PUBLIC

20th July, 2023

Ms Pauline Wallace
Chair
UK Endorsement Board
1 Victoria St
London. SW1H 0ET

Submitted by e-mail to: ukendorsementboard@endorsement-board.uk

Dear Pauline,

CFA UK's input to UKEB's Invitation to Comment on their Draft Response Letter to the International Sustainability Standards Board ("ISSB") on their agenda priorities

The CFA Society of the UK ('CFA UK')[1] welcomes the opportunity to comment on the UK Endorsement Board's ('UKEB') draft response letter to the ISSB's Request for Information ('RfI') on their agenda priorities. Our umbrella organisation, CFA Institute, will be responding to the ISSB's RfI directly.

Our answers to the questions asked by UKEB are in Appendix II. In general, we are supportive of UKEB's approach, but we do not wish for all ISSB research activities to be completely deprioritised. If the ISSB fails to maintain momentum in researching new standards, it opens up these areas to other standards setters. This in turn risks creating a fragmented landscape of standard-setters that could be deeply dysfunctional and confusing for investors and take many years to rationalise and consolidate.

In line with our Society's purpose, we aim to highlight relevant issues to help the investment community to serve its stakeholders well and to build a more sustainable future.

Yours sincerely,

Will Goodhart
Chief Executive
CFA Society of the UK

Andrew Burton, CFA
Professionalism Adviser
CFA Society of the UK

With thanks to contributions from Jane Fuller, FSIP, and for the oversight of the Professionalism Steering Committee

[1] CFA UK is a professional body representing over 11,000 investment professionals in the UK. Appendix I contains a summary of the mission, purpose and activities both of CFA UK and CFA Institute.

APPENDIX I: About CFA UK and CFA Institute

CFA UK serves over eleven thousand leading members of the UK investment profession. Many of our members work either managing investment portfolios, analysing and advising on investments, or in some form of investment operations and oversight role.

The mission of CFA UK is to build a better investment profession and to do this through the promotion of the highest standards of ethics, education and professional excellence in order to serve society's best interests.

Founded in 1955, CFA UK is one of the largest member societies of CFA Institute and provides continuing education, advocacy, information, networking and career support on behalf of its members.

CFA UK has pioneered the development of ESG-related examinations for investment professional in recent years, specifically the Certificate of ESG Investing (now run by CFA Institute), the Certificate of Climate Investing and the Certificate of Impact Investing (currently under development).

Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

For more information, visit www.cfauk.org or follow us on Twitter @cfauk and on LinkedIn.com/company/cfa-uk/.

CFA Institute is the global association for investment professionals that sets the standard for professional excellence and credentials.

The organisation is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.

It awards the Chartered Financial Analyst® (CFA) and Certificate in Investment Performance Measurement® (CIPM) designations worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

CFA Institute has members in 162 markets, of which more than 170,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 158 local member societies.

For more information, visit www.cfainstitute.org.

APPENDIX II: CFA UK RESPONSES TO QUESTIONS

STRATEGIC DIRECTION & BALANCE OF THE ISSB's ACTIVITIES (RfI Question 1)

1. *The UKEB's draft comment letter concludes that the ISSB should place a high priority on supporting the implementation of S1 and S2. Do you agree with this? Please explain why or why not.*

Yes	☒	**No**	☒

Please include any comments you may have in response to question 1:

We believe that implementing and complying with S1 and S2 may represent a significant challenge for preparers and we therefore agree that the ISSB should devote significant resources to supporting preparers in doing this. It should not be to the exclusion of all other activity, however, as we highlight particularly in our response to question 4[2] and resources need to be allocated to developing important standards in other areas.

We note S1 and S2 are different in nature to other IFRS standards and that they have been developed in a short timescale, with less time available[3] for stakeholders (whether preparers or users) to prepare themselves than for the IASB's financial reporting standards. Ongoing monitoring for any implementation issues will be critical to adapting S1 and S2 as smoothly and as quickly as possible.

2. *The UKEB's draft comment letter concludes that the ISSB should place a high priority on close cooperation with the IASB and connectivity with IFRS Accounting Standards, with a view to "ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB's standards". Do you agree with this? Please explain why or why not.*

Yes	☒	**No**	☐

Please include any comments you may have in response to question 2:

We have consistently argued for better connectivity between the 'front-end' and 'back-end' of the annual report. Investors wish to see how a company's climate-related statements and disclosures at the front-end of the annual report can be reconciled with its financial disclosures at the back-end.

We agree fully with the comment in para. A21 in UKEB's draft comment letter to the ISSB relating to 'materiality' and believe commonly accepted definitions need to be established to reconcile what 'materiality' means in both financial and climate-related

[2] Hence, we tick the 'No' response-box as well as the 'Yes' response-box to this question

[3] For Europe, for example, IFRS financial reporting standards became effective in 2005 and were updated / issued in 2003. Also, many of the IFRS standards were IASs that had been issued many years before that.

(and future sustainability-related) disclosures. From an investor perspective, the materiality principle is key and is the same for both sets of standards. We note that the ISSB was intentionally created to sit alongside the IASB under the umbrella of the IFRS Foundation precisely to facilitate cooperation between the two boards and colleagues on the staff.

3. The UKEB's draft comment letter concludes that the ISSB should add as an activity, and place a medium priority on, developing a long-term road map for its standards. Do you agree with this? Please explain why or why not.

Yes	☒	No	☐

Please include any comments you may have in response to question 3:

We believe this is a sensible conclusion. The reasons as to why the ISSB set itself a 2-year plan are clearly disclosed in para. 13 of the ISSB's Request for Information ("RfI") and they are well-reasoned. Nonetheless we agree that the ISSB needs to be thinking beyond the next two years and articulating that vision to stakeholders. Some sustainability issues cannot today be anticipated and the ISSB needs to be able to be agile as new information comes to light and, as a consequence, standard setting becomes needed.

4. The UKEB's draft comment letter concludes that the ISSB should place a low priority on new research. Do you agree with this? Please explain why or why not.

Yes	☐	No	☒

Please include any comments you may have in response to question 4:

The urgency of the sustainability agenda means that we believe the ISSB needs also to start research in other areas. This would not necessarily mean that the ISSB should be aiming to draft new standards within 2 years, but it would mean that progress could be made towards standards being set for other important areas. In terms of the three areas highlighted, we would prioritise them as follows: - Nature and biodiversity: We regard biodiversity disclosures as very important. This increasingly becoming an area of focus for investors as they increasingly understand the critical linkages in the planet's natural eco-systems. It is also intrinsically linked to climate change. It makes sense to wait for the work of the TNFD to be completed but we understand that this is not far away and expected to be published by the end of 2023. GRI already has a bio-diversity standard and this can be built upon.

- Human capital: Investors are already widely analysing data concerning a company's employees and building that into their investment assessments. We believe these disclosures would enhance the benefits of that activity and help produce a positive feedback loop between companies and their investors. We also regard this area as being relatively easy to research as it relates an aspect of a company's own resources rather than its impact on society or the world around it. Hence, we rank it above Human Rights as a priority in terms of implementability. - Human rights: Research into human rights disclosures is also important and again a current focus for many investors, particularly as they seek to understand company supply chains, and the related potential risk exposure, in greater granularity. As this research topic relates to preparers' externalities rather than internal operations, we regard this as harder to implement as a research project than Human Capital. However, at the same time we regard it as having a higher overall priority because there is more progress that still needs to be made.

5. The UKEB's draft comment letter concludes that the ISSB should place no priority on targeted enhancements to ISSB Standards and enhancing SASB Standards. Do you agree with this? Please explain why or why not.

Yes	☒	**No**	☒

Please include any comments you may have in response to question 5:

We concur with the UKEB that these activities should be a LOWER priority than the activity of both (i) supporting the implementation of S1 and S2 and (ii) 'connecting' climate-related and financial disclosures. However, we do not agree that they should necessarily be given 'NO' priority[4]. How much resource should be dedicated to this activity will probably depend on the experience of implementing S1&S2 and the degree to which it is found that S1 and S2 need to be enhanced. We are conscious that S1 and S2 (i) represent pioneering steps for the accounting profession and (ii) were developed, by necessity, within a relatively short time-frame. S1 and S2 are, thus, potentially more likely to need enhancement than, for example, a new financial reporting standard might, as companies around the world start to implement them and feedback emerges. Also, our understanding of sustainability issues is evolving and the standards will need to as well. As regards the SASB standards, the same argument could also apply. The SASB standards play an important role in helping investors develop their understanding of how sustainability matters affect particular industrial sectors and, again, it could be that these standards are found to require enhancement as S1 and S2 are rolled out.

[4] Hence, we tick the 'No' response-box as well as the 'Yes' response-box to this question

CRITERIA FOR ASSESSING SUSTAINABILITY REPORTING MATTERS THAT COULD BE ADDED TO THE ISSB's WORK PLAN (RfI Question 2)

6. The UKEB's draft comment letter concludes that the ISSB should include two additional criteria: interaction with IASB projects and capacity of stakeholders to implement the outcome of standard setting. We also suggest minor wording changes to two of the criteria. Do you agree with this? Please explain why or why not.

Yes	☐	**No**	☐

Please include any comments you may have in response to question 6:

We tend to agree on both counts but with the following caveats.

- On the first point on co-operation between the IASB and the ISSB, we refer to our answer to question 2.
- In relation to the second point about 'stakeholder capacity', we would observe that a research project probably represents a lower demand on 'stakeholder capacity' than the implementation of a new standard. Stakeholder input to research can be more flexible in terms of timescales and deadlines and probably requires less senior level input (e.g., as implementation guidance or educational material).
- As highlighted in our response to question 4 above, if the ISSB fails to maintain momentum in researching new standards then it opens up these areas to other standards setters. This in turn risks creating a fragmented landscape of standards that could be deeply dysfunctional and confusing for investors and take many years to rationalise and consolidate.

INTEGRATION IN REPORTING (RfI Question 7)

7. The UKEB's draft comment letter concludes that the ISSB should be focused on connectivity as part of its ongoing activities. It also indicates that the UKEB has not heard substantial support for the ISSB looking at Integrated Reporting or Management Commentary. Do you agree with this? Please explain why or why not

Yes	☒	**No**	☐

Please include any comments you may have in response to question 7:

We agree that connectivity with financial reporting and the IASB's work should be a prioritised area of focus, as outlined above in our answer to question 2.

OTHER COMMENTS

8. Do you have any other comments you would like to add?

Whilst we would not want this to detract from the research that we believe the ISSB should be doing (see our response to Question 4), we would also invite the UKEB to suggest that the ISSB consider moving beyond disclosure to the 'accounting' behind the 'disclosures' of certain sustainability information. An example is the e-liability approach for accounting for greenhouse gas emissions in the value chain developed by the E-liability Institute (https://e-liability.institute/). While there are practicalities to work out, primarily with regard to sourcing high quality data, we see merit in using accounting to provide transparency and accountability on corporate sustainability activities.