

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

31 August 2023

**ISSB Consultation on Agenda Priorities**

Dear Mr Faber,

MSCI<sup>1</sup> would like to acknowledge the work of the ISSB in publishing the final IFRS S1 and IFRS S2 disclosure standards. This is a key step in the journey towards achieving globally consistent corporate reporting on sustainability and wider ESG matters.

We also welcome the opportunity to provide comments on the priorities the ISSB has proposed for its next two-year work plan. MSCI is a leading provider of ESG data and analytics to the world's largest financial institutions and has collected climate and environmental, social, and governance (ESG) related disclosures from thousands of companies globally for over two decades.

Below we list three broad observations that you may want to consider when deciding on the future strategic direction of the ISSB and its agenda priorities. We provide a more detailed response in the Annex.

1. Timely and consistent implementation of the current final standards (IFRS S1 and S2) around the world will be a key measure of progress; the ISSB should monitor this.
2. Biodiversity should remain a priority for the ISSB; ensure alignment with the Taskforce for Nature-related Financial Disclosures ("TNFD").
3. Globally accepted standards for human capital and human rights are critical; the ISSB should build on existing frameworks from the Global Reporting Initiative ("GRI"), Organization for Economic Cooperation and Development ("OECD") and others.

We welcome further engagement with the ISSB over the coming months and years.

Yours sincerely,

/s

**Laura Nishikawa**  
**Managing Director, Global Research**  
**MSCI ESG Research LLC**

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<sup>1</sup> MSCI ESG Ratings, research and data are produced by MSCI ESG Research LLC. MSCI ESG Research (UK) Limited is a subsidiary of MSCI ESG Research LLC.

## ANNEX

### Question 1) Strategic direction and balance of the ISSB's activities.

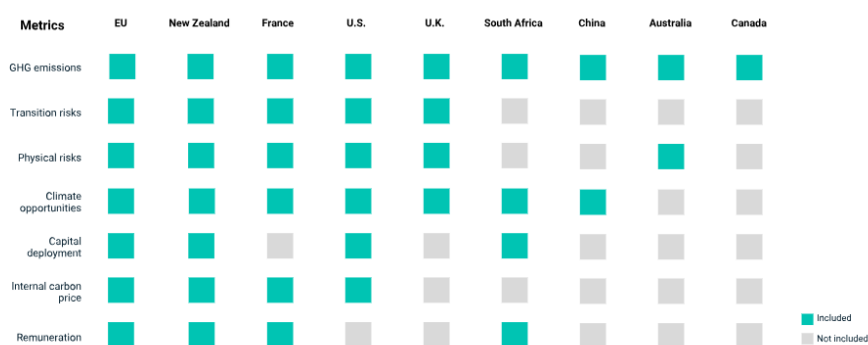
#### ISSB should monitor implementation by countries as a measure of progress

Timely and consistent implementation of IFRS S1 and IFRS S2 ("ISSB standards") by national regulators and policy makers will be key in determining the success of the ISSB standards. MSCI agrees that supporting countries around the world integrate the standards into their local sustainability reporting frameworks should be a core part of the ISSB's future strategy.

In July 2023, the G20 Financial Stability Board ("FSB") requested that the ISSB take over responsibility for the monitoring of companies' progress in disclosing climate-related information, a responsibility previously held by the Taskforce for Climate-related Financial Disclosures ("TCFD"). As part of this exercise, the ISSB should also look to monitor the progress countries are making in introducing and implementing sustainability related disclosure rules which are aligned with the ISSB standards. For example, the 2022 TCFD Status Report found that only 14 countries had started to introduce TCFD-aligned regulatory requirements.<sup>2</sup>

It is important that the ISSB encourages countries to implement the standards in a globally consistent manner, rather than a piecemeal selective approach. Comparative analysis by MSCI<sup>3</sup> shows that regulators around the world implemented TCFD rules in varying ways, with little consistency across disclosure requirements. For example, Figure 1 shows that countries took a selective approach when including a core set of cross-industry climate metrics into their respective rulebooks. Therefore, the consistent adoption of the ISSB standards across jurisdictions should be a strategic objective of the ISSB over the coming years. This can be taken forward by the ISSB Jurisdictional Working Group which was established in April 2022.<sup>4</sup> Following its official endorsement of the ISSB standards in July 2023,<sup>5</sup> the International Organization of Securities Commissions ("IOSCO") is also in a position to encourage the consistent adoption of the ISSB standards around the world.

Figure 1: Inclusion of climate metrics in regulations differ across countries



<sup>2</sup> TCFD, *Status Report 2022*, October 2022, accessed via [2022-TCFD-Status-Report.pdf \(bbhub.io\)](https://www.tcfdbank.org/2022-TCFD-Status-Report.pdf)

<sup>3</sup> MSCI, *As TCFD comes of age, regulators take a varied approach*, April 2022, accessed via [As TCFD Comes of Age, Regulators Take a Variied Approach - MSCI](https://www.msci.com/As-TCFD-Comes-of-Age-Regulators-Take-a-Variied-Approach)

<sup>4</sup> ISSB, Jurisdiction Working Group, accessed via [IFRS - Jurisdictional Working Group](https://www.ifrs.org/news-and-events/news/2023/07/issb-standards-endorsed-by-iosco/)

<sup>5</sup> <https://www.ifrs.org/news-and-events/news/2023/07/issb-standards-endorsed-by-iosco/>

## **Question 2) Criteria for assessing sustainability reporting matters that could be added to the ISSB's work plan**

### ISSB should promote global consistency where gaps arise

We agree with the ISSB's seven criteria points, listed below, that will be considered when assessing whether a future ISSB project will meet investors' needs. In addition to these points, we would suggest that the ISSB also takes into consideration the growth in potentially diverging disclosure standards and frameworks around the world and the importance of maintaining a global baseline of consistency between them. Global investors would benefit from greater harmonisation among the existing and emerging regulatory initiatives, and the ISSB has a uniquely influential role in delivering this.

The ISSB criteria for prioritisation:

1. The importance of the matter to investors.
2. Whether there are any deficiencies in the way companies disclose information on the matter.
3. The types of companies that the matter is likely to affect, including whether the matter is more prevalent in some industries and jurisdictions than others.
4. How pervasive or acute the matter is likely to be for companies.
5. How the potential project interconnects with other projects in the work plan.
6. The complexity and feasibility of the potential project and its solutions.
7. The capacity of the ISSB and its stakeholders to progress the project in a timely way.

## **Question 3) New research and standard-setting projects that could be added to the ISSB's work plan**

### Global standards for sustainability-related transition plans and targets

A growing number of companies are introducing and implementing sustainability-related transition plans such as those around net-zero and biodiversity. However, there is a need to have standardised reporting for transition plans and targets to help investors compare across companies. Some jurisdictions, like the United Kingdom, have already started to develop "gold-standard" templates for what a robust and reliable transition plan should look like, via the Transition Plan Taskforce ("TPT").<sup>6</sup>

To support a more harmonised approach to transition plans among different jurisdictions, the ISSB could initiate a research project which examines the state of transition plan disclosure and formats across the world in order to put forward recommendations on global best-practice. This can be done with the support of bodies like the TPT and IOSCO.

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

### Biodiversity has become an area of focus for global investors

We agree with the ISSB's decision to include biodiversity as one of the three priority sustainability areas. More than half of the world's economic output is either highly or moderately dependent on intact ecosystems and their benefits. In December 2022, a landmark agreement made at the United Nations COP15 biodiversity conference highlighted the role of companies and investors in conserving nature and ecosystems. The Global Biodiversity

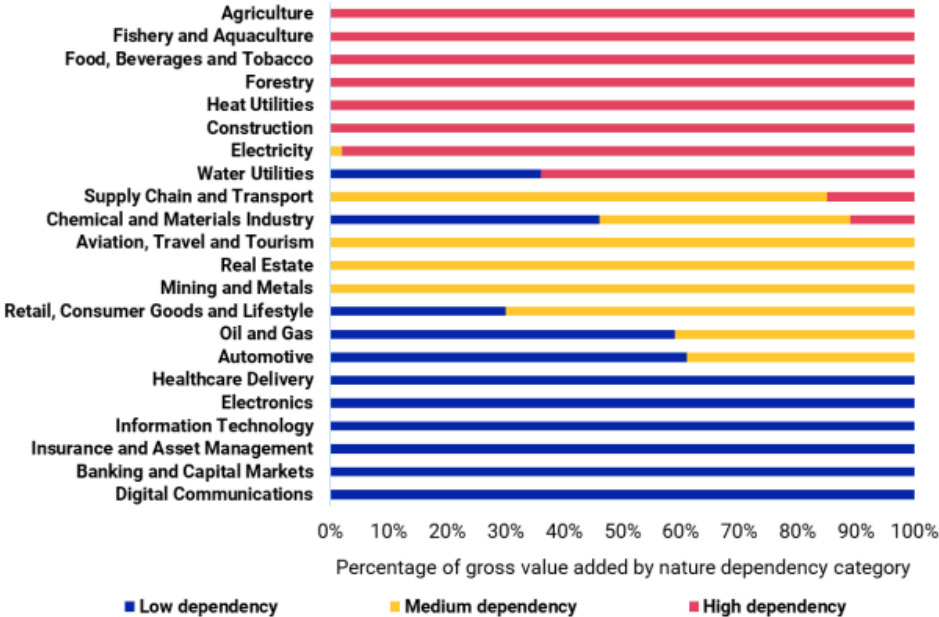
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<sup>6</sup> Accessed via <https://transitiontaskforce.net/>

Framework aims to protect 30% of the planet’s land and water by 2030 and includes as one of its main targets the need for companies and investors to “regularly monitor, assess and transparently disclose their risks, dependencies and impacts on biodiversity” throughout their operations, supply and value chains, and investment portfolios.

As can be seen in Figure 2, the majority of sectors have either a high or medium dependency on biodiversity, with certain sectors such as agriculture having a completely high reliance on the risks associated with biodiversity loss.

Figure 2: Many sectors have strong dependency on biodiversity and natural capital<sup>7</sup>



ISSB should consider close alignment with the TNFD framework

The Taskforce on Nature-related Financial Disclosures (“TNFD”) is expected to publish its final recommendations in September 2023. The introduction of the TNFD final framework presents an important moment in the journey towards better understanding the impact of business and investment activity on biodiversity and ultimately reversing nature loss.

The TNFD is based on the structure and pillars of the TCFD, which will provide companies with a level of familiarity which may subsequently encourage take-up of the framework and support greater disclosure by companies.

As the TNFD framework becomes finalised, the ISSB should look to align as closely as possible with the TNFD when developing its own standards around biodiversity and other nature-related disclosures.

<sup>7</sup> MSCI, Biodiversity, New Frontier of Sustainable Finance, accessed via [Biodiversity: The New Frontier of Sustainable Finance - MSCI](#)

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

Development of human capital enhances investor value of a company

Being able to measure and assess the performance of human capital development in a company is a critical component of assessing the strength of its wider ESG profile. As part of MSCI's ESG ratings model, companies are evaluated on their workforce talent requirements and their ability to attract, retain and develop a highly skilled workforce. Therefore, we agree with the ISSB's view that how an entity manages and invests in its workforce directly affects its ability to deliver value in the long term.

However, we recognize that investors may sometimes struggle to source information that is decision-useful and comparable, due to the lack of an internationally agreed framework on human capital reporting. Therefore, we are supportive of ISSB's efforts to carry out research to develop a framework of definitions and categories around human capital, which could build on existing practices, tools and metrics.

As is the case with climate change and biodiversity, companies and investors face certain risks associated with human capital. This includes the inability to attract skilled talent to fill key roles, the loss of competitiveness in the market-place, the loss of intellectual and human capital through attrition, the increased costs associated with high employee turnover and low workforce productivity.

Disclosure standard setters, GRI, EFRAG and SASB and regulators such as the SEC have all proposed frameworks for human capital disclosures. These frameworks revolve around similar themes, including attraction & retention, development and engagement, diversity and inclusion, fair and just work." These accepted key themes could form the basis of the ISSB framework.

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

We agree with the ISSB's decision to include human rights as one of the three priority sustainability areas. There is a growing awareness of the human rights impacts that companies have in their operations and in their supply chains.

How companies identify, address and communicate human rights impacts is being codified into regulations, such as the EU Corporate Sustainability Due Diligence Directive and also through the strengthening of disclosure standards such as the GRI. This is also the case for investors, who may be concerned with reputational risks and identifying and addressing breaches of international human rights norms within their investee companies. Global norms such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinationals play a central role in the frameworks for investor reporting, such as in the EU Corporate Sustainability Reporting Directive ("CSRD").

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

No response.

**Question 8) Other comments**

No response.