

General Response to the IFRS Exposure Drafts S1 and S2
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In this General Response to IFRS Exposure Drafts S1 and S2, I call on the ISSB to take a mindset of the highest possible ambition regarding double materiality to leverage the best practices and capabilities around the world.

These proposals are made with the following two IFRS definitions in mind:

IFRS 2018: The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.

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

This General Response is written with both deep concern and hope.

The deep concern stems from the fact that changes were made between the IFRS Prototype Drafts S1 and S1 that weakened the guidance. In reference to these changes, I welcome the submission made by Re-Generation and in particular its analysis of previous responses to the IFRS clearly calling for double materiality as the minimum standard for ISSB guidance.

In addition, I hope that the concern expressed by Mr. Gransaul about the weakening of guidance between the prototype and exposure drafts will be duly considered. Perhaps the inconsistencies between the S1 and S2 Prototype and Exposure drafts reflect the fact that Exposure Drafts were produced before the ISSB's governance was put in place. I trust that now that this governance is being established, with the appointment of directors, these concerns will be addressed.

For example, I strongly recommend the reinstatement in future editions, of references in the prototype drafts, to the full ambition of the Paris Agree as well as to 1.5C-aligned energy scenarios as the basis of guidance and disclosures. After all, companies must operate within a safe business environment. These references should not be debated but simply be reinstated.

In addition, I welcome the opportunity to refer to the insight offered by Re-Generation regarding double materiality within comment letters to the IFRS Consultation paper in 2020.

I strongly support, Re-Generation's findings that, "of the 577 comment letters submitted to the IFRS Consultation Paper in 2020, a large majority explicitly called for a double materiality perspective...(of) the 508 respondents that answered Question 9 on materiality, 72% supported double materiality either being implemented immediately or as soon as possible, while only 28%

explicitly supported the ISSB's stated approach...The group supporting double materiality included a majority of private sector respondents (59%), as well as a vast majority of regulators, NGOs, and individuals (83%).” I also note and applaud the private sector entities who submitted comment letters to the IFRS Consultation paper in 2020 to express their conviction that double materiality should serve as a minimum standard.

Morningstar, CalPERS, Mercer, Willis Towers Watson, Cambridge Associates, Moody's ESG Solutions Group, ISS ESG, Suncor Energy, Temasek, SK Group, World Federation of Exchanges, International Trade Union Confederation, International Organization for Standardization, Global Risk Institute, US Impact Investing Alliance, UK Sustainable Investment and Finance Association

In my daily work, I have a privileged view into how large companies are preparing for their long-term growth. I would like to close my general response with recommendations for consideration by ISSB directors.

My hope stems from my work day-to-day. Yesterday was offered two perfect examples and illustrated why the ISSB should bring highest possible ambition on double materiality when it considers the General Responses to S1 and S2. The long-term growth of companies depends on it.

The first matter of the day was a European company's desire to build processes to move from what it termed “classic materiality through ‘inside out’ engagement of stakeholders” to “double materiality” where the outside-in risks to the company would be considered. The company wanted to build on inside-out material sustainability topics, with a double materiality approach to include consideration of how sustainability matters impact the company.

The second matter of the day an Asian company's desire to build its reporting capacity to reflect the risks and opportunities of the business environment on the company in what a non-European company might refer to as 'classic materiality' via an 'outside in' approach. The specific focus was the TCFD recommendations and included translating potential impacts of outside-in factors such as climate change on the company including its future cashflows.

Building on the concerns of these companies, the next iteration of S1 and S2 should build on the strengths of preparers and assurers of financial statements globally, by ambitiously leveraging the best in a combined double materiality approach (e.g., inside-out and outside-in).

In Europe there is clearly capacity for inside-out materiality. To underpin, long-term sustainable growth of companies, the following should be considered to strengthen inside-out impact and materiality.

1.1 Directors and management may broaden external consultations on material topics to include emerging topics. Reflecting recent events, including the pandemic and Russia's invasion of the Ukraine, on an inside-out basis, companies should develop their understanding of emerging topics to engage shareholders and or stakeholders on these.¹

¹ In 2022, here are examples of rapidly emerging topics that, depending on the sector, may be material to a company's long-term growth.

- . Food security and other Geopolitical factors emanating from the Invasion of Ukraine by Russia, and the revised threat assessment to Europe,
- . The limits of land for food, carbon capture and biomass for liquid fuels,
- . Global tax reform,
- . Progress towards the Paris Agreement goals and the recommendations of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES),
- . Weakening of democratic institutions,
- . Zero emissions flight, navigation, transportation
- . Future pandemics,
- . Access to essential health services,
- . Contextual living wages and full transparency on modern slavery.

1.2 Management may report to directors, the results of stress-tests the with accelerated scenarios for both material and emerging topics on an inside-out basis.

1.3 Management may translate inside-out risks into their impacts on future cash flows consistent with the IFRS definition of “a **true and fair view** of the undertaking's assets, liabilities, financial position and profit or loss.” Assurers would review and assure these statements.

In Asia and North America and the rest of the world excluding Europe, there are clearly foundations and capacity for an outside-in material risks and opportunities.

To underpin, long-term sustainable growth of companies, the following should be considered to strengthen outside-in derived materiality.

2.1 Directors and management may stress-test the company with accelerated scenarios for outside-in identified risks and opportunities (see above for examples of potentially material emerging topics)

2.2 Management may translate outside-in risks into their impacts on future cash flows consistent with the IFRS definition of “a **true and fair view** of the undertaking's assets, liabilities, financial position and profit or loss.” Assurers would review and assure these statements.

2.3 Develop external consultations for material and emerging topics for both outside-in and inside-out risks and opportunities including those emanating from emerging topics.

While the order of recommended steps reflects differs regionally, the steps are the same.

A double-materiality standard builds on where boards, preparers and assurers are today in all regions and, given rapidly accelerating inside-out and outside-in material impacts, would prudently reflect an approach that is consistent with the International Sustainability Standard Board's name.

By way of background, I have been a member of the CDSB's Technical Working Group and of the ISSB's Technical Readiness Group. Today, I am a member of the ISSB's Technical Reference Group.

I work as a management consultant supporting clients who want to their business to thrive in the short- and long-term along with customers and consumers and as well as supply chains partners who behave sustainably. Management of these companies want their employees, present, past, and future, to be proud of what they do. They take seriously how their company materially impacts the world and take seriously how the accelerating world materially impacts their company.

Faithfully and respectfully submitted,

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