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Chair
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IFRS Foundation Satellite Office
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Ref: ISSB's consultation to enhance the international applicability of the SASB Standards

Dear Mr Faber, *dear Emmanuel,*

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the ISSB's consultation on the evolution of the SASB Standards. We are pleased to provide the following feedback on the *Exposure Draft: Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates*.

ESMA's mandate on corporate sustainability reporting includes contributing to the standard setting process for the European Sustainability Reporting Standards (ESRS). ESMA is closely following the work of the European Financial Reporting Advisory Group (EFRAG), which is the technical advisor to the European Commission (EC) in the sustainability reporting field. ESMA is an official observer of both EFRAG's Sustainability Reporting Technical Expert Group and Board, and it is required by the Corporate Sustainability Reporting Directive to deliver an opinion to the EC on the draft ESRS developed by EFRAG.

Since the ISSB's establishment, ESMA has been following its work in consideration of the importance of developing globally consistent, high-quality sustainability reporting standards which could be interoperable with standards developed at jurisdictional level. ESMA also contributes to the ISSB's work on international sustainability reporting standards through its involvement in the International Organization of Securities Commissions (IOSCO).

From this perspective, in line with our comments last year on the Exposure Drafts on IFRS S1 and S2¹, ESMA welcomes the objective of the ISSB to enhance the international applicability of non-climate-related metrics in the SASB Standards so as to ensure that entities can apply

¹ [ESMA response to consultation on ISSB's Exposure Drafts 'IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information' and 'IFRS S2 Climate-related Disclosures'](#), 13 July 2022

the SASB Standards regardless of the jurisdiction in which they operate or the type of generally accepted accounting principles they apply.

Regarding the targeted revision exercise, ESMA supports its objective and agrees with the associated constraints (preserving structure and intent, decision-usefulness, and cost-effectiveness). ESMA, however, suggests giving more prominence to cross-jurisdictional comparability of the disclosures within the decision-usefulness constraint. This could lead to a lower reliance on jurisdictional specific metrics, where possible and relevant, but is not a call for a change in the order of preference of the Revision Approaches proposed in the Exposure Draft.

ESMA agrees that relying on internationally recognised frameworks and guidance, where identified, should be the preferred option. Our view is that the selection of these metrics should be based on more detailed criteria and that the process for considering, rejecting, or accepting these references should be transparent. In addition, ESMA suggests considering Revision Approaches 4 and 5 together as only one Revision Approach, and as a consequence, evaluating the relevance and potential benefits of replacing a metric with a new one developed by the ISSB in parallel to not replacing it, if not endangering the structure of the existing standard.

ESMA would welcome clarifications on the next steps of the exercise. The Exposure Draft paragraph IN10 mentions that a draft of the proposed amendments will be posted on the IFRS Foundation website for public review. ESMA recommends clarifying that the amendments to the standards will be subject to further consultation.

ESMA also considers that beyond this time sensitive exercise, a broader overhaul of the SASB Standards should be conducted to support a full integration in the ISSB Standards framework and, more generally, the development of fit for purpose industry specific standards. ESMA's understanding is that this broader revision exercise would follow the usual due process, including a consultation of stakeholders, which would inform the ISSB on information needs. In ESMA's view, this review should start by reconsidering the material topics attached to each sector. It should also lead to the introduction of principles-based disclosures as well as to a test of the relevance and usefulness of the existing metrics in this context. What's more, in link with the other consultation on the ISSB's Agenda priorities, ESMA also favours a hybrid approach where sector-specific standards are considered along with topical ones, as has been the case for climate for IFRS S2.

Finally, ESMA agrees that the SASB XBRL Taxonomy should be updated so as to reflect the changes made to the SASB Standards. In addition, considering EFRAG's and ESMA's respective roles in the development of a digital taxonomy and draft technical standards for the digitisation of sustainability reporting, we would welcome close coordination between the ISSB's and the European work on digital taxonomies to ensure full interoperability.

More detailed answers to the questions asked in the Request for Information are provided in the Appendix to this letter. Should you have questions or comments, please contact myself or

Isabelle Grauer-Gaynor, Acting Head of the Investor Protection and Sustainable Finance Department.

Yours sincerely,

[signed]

Verena Ross

Appendix – Responses to the questions

Question 1 – Methodology objective

This 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 9? If not, why not?
- (b) Are the constraints of the objective as listed in paragraph 9 (preserving structure and intent, decision-usefulness and cost-effectiveness) appropriate? Why or why not?
- (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?

Question 1 (a)

ESMA considers that the scope of the intended enhancements is clearly described in the Exposure Draft, as is the distinction between this targeted project and other amendments to the SASB Standards, such as the amendments for alignment with IFRS S2. In addition, the statistics included in Appendix A provide useful context.

Beyond this targeted exercise of amending the non-climate related SASB Standards metrics to enhance their international applicability, ESMA wishes to seize the opportunity to provide considerations on further and more global possible enhancements to the SASB Standards (see our response to question 5). These include an encouragement to the ISSB to engage with its stakeholders on the broader subject of industry specific standards (including SASB Standards) and how they are referred to and/or integrated in the future IFRS sustainability framework beyond the current transition period.

Question 1 (b) and Question 1 (c)

ESMA finds the constraints (preserving structure and intent, decision-usefulness, and cost-effectiveness) appropriate considering the objective of the exercise. However, in our view, more attention should be paid to cross-jurisdictional comparability within the decision-usefulness constraint.

As a large proportion of the metrics in scope would be modified in accordance with Revision Approach 3 (alone or combined with other Revision Approaches), which relies on jurisdictional laws and regulations, there is a risk of limited cross-jurisdictional comparability, which is acknowledged in the Exposure Draft (Appendix B, paragraph B8).

ESMA fully understands the need to preserve the integrity of the SASB Standards' structure, which does not allow much room for consideration of further improvements and justifies reliance on Revision Approach 3 in some cases. ESMA would, however, suggest limiting Revision Approach 3 to cases where applying this Approach would not

significantly risk undermining the cross-jurisdictional comparability of the disclosures. For metrics where a higher risk of non-comparable disclosures is identified when relying on Revision Approach 3 (for instance if the jurisdictional specific thresholds for groundwater quality on which relies the metric presented in paragraph B8 of the Exposure Draft are found to differ widely from one jurisdiction to another), ESMA's suggestion is to move to Revision Approaches 4 and 5 instead.

As a consequence of a greater focus on cross-jurisdictional comparability, a slightly more flexible approach to the other constraints may be needed. In the example provided in paragraph 8, the constraints translate into the fact that *“an entity already using the SASB Standards could continue to provide the same disclosures even after the SASB Standards are amended using this methodology”*. This could evolve towards a constraint of minimum disruption than to no change, to enable higher reliance on Revision Approaches 4 and 5, where relevant.

Question 2: Overall methodology

This 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?

Question 2 (a)

ESMA considers that the proposed methodology defines relevant and pragmatic Revision Approaches for the amendment of the SASB metrics. As explained in the response to question 1, however, ESMA's suggestions to put a greater emphasis on cross-jurisdictional comparability of the disclosures and relax the constraint on changes to current disclosures would translate into lower reliance on Revision Approach 3, while not changing the proposed order of preference of the Revision Approaches.

While this approach may entail some additional costs for some of the entities currently using the SASB framework, these costs would be limited and should be balanced with the benefits for the users of having more cross-jurisdictional comparable disclosures.

ESMA also suggests that the ISSB may want to consider Revision Approaches 4 and 5 as one Revision Approach only. Through this modification, not replacing an existing metric (Approach 4) would be one of the options considered, but not necessarily the preferred one. Development of ISSB-specific metrics (Approach 5) would be considered where this would present clear advantages in terms of relevance and interoperability (through consideration, for example, of the relevant ESRS and GRI standards), while preserving the SASB structure.

Question 3: Revision approaches

This 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?
- (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?
- (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?
- (d) Do you agree with the criteria for determining which of the proposed revision approaches applies in different circumstances? Why or why not? What changes to the criteria would you recommend and why?

Question 3 (a)

ESMA agrees that relying on internationally recognised frameworks and guidance, where identified, should be the preferred option as this would enable the ISSB to have replacement metrics that are already widely used, considered as relevant for the specific industry and topic and that allow comparability among entities from different jurisdictions.

Question 3 (b)

If Revision Approach 1 is not feasible, we agree that the remaining four options should be considered. As explained in our response to question 2, ESMA would prefer Revision Approaches 4 and 5 to be considered together, with the “no replacement of a metric” being one of the possible options to be considered.

Question 3 (c) and Question 3 (d)

ESMA suggests that the criteria for selecting Revision Approach 1 by identifying internationally recognised, globally applicable standards *“by which most jurisdictions abide”* and *“for which jurisdictional equivalents are generally not meaningfully different from the prevalent international standard, definition or calculation method”* (Appendix A, A3) should be more detailed and categories of possible references described. For example, such criteria could include the ratification status of the international reference where it is based on an international agreement.

In addition, in light of the example provided in Appendix C, Table C2, international references not only include references which have been translated into jurisdiction level

laws and regulations, but also prevailing industry terminology or references (developed by industry initiatives, for instance). While there is certainly merit in considering such references for the amendment of metrics, ESMA considers that the criteria for evaluating their prevalence in the industry and in the different jurisdictions should be more clearly defined and that there should be transparency on the process regarding the metrics which have been considered, rejected and retained.

Regarding Revision Approach 2, in choosing generalised references for standards, definitions or calculation processes, ESMA suggests it would be beneficial for interoperability to consider the international references used in ESRS and GRI, where relevant.

When relying on Revision Approach 3, ESMA considers that the exact description and reference to the jurisdictional law, regulation, methodology or guidance should be systematically disclosed to enable users to have a clear understanding of the requirements (Appendix B, paragraph B8 states that the entity “*usually also would disclose*” them). A situation that could also arise would be that no jurisdictional reference can be identified in a specific jurisdiction for the metric. Such case should be addressed, and the expected disclosure in this situation clarified.

ESMA also notes that some of the metrics are only available behind a payment wall, which affects the cost benefit analysis of the future standards. ESMA’s view is that reliance on such metrics should be limited.

Question 4: SASB Standards Taxonomy Update objective

This 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? If you do not agree, what alternative approach would you recommend and why?

Question 4 (a)

ESMA agrees that the SASB XBRL Taxonomy should be updated so as to reflect the changes made to the SASB Standards. In addition, we would like to encourage the ISSB to work with EFRAG, which will develop a draft XBRL sector specific taxonomy along with the development of ESRS sector specific standards and with ESMA, which will assess it for adoption in regulatory technical standards.

Question 5 - Future SASB Standards refinements

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

Question 5(a) and Question 5(b)

ESMA considers that beyond this time-sensitive internationalisation exercise, a broader overhaul of the SASB Standards should be conducted. Industry specific standards have an important role to play in the ISSB Standards framework, along with future topical standards, and the SASB Standards provide a robust initial basis for such industry specific standards. A full integration would, however, necessitate a review of their fundamental features through the usual ISSB due process, including a formal public consultation. This should start through reconsidering the material topics attached to each sector and lead to the introduction of principles-based disclosures as well as to a test of the relevance and usefulness of the existing metrics in this wider context. In addition, ESMA also favours a hybrid approach where sector-specific standards are considered along with topical standards, as has been the case for climate for IFRS S2.

While we do not necessarily position this overhaul as a priority in the workplan covering the next two years of the ISSB (see ESMA's response to the ISSB Agenda Priorities), we do suggest that it should nonetheless be prepared and organised at a later stage. Such an overhaul would also be the opportunity to reach better interoperability with the sector specific ESRS (when available) and GRI standards.