only realistic approach to standard-setting on a global basis (as the IASB has rightly found).

This principles-based standard-setting would amount to:

- requiring disclosure by preparers of their approach to mitigating a particular risk
- requiring disclosures to reflect on how global or local standards are being fulfilled where they exist, and
- how the risks are being mitigated where local standards do not exist.

We believe that such a principles-based approach would certainly remove the need for approaches 3-5, and possibly for all of the approaches altogether.

## **Question 2 - Overall methodology**

**The Exposure Draft explains the proposed methodology to amend the SASB Standards metrics to enhance their international applicability when they contain jurisdiction-specific references.**

**(a) Do you agree that the proposed methodology would enhance the international applicability of the SASB Standards metrics? If not, what alternative approach do you suggest and why?**

• No

We welcome the proposal to remove the US-specific nature of the SASB standards, and the proposal to alter them to a much more international approach. However, we believe that this internationalisation can in practice only be effectively delivered by a change in methodology towards a principles-based system rather than the rules-based focus of the current SASB approach.

As discussed in our response to 1(c) there is a real risk of important disclosures being lost to investors through the current proposals. Because of their potential dependence on local rules and requirements, where preparers operate in markets with low or no regulation in a particular area, the proposals potentially, in effect, lead to a removal of any practical requirement to report.

This is unfortunate and cannot in practice be the intent of the ISSB. We therefore believe that a very careful reconsideration is needed, certainly of approaches 3-5, and perhaps of all the approaches, to change the disclosure approach to a principles-based system rather than a rules-based one.

We would also urge that the ISSB emphasises the need for preparers (and any assurers) to apply materiality judgements in any reporting with regard to any SASB standards that have been rendered internationally applicable. We believe that this materiality approach goes naturally alongside a principles-based approach to standard-setting.

### **Question 3 - Revision approaches**

**The Exposure Draft explains five revision approaches to enhance the international applicability of non-climate-related SASB Standards metrics. Every disclosure topic, metric and technical protocol amended using the methodology will apply these five revision approaches, either individually or in combination. The methodology begins with Revision Approach 1, which uses internationally recognised frameworks and guidance to define relevant terms of reference.**

**(a) Do you agree that replacing jurisdiction-specific references with internationally recognised frameworks and guidance—if identified—should be the first course of action? If not, why not?**

• No

Where they exist, international standards may be useful, and clearly reflect the international intent of the ISSB. However, we believe that a principles-based approach overall would be better and therefore generally it would be worthwhile for the ISSB to consider the extent to which any particular international standards should be hard-wired into its approach.

All standards will be subject to change and potentially being superseded, so that a principles-based approach may well be more flexible and appropriate to enable the ISSB approach to stay at the forefront of regulation and disclosure. This would also make the ISSB more consistent with the principles-based philosophy of its sister organisation the IASB.

**(b) If Revision Approach 1 is not feasible, do you agree that using the remaining four revision approaches would enhance the international applicability of the SASB Standards? Why or why not?**

• No

We would strongly favour an approach that is principles-based rather than rules-based. This should alleviate some of the risk that the core intent of disclosure requirements will be lost through an overly prescriptive methodology. We believe that the proposal in itself demonstrates how that overly prescriptive approach could lead to worse rather than better disclosures by preparers: as discussed in

our response to 1(c), the example of how the methodology would be applied provides evidence that it would lead to the loss of information for investors rather than the provision of investor insights.

We believe that this means a significant reconsideration is needed, and a shift to principles rather than rules is the only logical way forwards for international standard-setting.

**(c) Could the revised metrics resulting from any specific revision approaches or combination of approaches pose problems for the preparers applying them? Why or why not?**

• Yes

As noted, we believe that a rules-based approach, as currently proposed, will give rise to problems in application. A principles-based approach will be more applicable by preparers as well as providing more useful information to investors – particularly if preparers apply materiality judgements appropriately.

**(d) Do you agree with the criteria for determining which of the proposed revision approaches applies in different circumstances? Why or why not?**

• No

We favour a principles-based approach as explained in previous responses.

**(i) What changes to the criteria would you recommend and why?**

We strongly favour a principles-based approach as explained in previous responses.

**Question 4 - SASB Standards Taxonomy Update objective** The Exposure Draft describes the proposed approach to updating the SASB Standards Taxonomy to reflect amendments to the SASB Standards.

**(a) Do you agree with the proposed methodology to update the SASB Standards Taxonomy to reflect changes to the SASB Standards? Why or why not?**

• No

Because we argue for a fundamental change to the proposed approaches to revision, we believe that there will also be a need to revise these proposed paragraphs.

**(i) If you do not agree, what alternative approach would you recommend and why?**

We believe that these paragraphs will need to be revised to reflect our intended principles-based approach.

**Question 5 - Future SASB Standards refinements** The Exposure Draft focuses specifically on the first phase of narrow-scope work to amend the SASB Standards metrics in accordance with the proposed methodology to enhance their international applicability when they contain jurisdiction-specific references. In subsequent phases, the ISSB will consider further enhancements to the SASB Standards to improve their decision-usefulness, balance their cost-effectiveness for preparers and ensure their international relevance.

**(a) What other methods, considerations or specific amendments would be useful to guide the ISSB's future work of refining the SASB Standards to support the application of IFRS S1? Why would they be useful?**

In future work, it is vital for ISSB to follow due process for consultations by giving sufficient time for market participant engagement and responses. If the ISSB continues not to follow the time periods expected under full due process standards it will simply not receive the engagement from market

participants that will give its standard-setting legitimacy. We believe this would bring real risks for the process of adoption of the ISSB standards by countries around the world. The ISSB should increase its focus on making adoption more rather than less likely.

**b) Do you have any specific comments or suggestions for the ISSB to consider in planning future enhancements to the SASB Standards?**

We note that the ISSB has not followed due process regarding the time allowed for this consultation. This reduces the time for stakeholders to engage and makes it much less likely that users and preparers will be able to respond fully.

It is vital that the ISSB starts to fully follow due process, including the full times necessary for proper market consultation, if it is to build market confidence and win the trust of its key stakeholders, which is necessary to support the process of adoption of ISSB standards across the world.

Our shared aspiration is for global adoption of the ISSB standards, including a principles-based version of the SASB standards, and we are concerned that repeated failures to fully deliver due process risks undermining the conditions for this. Investors in particular, as regulated entities, often have lengthy processes to approve consultation responses. Shortened timeframes for consultations therefore hinder interaction and support from investors.

By failing to win full engagement from market participants through following due process, the ISSB risks undermining its own legitimacy and so the likelihood that its standards are adopted globally. That would be a wholly unfortunate – and unnecessary – outcome.

It is particularly ironic that this consultation has not followed due process because that is in fact the question asked: what is the appropriate due process to ensure that there can be market confidence and support for international standards developed out of the SASB framework. The market will welcome the SASB industry-specific standards gaining greater currency, and for the US-specific and rules-based nature of the SASB standards to be removed, and to be replaced with more international and so principles-based requirements. However, each new such standard must be subject to a full consultation, following full due process. The SASB standards were promulgated on a voluntary best practice basis, meaning that they were adopted by preparers solely on a voluntary basis and often therefore only partially. ISSB standards will have a more mandatory impact and so cannot simply be brought forwards without full consultation.

The ISSB will also need to be seen to be carefully listening, and responding appropriately, to any feedback received. If this is not done, the ISSB clearly runs the risk that countries will simply not adopt its standards.

## About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations depending on their area of interest or expertise. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. Also, it would not be correct to assume that nonparticipants agree with the initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held in the CRUF ESG sub-group and also CRUF globally and provided by participants in drafting the response. Differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer or other organisations they are a member of or associated with. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective employer or other organisations. The participants in the CRUF that have specifically endorsed this response are listed below.

### Signatures

Paul Lee

Jeremy Stuber

Peter Parry

Charles Henderson

Sue Milton

