

**Mr Emmanuel Faber**  
**Chair**  
**International Sustainability**  
**Standards Board (ISSB)**  
**IFRS Foundation Satellite Office**  
**Opernplatz 14**  
**60313 Frankfurt am Main**  
**Germany**

**Ref: ISSB's consultation on Agenda Priorities**

Dear Mr Faber, *dear Emmanuel,*

First of all, our warmest congratulations to you and the whole ISSB team for the finalisation of the IFRS S1 and S2, which is a major achievement.

In this letter, the European Securities and Markets Authority (ESMA) takes up your invitation to respond to the ISSB Request for Information regarding its Agenda Priorities. We are pleased to provide the following feedback on the potential priorities for the ISSB's next two-year work plan.

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 (CSRD) 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 view 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).

While the finalisation of IFRS S1 and S2 is a major achievement to promote global convergence of sustainability reporting practices, assisting reporting entities in their implementation will be of paramount importance in the coming period, especially for those new to sustainability reporting. One key area where implementation challenges are likely to arise is in relation to the role that sustainability impacts have in the financial materiality assessment

process that underpins the application of the ISSB standards. The understanding of the interplay between sustainability impacts, risks and opportunities is an important area to also test the interoperability between ISSB and jurisdictional standards based on double materiality and therefore it should be considered as a key area for implementation support purposes.

At the same time, we believe that research should be conducted to develop new topical standards, so as to respond to the growing information needs from investors on sustainability issues beyond climate. This is the reason why ESMA suggests that both the development of implementation support material and new research should be positioned as high priority in the ISSB's agenda. While we understand that several projects led in parallel could be challenging for the ISSB's resources, we consider that they all respond to important specific needs in the coming period.

Regarding the prioritisation of new research topics, ESMA notes that, as highlighted in its recent Progress Report on Greenwashing<sup>1</sup>, the partial or selective disclosure on some but not all material ESG topics is one of the root causes of greenwashing<sup>2</sup>. Therefore, ESMA's view is that the remaining topics of the ESG spectrum that are not yet specifically addressed by the ISSB Standards should be dealt with as soon as possible. However, if the ISSB deems it necessary to prioritise the research efforts on new topics, ESMA considers that, from a practical perspective, the project covering Biodiversity, ecosystems and ecosystem services could advance quite swiftly thanks to the current international momentum on this topic.

ESMA notes that the agreement reached at the UN Biodiversity Conference (COP15) in December 2022<sup>3</sup> includes a target for jurisdictions to take measures to ensure that large companies transparently disclose their risks, dependencies and impacts on biodiversity. In addition, the Task Force on Nature related Financial Disclosure (TNFD)<sup>4</sup>, which seeks to mirror for nature what the TCFD has achieved for climate, will soon publish its framework. These developments provide a positive context for the feasibility and timely progress of the research project.

In parallel, while acknowledging that these issues may not advance as rapidly, work should also start on social and human rights-related reporting standards which are as important and pressing as environmental standards. In general, we believe that the ISSB should reflect on its planning for future standards-development beyond the next two years, with a view to ultimately cover the entire universe of environmental, social and governance matters. This would be highly beneficial to the quality and comparability of the sustainability reports, as well as to interoperability. ESMA's view is that, in approaching these topical projects, impacts, risks and opportunities should be considered in an integrated way, as implied, for example, by the above-mentioned wording of the COP15 target regarding biodiversity or by international instruments on human rights. This could also be the opportunity to further reflect on the intrinsic links between impact and financial materiality.

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<sup>1</sup> [ESMA's Progress Report on Greenwashing, 31 May 2023](#)

<sup>2</sup> Defined in the report as encompassing all sustainability-related aspects (environmental, social and governance)

<sup>3</sup> [Convention on Biological Diversity Press Release, 19 December 2022](#)

<sup>4</sup> [TNFD press Release on the publication of its final draft framework, 28 March 2023](#)

In ESMA's responses to the Request for Information, a key consideration has been the interoperability between future ISSB standards and the ESRS. This interoperability is specifically mandated by the CSRD in the development of the ESRS, as it will reduce the costs of reporting for European preparers which operate globally, as well as enable easier reference for the users, thereby reducing the risk of market fragmentation at international level. As such, interoperability with the ISSB Standards is a key element of the assessment framework ESMA uses for the opinions<sup>5</sup> it delivers to the EC on the draft ESRS. Conversely, as the first set of ESRS covers a broader scope of sustainability topics, we believe that it could be beneficial if the ISSB would pay close attention to the approach and structure used in the ESRS when defining and structuring the topical research projects that it may decide to prioritise.

More detailed answers to a selection of 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

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<sup>5</sup> [ESMA's Opinion on the technical advice by the European Financial Reporting Advisory Group on European Sustainability Reporting Standards \(Set 1\), 26 January 2023](#)

## **Appendix – Responses to specific questions**

### **Question 1 – Strategic direction and balance of the ISSB’s activities**

Paragraphs 18–22 and Table 1 of the RFI provide an overview of activities within the scope of the ISSB’s work.

- (a) From highest to lowest priority, how would you rank the following activities?
- (i) beginning new research and standard-setting projects
  - (ii) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
  - (iii) researching targeted enhancements to the ISSB Standards
  - (iv) enhancing the Sustainability Accounting Standards Board (SASB) Standards
- (b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritise within each activity.
- (c) Should any other activities be included within the scope of the ISSB’s work? If so, please describe these activities and explain why they are necessary.

#### *Question 1 (a)*

1. ESMA considers that both (i) new research and standard-setting projects, as well as (ii) activities supporting the implementation of the ISSB Standards IFRS S1 and S2 should be prioritised in the ISSB’s workplan for the next two years as they are equally important in the coming period. For the remaining activities, both considered as lower priority, ESMA’s ranking is (iv) enhancing the SASB Standards (see also ESMA’s response to the consultation on the internationalisation of SASB standards) followed by (iii) researching targeted enhancements to the ISSB standards.

#### *Question 1 (b)*

2. Developing topical standards to complement S1 and S2 and supporting the implementation of these recently published standards through the development of appropriate guidance and other educational material are equally key to ensure the success of the ISSB standards.
3. Regarding implementation support, guidance would be of great help to companies, especially those new to sustainability reporting, in the first years of implementation. It could, for instance, cover the materiality assessment process, as mentioned by ESMA in its response to last year’s consultation regarding IFRS S1 and S2<sup>6</sup>. Another area for useful guidance would be the application of the proportionality measures which have been introduced in the standards.

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<sup>6</sup> [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](#)

4. ESMA notes that a key area on which interoperability between ISSB and jurisdictional sustainability requirements will be tested is likely to be the application of the concepts of financial materiality and impact materiality, therefore ESMA encourages the ISSB to further work on this area to help issuers understanding how impacts are to be taken into account in the materiality assessment underpinning the application of ISSB standards.
5. Should the ISSB decide to prioritise the work on implementation support, ESMA would advise to consider the jurisdictional guidance and educational materials being developed at the same time (such as by EFRAG on the ESRS), with a view to finding common ground on the practical implementation of similar or close concepts, such as that of the materiality assessment.
6. Additional topical standards to complement S1 and S2 should be developed in parallel. The application of IFRS S1 will, at this stage, rely on the identification by the reporting entity of the sustainability risks and opportunities that are material to it (and on the determination of related information), for sustainability topics other than climate. Quality and comparability of disclosures would be greatly enhanced by the development of additional topical standards, which would also answer investors' calls for information across a broader range of sustainability topics. As the European sustainability standards cover environmental, social as well as governance spheres, interoperability could furthermore be improved in the long run if corresponding ISSB topical standards were made available.
7. As a result, ESMA's view is that both activities should be conducted in parallel, recognising that, in this case, they may take longer, due to a staggered allocation of resources.

*Question 1 (c)*

8. ESMA has not identified other activities that should be conducted by the ISSB in the next two years.

**Question 2: Criteria for assessing sustainability reporting matters that could be added to the ISSB's workplan**

Paragraphs 23–26 of the RFI discuss the criteria the ISSB proposes to use when prioritising sustainability-related reporting issues that could be added to its work plan.

- (a) Do you think the ISSB has identified the appropriate criteria?
- (b) Should the ISSB consider any other criteria? If so what criteria and why?

*Question 2 (a)*

9. ESMA considers that the proposed criteria are appropriate.

*Question 2 (b)*

10. ESMA welcomes the fact that interoperability with jurisdictional sustainability standards which already exist or are in development (including the ESRS) is

presented in the Request for Information as at the core of the ISSB's activities. This will benefit preparers through reducing the costs of reporting and foster a better understanding and comparability of sustainability information for investors and other users. ESMA also acknowledges the important collaboration which has taken place between the ISSB, EFRAG and the EC with the objective to reach interoperability between IFRS S1 and S2 and the ESRS.

11. Consistently with this approach, ESMA's view is that specific attention also needs to be paid to interoperability in the evaluation and selection of the new research projects and suggests the inclusion of interoperability as a criterion for assessing sustainability reporting matters that could be added to the ISSB's workplan.

**Question 3: New research and standard setting projects that could be added to the ISSB's workplan**

Paragraphs 27–38 of the RFI provide an overview of the ISSB's approach to identifying sustainability-related research and standard setting projects. Appendix A describes each of the proposed projects that could be added to the ISSB's work plan.

- (a) Taking into account the ISSB's limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?
- (i) If a single project, which one should be prioritised? You may select from the four proposed projects in Appendix A or suggest another project.
  - (ii) If more than one project, which projects should be prioritised and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects).

*Question 3 (a) (i)*

12. ESMA considers that all the proposed sustainability topics should eventually be covered by ISSB Standards. For practical reasons, however, if the ISSB decides to focus on a single project to make significant progress on it within the next two years, a project addressing Biodiversity, ecosystems and ecosystem services would be a suitable candidate for such prioritisation.
13. The current momentum on the subject at the international level provides a positive context for such a project. This includes the UN Biodiversity Conference (COP15) Agreement in December 2022 where governments agreed on a set of goals for 2030, including Target 15 (a), which require jurisdictions to take measures to ensure that large and transnational companies and financial institutions regularly monitor, assess and transparently disclose their risks, dependencies and impacts on biodiversity. In addition, the TNFD has been developing a reporting framework for nature mirroring the work of the TCFD on climate and intends to release it for market

adoption in September 2023. ESMA's view is that, although the sustainability topics linked to biodiversity are complex, this context enhances the feasibility of the project and should help the ISSB and its stakeholders to progress on it in a timely way.

14. This higher priority put on Biodiversity is not linked to a perceived higher relative urgency of this topic over social or human rights-related matters. In ESMA's view, human rights-related issues are no less important or pressing a matter and are recognised as such by an increasing number of investors. As a consequence, work on social and human rights matters should start as soon as possible.

*Question 3 (a) (ii)*

15. Having positioned implementation support and research on Biodiversity, ecosystems and ecosystem services at the same priority level for the next two years, ESMA does not suggest prioritising another research project during this period. As explained above, however, covering the entire universe of ESG topics should be the ultimate goal and work should start on human rights-related topics as soon as possible.

**Question 4: New research and standard-setting projects that could be added to the ISSB's work plan: Biodiversity, ecosystems and ecosystem services**

The research project on biodiversity, ecosystems and ecosystem services is described in paragraphs A3–A14 of Appendix A. Please respond to these questions:

- (a) Of the subtopics identified in paragraph A11, to which would you give the highest priority? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors.

You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:

- (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and
- (ii) your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.

- (b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate? Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

- (c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A13 should be utilised and prioritised by the ISSB in pursuing the project? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

*Question 4 (a)*

16. As it is described in the Request for Information, the Biodiversity, ecosystems and ecosystem services project covers a large number of environmental sub-topics. While this reflects the level of inter-relationships between nature realms, as well as the multiple consequences of the pressures on the environment, considering these



topics only through a biodiversity lens may narrow the focus and prevent reliance on relevant disclosures.

17. ESMA advises the ISSB to draw lessons from the approaches developed so far or currently under development. For instance, the TNFD has defined concepts (such as nature, nature realms, environmental assets or ecosystem services...) based on scientific consensus where such consensus exists. The term “Nature” could be more appropriate than “Biodiversity, ecosystems and ecosystem services” in describing the scope of the contemplated project. In addition, it would enable the ISSB to use the “Biodiversity” terminology for a more specific focus on biological diversity (at genetic, species and ecosystem levels) at sub-topic level.
18. Regarding the structure that could be adopted for future environmental ISSB Standards, as an outcome of the research project, and the sub-topics to be considered, relying on an easily reconcilable structure with that of the ESRS (E2 to E5) would greatly help with interoperability as well as fostering a common understanding of the relationships and interconnections between environmental matters. Splitting the research project in this way could also enable a staged approach to account for more limited resources, should different activities be conducted in parallel, as suggested by ESMA (see response to question 1). The ESRS provide a list of the related sustainability matters tackled in these standards in ESRS 1, paragraph AR16<sup>7</sup>.

*Question 4 (b)*

19. Regarding the significance of sector and geographical diversity in relation to this topic, environmental issues other than climate change tend to be location-specific (in relation to specific environmental pressures and specific vulnerability or richness of the local ecosystem). This important feature will have consequences which need to be carefully considered when it comes to the materiality assessment at the entity level. Regarding sectors, they are a clear entry point for nature-related sustainability risks and opportunities, but a topic-focused approach is also relevant (for instance, when natural resources such as water are shared by different activities).

*Question 4 (c)*

20. As mentioned above, ESMA suggests using the ESRS framework as well as the TNFD as references. These frameworks themselves rely on a large number of materials which will not be further detailed here.

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<sup>7</sup> Annex 1 to the Commission Delegated Regulation supplementing Directive 2013/34/EU as regards sustainability reporting standards

**Question 5 - New research and standard-setting projects that could be added to the ISSB's work plan: Human capital**

**Question 6 – New research and standard-setting projects that could be added to the ISSB's work plan: Human rights**

21. ESMA welcomes the fact that the ISSB is considering developing research on social topics. As mentioned in the answer to question 1, ESMA considers that the whole universe of ESG topics should be covered by sustainability standards in a not-too-distant future. In relation to projects relating to Human Capital and Human Rights, should the ISSB decide to move forward on these projects, ESMA wishes to stress three main observations.
22. Firstly, the intrinsic link between them should be acknowledged and a possible redefinition of their scopes be considered, labour rights being part of human rights (and of particular importance for companies), as well as of foundational importance in human capital.
23. As a consequence, ESMA suggests using an architecture for social topics which relies on stakeholder groups, such as that designed by EFRAG for the ESRS (Own workforce, Workers in the value chain, Affected communities, Consumers and end users), since such an approach is beneficial to readability and understanding of the framework for both preparers and users of the sustainability reporting. In addition, aligning with (part of) this structure would greatly enhance future interoperability.
24. Lastly, a core element of research on human rights matters, as rightly identified in the Request for Information, is the international due diligence instruments and in particular the UN Guiding Principles on Business and Human rights. ESMA's view is that for human rights matters, drawing a line between financial and impact materiality would be even more challenging than for other sustainability topics.

**Question 7—New research and standard-setting projects that could be added to the ISSB’s work plan: Integration in reporting**

The research project on integration in reporting is described in paragraphs A38–A51 of Appendix A. Please respond to the following questions:

- (a) The integration in reporting project could be intensive on the ISSB’s resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realise the full value of the IFRS Foundation’s suite of materials. How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB’s new two-year work plan
- (b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)?
  - (i) If you prefer a formal joint project, please explain how you think this should be conducted and why.
  - (ii) If you prefer an ISSB project, please explain how you think this should be conducted and why.
- (c) In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from:
  - (i) the IASB’s Exposure Draft Management Commentary? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.
  - (ii) the Integrated Reporting Framework? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.
  - (iii) other sources? If you agree, please describe the source(s) and any particular concepts that you think the ISSB should incorporate in its work.
- (d) Do you have any other suggestions for the ISSB if it pursues the project?

*Question 7 (a)*

25. ESMA welcomes the idea of a project on Integration in reporting which would aim at developing a fully integrated, comprehensive and consistent framework for corporate reporting. However, in view of the other proposed projects, the relative priority of such a project is assessed as low at the current point in time. A project on Integration in reporting will require a considerable amount of resources, which would impact the possibility to manage different activities in parallel, as suggested by ESMA. ESMA also considers that it might be more opportune to conduct this

project a bit further in the future, in the medium term, as it would benefit from stakeholders' feedback and understanding of sustainability reporting once stakeholders have started implementation of IFRS S1 and S2.

26. ESMA considers that ensuring connectivity between the ISSB's and IASB's requirements is fundamental and welcomes the fact that work in this area is included in the Request for Information as core to the ISSB's future activities. In ESMA's understanding, this means that particular attention will be paid to the implementation of the connectivity provisions in IFRS S1 and S2 in the coming period including through the development of guidance or educational material, and consideration of further refinements to these provisions, if needed.

*Question 7 (b)*

27. Regarding ownership and coordination, should the project on Integration in reporting be pursued, ESMA's view is that it should be a joint ISSB/IASB project. In consideration of the impact on both Boards' capacities and resources, collaboration would be key for the success of the project.

*Question 7 (c)*

28. ESMA notes that the IASB Management Commentary Practice Statement is not endorsed in the EU, and that the EU does not mandate the use of the Integrated Reporting framework. Nonetheless, this framework is used by a number of the European companies which prepare integrated reports. The frameworks have similarities and ESMA recommends building on both of them as convergence would be highly beneficial.

**Question 8—Other comments**

Do you have any other comments on the ISSB's activities and work plan?

29. Should ISSB decide to pursue one or more new topical projects, ESMA considers that the inextricable link between risks/opportunities and impacts should be duly taken into account, as for example, prominent international references for biodiversity (e.g., COP 15 Agreement) as well as for human rights (e.g., UN Guiding Principles on business and human rights), rely on or include consideration of impacts.