



Financial Reporting Council

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International Sustainability Standards Board
Opernplatz 14
60313 Frankfurt am Main
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22 June 2023

Dear Emmanuel

RE: ISSB Exposure Draft Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates

The Financial Reporting Council (FRC) welcomes the opportunity to provide comments on the ISSB's consultation about its methodology for enhancing the international applicability of the SASB Standards and SASB Standards Taxonomy updates. This letter highlights some overarching comments for consideration and is followed by an Appendix which includes our detailed responses to the specific questions posed by the ISSB.

The comments in this letter are based on the FRC's extensive experience in standard setting, including in issuing accounting, audit, assurance and actuarial standards, in addition to setting the UK's Corporate Governance Code and Stewardship Code.

Incremental improvements

As described in paragraph 13 of the Exposure Draft, we understand that this project is categorised as a narrow-scope project that should be viewed separately from broader considerations regarding the international applicability of the SASB Standards. While the FRC agrees that the proposed approaches outlined in paragraph 9 will lead to improved international applicability of the SASB Standards it will not lead to 'full international applicability'.

'Full international applicability' would require a more comprehensive review of the disclosure topics and metrics in the SASB Standards. The FRC considers this project a reasonable initial effort which will result in incremental improvements to the SASB Standards, but one that should be followed by a more comprehensive review of the SASB Standards, which also reflects the needs of the ISSB's diverse stakeholders.

Due process

Paragraph IN10 of the Exposure Draft explains that "*[t]he DPOC also agreed the ISSB could consult on the proposed methodology to enhance the SASB Standards' international applicability and then*

publish a draft of proposed amendments on the IFRS Foundation website for public review, instead of including all the proposed amendments in the Exposure Draft for public comment." This statement is unclear about whether the amendments to the SASB Standards will be subject to further consultation. The FRC recommends that the ISSB communicates when the content of the revised SASB Standards will be available for public comment as further consultation will be required if they are to be adoptable in many jurisdictions. The ISSB should also clarify the length of period in which the revised SASB Standards will be available for public review in order to help stakeholders prepare to engage.

Next steps

Once the ISSB has completed this narrow-scope project, it needs to recognise that a more fundamental review of the SASB Standards is needed if they are genuinely to be fully internationally applicable and consistent with other IFRS Sustainability Disclosure Standards. This comprehensive review should consider:

- the appropriateness of the Sustainable Industry Classification System (SICS);
- whether the industry-based requirements are principally industry-specific or industry-relevant requirements;
- the underlying research that informs the content;
- the structure of the content and how it fits with other IFRS Sustainability Disclosure Standards; and
- reframing the disclosure topics to focus on sustainability-related risks and opportunities to support the application of IFRS S1.

We provide detailed comments on these matters in our response to Question 5.

Concluding remarks

The FRC welcomes the opportunity to continue to work with the ISSB in setting the global baseline standards. If you would like to discuss the comments in this letter in more detail, please contact Sarah-Jayne Dominic (s.dominic@frc.org.uk).

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Appendix A

Question 1—Methodology objective

(a) Are the scope of the intended enhancements and the objective of the proposed methodology stated clearly in paragraph 8? If not, why not?

Yes, the scope of the intended enhancements and the objective of the proposed methodology is stated clearly in paragraph 8.

(b) Are the constraints of the objective as listed in paragraph 8 (preserving structure and intent, decision-usefulness and cost-effectiveness) appropriate? Why or why not?

It is understandable and reasonable that these narrow-scope amendments to the SASB Standards do not substantially change the current structure of the standards. However, this should be viewed as a temporary constraint to support current users of the SASB Standards to maintain their disclosures, with an expressed plan to revise the structure in the future to align with the other IFRS Sustainability Disclosure Standards. As noted in our response to Question 5, the FRC believes that the ISSB should reconsider the structure of the SASB Standards. Whilst we understand the desire to minimise disruption for existing users of the standards, we believe this should not prevent the ISSB from restructuring the SASB Standards to ensure they are suitably incorporated into the suite of IFRS Sustainability Disclosure Standards. This is important for jurisdictions who are considering how to implement IFRS Sustainability Disclosure Standards for use and need clarity on the overall vision for future standards to be issued by the ISSB. We provide further comments about the need for clear communication about the overall vision and architecture of the standards in our response to the ISSB's Request for Information on Agenda Priorities. In our response we note that without clear communication of how the ISSB envisions the architecture of the standards, including the industry-based requirements, there is a risk that the requirements will create more confusion and lead to disjointed disclosure.

Question 2—Overall methodology

(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?

The proposed methodology will enhance the international applicability of the SASB Standards metrics but will not result in the SASB Standards being fully 'internationally applicable'. The FRC views this

narrow-scope project as a reasonable first step, but one that needs to be supplemented with a comprehensive review of the SASB Standards if they are to be considered truly 'internationally applicable'. We provide further comments about the future of the SASB Standards in our response to Question 5.

Question 3—Revision approaches

(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?

Although this approach will improve the international applicability of the standards, there are some additional challenges associated with referencing third-party sources that should be considered.

The use of international references for definitions is likely to be appropriate to establish consistency and a global baseline. However, the use of international metrics may not be appropriate when the ISSB does not own or have control of these sources. The vast number of metrics that are contained within the SASB Standards will need to be maintained, which will be difficult if the third-party content changes. The ISSB should explain how these third-party sources will be monitored and updated if necessary.

The FRC also recognises that the SASB Standards are currently part of non-mandatory guidance to support the application of IFRS S1. As a source of guidance itself, it is unsuitable for the SASB Standards to rely on further third-party sources. As the ISSB has noted its intentions to make the SASB Standards a mandatory part of both IFRS S1 and IFRS S2, further considerations need to be given to which international sources are used.

Given our concerns about the use of third-party sources, it may be more appropriate for the ISSB to select Revision Approach 2 as the first course of action. By replacing jurisdiction-specific references with internationally applicable definitions, the ISSB would achieve its objective to enhance the international applicability of the metrics without relying on third-party sources that the ISSB does not own or control. Additionally, the third-party references should be limited to guidance rather than as part of the authoritative content.

In summary, the FRC recommends that the first course of action should be Revision Approach 2, which will replace jurisdiction-specific references with internationally applicable definitions.

(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?

Aside from our response to Question 3(a), the order of the Revision Approaches 2–5 seems logical.

(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?

Although the revision approaches will enhance the international applicability of the SASB Standards, we have concerns about the how the approaches take into consideration the context of the requirements and the underlying objective the metric is designed to measure. As the SASB Standards were developed for the U.S. market, the revisions to the metrics may be possible but not necessarily appropriate internationally. For example, in Appendix B the example for the Revision Approach 2 demonstrates how the SASB metric might be revised using a general and internationally applicable definition. Although it is possible to change “H-1B visa holders” to “foreign nationals”, the jurisdictional context of this metric makes it difficult to apply in jurisdictions other than the U.S.

In this particular example, the H-1B visa is for non-immigrant workers with specialised skills to work for employers in the U.S. for a specific period of time. Changing this reference to “foreign nationals” is not an equal amendment. ‘Foreign nationals’ can include a greater number of people, for example someone who is not naturalised but lived and worked in a country for a long period of time. There are also jurisdictional sensitivities that would determine this information as inappropriate. Therefore, the ISSB should also consider the context-specificity of both the original and revised metrics.

To fully understand whether the revision approaches could pose problems, we would need further information about the underlying objective the metrics are designed to measure. Without this information it would be difficult to assess whether the revision approach will result in additional problems.

(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?

The FRC agrees with the approach to determining which revision approaches will be applied. However, as noted in our response to Question 4, the context-specificity of the requirements and confirmation that the underlying objective the metric is designed to measure should also be included as criteria for determining the appropriate approach. Some metrics may be technically revised, but these revisions may not be appropriate given the original context-specific nature of the metric.

Question 4—SASB Standards Taxonomy Update objective

(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?

In answering this question it is important to consider the [FRC response to ISSB \(June 2022\)](#):

15.2 Our experience is that the provision of a digital taxonomy is not enough to ensure the efficient and effective use of digital reporting. Rather a wider consideration of the full digital ecosystem for reporting is required, this means from producers through standards to the market and regulators. Whilst we acknowledge that this is wider than the defined role of the ISSB we think that the ISSB (in consort with others) has an important role to play in facilitating and convening discussions and actions across the digital reporting ecosystem.

We offered in this response to contribute by way of discussion with the IFRS Foundation on development of taxonomies for sustainability standards:

15.3 We welcome the opportunity to respond to the request for feedback on the staff draft of the IFRS Sustainability Disclosure Taxonomy and would be happy to provide input into the development of the digital taxonomy.

The FRC continues to extend this offer to co-operate with the ISSB in developing a digital taxonomy that is fit for purpose. We note from this consultation that the ISSB intends to include working groups in the development of this taxonomy, and we suggest that the FRC's experience—having provided taxonomies for aspects of sustainability reporting since 2016—would make it a useful participant in these groups.

In direct response to this question, we do not agree with the proposed methodology to update the SASB Standards Taxonomy (SASB Taxonomy), chiefly because they have not been previously used and, following our previous responses, to suggest a methodology before there is evidence of how the taxonomy will be used is premature.

The SASB Taxonomy was originally designed for the U.S. market and, while we appreciate that there is detail on how they will be adapted for international needs, this is too simple a methodology to assume this will work. For example, when the FRC introduced multiple target documents into the UKSEF taxonomy last year, there was a substantial amount of work to be done to understand the effect this would have on preparers inside and outside the UK and EU, even though this is a simple change largely hidden from preparers.

In our response to Question 5, we note that in applying the industry-based approach in a jurisdictional context, there are instances where there are a limited number of UK companies within the SICs defined

industries. Given the nature of the data the digital taxonomy intends to produce, it would make sense for the ISSB to engage with and support collection architecture on a more international basis.

The specific design of the SASB Taxonomy is very different from the design of the UK taxonomies currently in use and this may present issues for preparers due to their current understanding of tagging best practices, current UK regulators receiving filings, and software vendors accustomed to producing products to file UK digital reports.

We have a methodology and process in the UK for amending and producing taxonomies for the UK market, which encompasses a substantial range of variation and complexity within the market. The FRC leads on this process, so we reiterate our offer to provide more detailed input into the methodology and design of any digital taxonomy for sustainability going forward. In addition, we recommend looking at [the taxonomy page on the FRC website](#) which has useful information on design, tagging, and our process.

Question 5—Future SASB Standards refinements

(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?

The FRC believes that this narrow-scope project will meet the objective of enhancing the international applicability of the SASB Standards. However, once the ISSB has completed this narrow-scope project, the FRC strongly recommends that the ISSB should conduct a comprehensive review of the SASB Standards to ensure that they are fully ‘internationally applicable’ and consistent with other IFRS Sustainability Disclosure Standards. This comprehensive review should take into consideration several factors which are described in more detail below.

Underlying research

The FRC recognises that this narrow-scope project will only examine the requirements that reference U.S. sources. A comprehensive review should consider all requirements in the SASB Standards to ensure that they are applicable across jurisdictions and continue to be the best way of measuring the item in question. To support this comprehensive review, the ISSB should reconsider the underlying research that underpins the requirements.

Both the disclosure topics and metrics contained within the SASB Standards were developed using research based on the U.S. market. Some requirements may not reference jurisdiction-specific sources but may still be inappropriate outside the U.S. market. For example, the requirement HC-DY-270a.1. in the Health Care Delivery Standard asks for a description of policies or initiatives to ensure that patients are adequately informed about price before undergoing a medical procedure. As noted in the topic summary, this topic

relates to concerns in the U.S. over the pricing and billing transparency in the Health Care Delivery industry. Although there are no specific references to U.S. focused metrics or sources, this disclosure topic is not necessarily appropriate or relevant in other jurisdictions to the same degree.

The ISSB should conduct research across a wide selection of markets in collaboration with national standard setters to understand the jurisdictional-specificity of sustainability-related matters and update the disclosure topics and metrics accordingly.

Industry classification system

The industry classifications with the SICs are based on U.S. market research conducted by SASB, and therefore may not be appropriate for international application. There are already several industry classification systems that may be more appropriate. The FRC encourages the ISSB to consider how they envisage the SICs classification system will work in practice and whether it needs to be amended to reflect international markets. For example, in the UK, companies are required to use the UK SIC classification when registering with Companies House¹. This classification system is consistent with the EU NACE, with some UK-specific amendments. Therefore, the SICs classifications may not be appropriate in the context of the UK.

As noted in our response to the Exposure Draft for IFRS S2, we conducted a snapshot assessment of the application of the SICs industry classification to UK-listed companies. This assessment demonstrated that some industry categories may only be relevant for a small number of companies—in some cases only one entity would be required to apply the industry-based requirements. Where some of the industry classifications are extremely granular and only relevant for a small number of companies, we question the benefit of defining metrics at such a level of granularity.

We maintain our opinion that the ISSB should consider whether to group industry-specific requirements at the sub-sector level and therefore remove the industry categories. For example, in the transportation thematic sector (as illustrated in the table below), the ISSB should consider combining the industries requirements in the automobile, auto parts and car rental industries into one overall set of relevant requirements for the car/automobile sub-sector, which would reduce unnecessary complexity and increase comparability. Combining the 77 industries into sub-sectors would make the SASB Standards more manageable.

¹ Companies House is the executive agency of the British Government, sponsored by the Department for Business and Trade, that maintains the register of companies and is responsible for incorporating and dissolving all forms of companies in the UK.

Thematic sector	Sub-sectors	Industries
Transportation	Air transportation	Airlines
		Air Freight
	Automobiles	Automobiles
		Auto Parts
		Car Rental
	Marine Transportation	Cruise lines
		Marine Transportation
	Land Transportation	Rail Transportation
		Road Transportation

Industry-specific or industry-relevant

The current SASB Standards include a range of requirements that are both industry-specific (i.e., only those relevant to an industry) and industry-relevant (i.e., industry-agnostic requirements that are particularly relevant to an industry). Whilst both approaches are acceptable and will lead to decision-useful information that allows users to compare companies within an industry, the approaches do not necessarily fit with how the SASB Standards are positioned within IFRS S1 and IFRS S2. In the FRC’s response to the ISSB’s Request for Information on Agenda Priorities, we recommend that the ISSB consider and communicate the envisaged architecture of the full suite of standards, including the industry-based materials. The architecture of the standards as a whole will determine whether an industry-specific or industry-relevant approach should be taken.

The SASB Standards are used in two different contexts within IFRS S1 and IFRS S2. The disclosure topics are required to be considered when companies are identifying sustainability-related risks and opportunities. The metrics are then used to measure performance in respect of disclosure topics that relate to these identified risks and opportunities

It is our view that industry-specific requirements are helpful as supplementary requirements to IFRS S1 and IFRS S2, and therefore the industry requirements in the SASB Standards should focus on those that are specific to an industry. For example, information about financed emissions for a company in the commercial banking industry is useful industry-specific information about the climate-related risks and opportunities to which a company in that industry is exposed to.

It is the FRC’s opinion that industry-relevant requirements are more helpful as guidance for the application

of IFRS S1 and IFRS S2. For example, some of the SASB Standards (including E-Commerce, Multiline and Specialty Retailers & Distributors, and Consumer Finance) have identified 'data security' as a disclosure topic with a requirement to disclose a description of the company's approach to identifying and addressing data security risks. This is an example of an industry agnostic requirement that might be particularly relevant to the given industries.

The ISSB acknowledged in the exposure of IFRS S1 and IFRS S2 that the industry-based requirements do not represent an exhaustive list of the full range of sustainability-related risks and opportunities a company might be exposed to. If made mandatory, there is a risk that companies will limit their disclosure to those pre-defined topics within the SASB Standards to ensure that they are compliant with the requirements of the IFRS Sustainability Disclosure Standards. Companies should be encouraged to conduct their own assessment to identify the relevant sustainability-related risks and opportunities they are exposed to, without being limited to the disclosure topics within the SASB Standards.

Therefore, the comprehensive review of the SASB Standards should distinguish between industry-specific metrics that ideally should be included within the authoritative parts of the standards, and the industry-relevant content that would be helpful as guidance when applying IFRS S1 and IFRS S2.

Structure and content

The structure and content of the SASB Standards should be consistent with the structure and content of the IFRS Sustainability Disclosure Standards (currently consisting of IFRS S1 and IFRS S2).

The current structure of the SASB Standards is not consistent with IFRS S1 and IFRS S2. The disclosure topics, metrics and protocols are presented differently to the content within IFRS S1 and IFRS S2. Although TCFD-style four pillars may not all be appropriate in the context of these requirements (i.e., governance and risk management pillars may not be appropriate), the ISSB should revise the structure of the SASB Standards. This should include separating the disclosure requirements from the supplementary guidance and definitions and indicating where the disclosure requirements should fit within the structure of IFRS S1 and IFRS S2. For example, many of the SASB Standards require discussion and analysis (i.e., narrative reporting) in relation to the company's strategy or plan to manage risks and opportunities. These disclosures would be relevant under the 'Strategy' section of IFRS S1 and IFRS S2, whereas the quantitative metrics would be relevant as part of the 'Metrics & targets' section.

The ISSB should also consider the consistency between the content in the SASB Standards and the content in IFRS S1 and IFRS S2. For example, the requirement FB-AG-110a.1 in the Agricultural Products Standard allows companies to use "acceptable calculation methodologies" beyond the GHG Protocol when calculating Scope 1 emissions, which contradicts the ISSB's decision to mandate the use of the GHG Protocol in IFRS S2. This requirement should also be subject to the relief discussed by the ISSB in October 2022 that permits a company to use measurement method that differs from the GHG Protocol Standards if required by jurisdictional authorities or the exchange on which it is listed to use a specific measurement method.

Additionally, the disclosure topics should be reframed to focus on sustainability-related risks and opportunities to support the application of IFRS S1. The requirements should focus on the description of sustainability provided by the ISSB in December 2022, which described sustainability as:

"...the ability for a company to sustainably maintain resources and relationships with and manage its dependencies and impacts within its whole business ecosystem over the short, medium and long term. Sustainability is a condition for a company to access over time the resources and relationships needed (such as financial, human, and natural), ensuring their proper preservation, development and regeneration, to achieve its goals."

Currently, not all the disclosure topics are clearly linked to this description or to sustainability-related risks and opportunities. The example CG-EC-330a.4., which is used in this Exposure Draft, requires the disclosure of the percentage of technical employees who are H-1B visa holders. It is not clear how this metric represents a sustainability-related risk or opportunity. The explanation in the topic summary that "[h]iring foreign nationals to compensate for shortages in local talent can create risks related to perceived social implications in the host and home countries of workers" does not explain what the risk or opportunity is, and how it relates to sustainability as described by the ISSB.

Therefore, the comprehensive review of the SASB Standards should review both the structure and content of the SASB Standards to ensure alignment and consistency with the IFRS Sustainability Disclosure Standards.