WSBI - ESBG Comment Letter to IFRS Exposure Drafts sustainability disclosures

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The World Savings and Retail Banking Group and European Savings and Retail Banking Group (‘WSBI - ESBG’) welcomes the opportunity to comment on the International Sustainability Standards Board (ISSB) Exposure Drafts IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*(‘General Requirements Exposure Draft’) as well as IFRS S2 *Climate-related Disclosures* (‘Climate Exposure Draft’).

WSBI - ESBG members follow with great interest the work of the ISSB developing a comprehensive global baseline of sustainability disclosures for the capital markets in parallel to the development of the EU Sustainability Reporting Standards (‘ESRS’) by the European Financial Reporting Advisory Group (‘EFRAG’) under the European Commission’s proposal for a Corporate Sustainability Reporting Directive (‘CSRD’). ESBG will respond to the ongoing EFRAG’s public consultation and it will provide -among others- comments regarding the relationship between the two standards.

As a general remark, EFRAG ESRS are based on EU policy and legislative initiatives such as the Green Deal, EU Taxonomy, and investor disclosure requirements for sustainable finance, and will be linked to regulatory obligations immediately via the CSRD. The global standards are meant to be relevant in a variety of cultural, business, legal, and regulatory situations, and they may stay voluntary for a long time because the rate of implementation will be determined by the discretion of regulators in different nations over time.

The ISSB has made an explicit commitment to starting with climate disclosures, whereas EFRAG ESRS is seeking a more comprehensive approach, putting emphasis on the interdependence between different environmental, social and governance (ESG) impacts from companies, whilst also providing a robust climate standard itself.

In WSBI - ESBG’s view, it is extremely crucial to achieve consistency of sustainability reporting at global level and especially a full alignment of reporting requirements between ISSB standards and EFRAG standards to ensure a global playing field in terms of sustainability reporting. This convergence between both standards will address the risk of additional disclosures.

Please find below some more specific comments.

**Double materiality**

Although EFRAG ESRS explicitly mentions double materiality, IFRS sustainability standards take this concept indirectly into account when - for example – it considers impacts and financial dependencies, as sources of risks and opportunities, or requests the calculation of scope 3 emissions. However, the role of impacts in IFRS S1 is limited to their potential financial effects. As required by the CSRD, impacts are a specific dimension of the materiality (impact materiality, one of the two components of double materiality) in EFRAG ESRS. Therefore, IFRS sustainability standards are based on an ‘enterprise value creation’ or financial materiality approach, in which sustainability impacts are measured in terms of impacts on the financial position and prospects of the company itself. On the other hand,  EFRAG ESRS is being developed based on the ‘double materiality’ principle, where disclosure is required both from the point of view of financial impact on the company and on the impact of the company on society and the environment.

This can be justified from the fact that investors (i.e. users of financial reporting) are intended to be the primary users of reports produced under IFRS sustainability standards while EFRAG ESRS encompass both investors and a wider range of stakeholder groups (i.e. affected stakeholders and users of sustainability reporting).

Considering the abovementioned, WSBI - ESBG doesn’t insist about including the double materiality concept in the IFRS sustainability standards.

**Transition Plan**

EFRAG ESRS makes a clearer reference to alignment with limiting global warming to 1.5°C through the requirement for entities to disclose plans to ensure that the business model and strategy are compatible with the transition to a climate-neutral economy and with limiting global warming to 1.5 °C in line with the Paris Agreement. On the other hand, IFRS sustainability standards allow the entity to choose its own target.

WSBI – ESBG requests that the ISSB takes into consideration including a clear reference to the 1.5°C target of the Paris Agreement in order to ensure comparability between the two standards.

**Boundaries and value chain**

Both standards consider the scope of financial reporting to be the starting point and, in addition, EFARG ESRS considers the boundary expanded to include upstream and downstream value chain, when necessary, to allow understanding of material impacts, risks and opportunities. IFRS sustainability standards recognise that risks and opportunities relate to activities, interactions, and relationships along the value chain.

Thus, we notice a divergence in the definition of value chain between EFRAG ESRS (i.e. upstream and downstream value chain) and ISSB sustainability standards (i.e. related to activities, interactions, and relationships along the value chain).

Although, WSBI – ESBG considers it essential that sustainability reporting should capture the entire value chain, we ask for clearer and more defined boundaries because it is difficult and complicated to obtain information from companies that are not under the control of a financial institution especially regarding scope 3 GHG emissions. In addition, should there be no limits in the value chain, entities will be required to include in the management report a huge amount of information. Finally, an extended value chain may create confidentiality issues in relation to the disclosure of personal data especially in the case of international institutions.

**Adverse impacts and financial risks**

Under the requirement of the EFRAG ESRS E1 to disclose policies implemented to manage climate change mitigation and adaptation, the undertaking is encouraged to account for the positive or negative impacts that climate-related policies and actions may have on other environmental matters or people, in own operations, the value chain or beyond. On the contrary IFRS S2 Climate-related Disclosures doesn’t mention negative impacts.

WSBI - ESBG asks the IFRS sustainability standards to consider the negative impacts of climate policies.

**Structure of the sustainability statements**

IFRS sustainability standards require an entity to locate the information in the general purpose financial reporting without being specific about the location within the general purpose financial report. On the contrary, EFARG ESRS sustainability disclosures have to be presented within an identifiable part of the management report, as set by the CSRD. Also, IFRS sustainability standards are silent regarding the presentation of sustainability statements, while EFRAG ESRS has three options for sector-agnostic disclosures with a preference for reporting the disclosures within a single separately identifiable section of the management report. If the other two options are applied, a location table is required. EFRAG ESRS has also application guidance on the structure of sustainability statements.

WSBI - ESBG asks ISSB to standardize the location of the information in the financial report.

**Definition of cross-referenced documents**

IFRS sustainability standards gives the entities the possibility to use cross-references. However, the standards fail to clearly describe which documents can be cross-referenced. It is important to know whether the cross-reference option is only allowed for the audited annual financial statements such as balance sheet, income statements, management report and notes or it may also be used to other documents audited by the auditor such as corporate governance report.

WSBI - ESBG asks ISSB to define the documents, which can be cross-referenced.



**About WSBI (World Savings and Retail Banking Institute)**

WSBI represents the interests of 6,760 savings and retail banks around the world. WSBI focuses on international regulatory issues that affect the savings and retail banking industry. It supports the aims of the G20 in achieving sustainable, inclusive, and balanced growth, and job creation, whether in industrialised or less developed countries. Supporting a diversified range of financial services to meet customer need, WSBI favours an inclusive form of globalisation that is just and fair. It supports international efforts to advance financial access and financial usage for everyone. WSBI members have total assets of $16 trillion and serving some 1.7 billion customers in nearly 80 countries who seek retail banking services. WSBI members are committed to further unleash the promise of sustainable, responsible 21st century banking.



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**About ESBG (European Savings and Retail Banking Group)**

ESBG​ is an association that ​represents the locally focused European banking sector, helping savings and retail banks in 17 European countries ​​strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 885 banks, ​which together employ 656,000 people driven to innovate at 48,900 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion billion in corporate loans, including SMEs, and serve 163 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable, responsible 21st century banking. Learn more at <https://www.wsbi-esbg.org/>



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