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Subject	AFM response to ISSB Exposure Draft IFRS S1

Dear Mr Faber,

The Dutch Financial Markets Authority (AFM) thanks you for the opportunity to respond to the ISSB's Exposure Drafts ED/2022/S1 *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and ED/2022/S2 *IFRS S2 Climate-related Disclosures* (referred to collectively as the 'EDs'). In this letter, the AFM will outline its key general comments on both EDs. We will provide our answers to the questions in the online surveys in the Annex to this letter. We have decided to submit our answers to the surveys concerning ED IFRS S1 and ED IFRS S2 separately, but to accompany both submissions with the same cover letter as some of our key recommendations and general comments concern both EDs. The AFM submits these responses with great appreciation of the ISSB's efforts to develop high-quality international standards for corporate reporting on sustainability-related matters and in order to further contribute to the clarity, relevance and cross-regional applicability and comparability of these standards.

The AFM is an independent market conduct authority that supervises the conduct of the entire financial market sector in the Netherlands: savings, investment, insurance, loans, pensions, capital markets, asset management, audits and financial and non-financial reporting. The AFM is committed to promoting fair and transparent financial markets. Because of these broad oversight tasks, the AFM is a member of various global and European bodies and committees, such as the International Organization of Securities Commissions (IOSCO), the European Securities Markets Authority (ESMA) and the Committee of European Audit Oversight Bodies (CEAOB).

As a member of ESMA, the AFM acknowledges, supports and has actively contributed to ESMA's response to the consultation of the ISSB's EDs. Our own response largely echoes and regularly quotes ESMA's response. On some points, however, the AFM wishes to place greater emphasis and elaborate more than ESMA has done. Furthermore, the AFM would like to make some additional comments which in our view could further improve the quality of IFRS S1 and IFRS S2.

There are several reasons why the ISSB's EDs, as well as the particular points we emphasize and add, are of great importance to the AFM. The Netherlands, which is the AFM's jurisdiction, contains relatively many companies that operate worldwide and its private and institutional investors display relatively high levels of sustainability-related consciousness. The AFM itself has consistently supported national, European and international initiatives to promote sustainable finance and considers the sustainability of financial markets to be a key supervisory and organizational priority.

The AFM is supportive of the EU-wide legislation that has resulted from the Sustainable Finance Action Plan, such as the EU Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD). In the public consultation that preceded the development of the CSRD, the AFM argued for comprehensive, relevant, comparable and mandatory standards for the reporting of 'non-financial' (sustainability-related) information and also that this information should be audited and verifiable.[1] The CSRD has mandated the European Financial Reporting Advisory Group (EFRAG) to develop European Sustainable Reporting Standards (ESRSs) that cover a wide range of ESG-topics and are designed around the notion of 'double materiality'. The AFM has welcomed the CSRD's comprehensive topical approach and its focus on double materiality, as the AFM acknowledges that transparency concerning corporations' impact on the environment and societies is of great importance in the transition to sustainable economic activities.

The AFM has consistently held the view that global consistency and comparability of sustainability reporting is of paramount importance to investors and reporting entities, both within and outside the EU's jurisdiction. Echoing ESMA, we therefore wish to highlight the importance of interoperability between international and European standardization efforts to ensure a better flow of information across sustainable investment chains. The AFM would like to call upon the ISSB to proactively engage with regional standard setters such as EFRAG with the goal of increasing the alignment and interoperability of standards wherever that is feasible. A lack of consistency and comparability of sustainability reporting standards generates confusion for investors who operate across jurisdictions and seek to make investment decisions based on sustainability-related information. Such a lack also generates confusion and additional costs for reporting entities (i.e. corporations) that operate across regional or national jurisdictions, as well as for corporations that operate within global value chains, thus decreasing the chance that corporations produce and report adequate information on the sustainability of their operations and enterprise as a whole.

Regarding the ISSB's single materiality perspective on sustainability reporting, the AFM would like to stress three advantages of applying a wide definition of 'enterprise value creation.' The (social and environmental) impacts that a corporation has on the outside world regularly generate material risks (and sometimes opportunities) for the corporation itself, including transition and physical risks. A wide definition of single materiality should, in the AFM's view, explicitly envisage the feedback or 'boomerang' effects that a corporation's social and environmental impacts may have. Adopting this wide interpretation in the ISSB's Standards would have the advantage, firstly, of requiring reporting entities to provide a fuller picture to investors of the sustainability-related risks and opportunities they face. Secondly, it would be helpful in combatting greenwashing, a pernicious phenomenon which undermines effective sustainable investment.

[1] AFM's Response to the consultation for the review of the Non-Financial Reporting Directive (8 June 2020).

Greenwashing achieves its negative effects by means of unsubstantiated claims which revolve around, in ESMA's words, "alleged societal and environmental impacts of certain financial products or entities" that "do not distinguish finely between enterprise value creation and impact materiality." Greenwashing is often motivated by an understanding on the part of corporations that (perceptions of) their impacts on sustainability affect their financial prospects. Thirdly and finally, it would bring the proposed international and European standards for sustainability reporting closer together. The AFM acknowledges the fact that a global baseline for sustainability reporting will (initially) focus on a narrower range of ESG-topics than the ESRSs, that it follows the principle of single rather than double materiality and that the ISSB will not require corporations to report on impacts *per se* if these do not affect enterprise value creation. However, the AFM holds the strong view that the single materiality lens employed by the ISSB can and should provide room for reporting on many impacts that corporations have on societies and the environment, as we will clarify further on in this letter and in our responses to the survey on ED IFRS S1.

In the AFM's view, the ISSB is well positioned to develop the global baseline for corporate reporting on sustainability matters relating to enterprise value creation. However, to further achieve this goal, we would recommend that the ED IFRS S1 mirrors more closely the long-standing groundbreaking work of the Global Reporting Initiative (GRI) in defining material topics for sustainability reporting. Furthermore, the AFM believes it would be helpful if both EDs incorporate aspects of impact materiality that the GRI has identified which affect enterprise value creation as well. This would benefit reporting entities and investors worldwide who have already made extensive use of GRI standards. Greater alignment with GRI standards would furthermore improve the interoperability with regional European standards for sustainability reporting, because the GRI's work also informs the CSRD's requirements and the ESRSs under development.

Another matter that the AFM sees as particularly important to achieve a high-quality global baseline for sustainability reporting, is the clarity of the standards for all corporate sectors (across national and regional jurisdictions), from the perspective of both the preparers and the users of sustainability-related financial information. With this in mind, we advocate the use of consistent terminology. We also advocate providing clearer definitions of sustainability-related financial information and of the value chain of financial enterprises, as well as relevant sector-specific reporting requirements. We would therefore like to request that the ISSB reviews the consistency of the terminology used throughout the EDs and the set of definitions that it explicitly and implicitly employs.

The AFM's key recommendations regarding both ED IFRS S1 and ED IFRS S2 can be summarized as follows:

A. The notion of 'sustainability-related' financial information

The AFM notes, similarly to ESMA, that ED IFRS S1 does not clearly indicate what the sustainability-related matters are that the standards address. The AFM recommends that the ISSB clarifies what is meant by 'sustainability' and that it selects a scope and definition that converges with GRI standards.

B. Materiality

In line with ESMA, the AFM recommends that "the terminology relating to the identification of risks and opportunities should be clarified and made consistent across the standard (e.g. the use of terms such as 'significant' and 'material')" and that the role of external 'impacts' in assessing enterprise value creation is better clarified and, ideally, made consistent with the impact materiality process of GRI standards. To elaborate on this latter point, the AFM would like to mention that a corporation's negative impacts on societies or the environment can lead to financial losses through for example civil lawsuits, consumer boycotts, exclusion by institutional investors, or future legislation which prohibits certain activities and therefore leads to stranded assets. Negative impacts can also affect enterprise value in subtler ways, such as through reputational effects that damage a corporation's ability to hire talent or diminishes the eagerness of other companies to work with the corporation. Corporations can also degrade their own raw input production base through unsustainable soil or resource exploitation. Conversely, sustainable practices can create value for enterprises through reputational effects, so called 'greeniums', and by making corporations more resilient in the face of changing legislation, social preferences and resource squeezes. A full view of the relationship between sustainability and enterprise value creation therefore goes far beyond *direct* effects of sustainability matters on enterprise value creation (e.g. deteriorating production conditions resulting from climate change) and includes many more indirect effects of the corporation's own impacts on societies or the environment which create (potential) positive or negative feedbacks for the corporation itself.

C. Sector-specific guidance from SASB

The AFM believes that an unselective and mostly unmodified adoption of the SASB framework for sector-specific guidance does not improve the feasibility of the ISSB's proposed standards for reporting entities, nor that it improves interoperability with ESRSs. We therefore would like to repeat ESMA's recommendation "to carefully consider introducing such guidance as part of the mandatory requirements in the climate-reporting standard. We believe that parts of this guidance are not necessarily related only to climate and that they are not yet suitable for application in an international context given their jurisdiction-specific connotation in some cases. In addition, introducing these requirements on a mandatory basis may make convergence with other standard-setting initiatives more difficult than focusing on the sector-agnostic requirements as a first step."

D. Emission compensation (offsets) and aggravation (deforestation)

With regards to the ED on climate-related standards, the AFM is in full agreement with ESMA's recommendation to complement the requirement to disclose 'net' emission targets (after offsets) with a requirement to disclose 'gross' emission targets (before offsets). Not only would this improve interoperability with ESRSs and comparability of European and non-European corporations, in the AFM's view net and gross targets both have their own value for investors and their own separate (potential) consequences for enterprise value creation. Whereas *reforestation* is considered an offset and addressed implicitly by both ED IFRS S2 and ESMA's consultation response, the AFM would also like to make a point concerning negative offsets, in particular *deforestation* (and other damage done to 'carbon sinks'). The AFM recommends that deforestation is considered as a material factor in climate-related corporate disclosures, as it plays a significant role in human-induced climate change and is regularly the result of corporate activity. We have noted that the proposed European climate-related disclosure requirements similarly exclude matters of deforestation. The AFM will make the same recommendation to EFRAG, as we make in this letter, to include deforestation in climate-related disclosure requirements.

E. Value chains of financial enterprises

Finally, the AFM would like to raise the point that general conceptions of a corporation's value chain may not be applicable to financial-sector enterprises and recommends that the ISSB considers clarifying to what extent the investments made by financial-sector enterprises (and the value chains of the companies they invest in) are part of their value chain. For the purposes of sustainability-related disclosures, the relevant value chains of banks, insurance companies, mortgage lenders and other financial undertakings are at present difficult to conceptualize. We are concerned that financial enterprises, due to a lack of guidance provided in IFRS S1 and IFRS S2 on this point, will not on a consistent basis determine their own relevant value chains. The SASB industry specific standards do not adequately address this issue either. Lack of clarity concerning the reporting boundaries for financial enterprises can lead to either underreporting of relevant information or overreporting. The first risk is that financial undertakings do not report significant effects that sustainability-related matters have on their enterprise value creation and value creation potential via the companies they invest in. The second risk is that financial enterprises attempt to report on the entire value chain of all the companies in which they hold significant assets, leading to an excessive reporting burden for the financial enterprises themselves and disclosure overload for the users of their sustainability-related financial information. The AFM therefore asks the ISSB to develop an adequate, relevant, bounded and feasible definition of financial-sector value chains.

The AFM's detailed comments on the EDs, following the structure of the consultation surveys, are presented in the Annex to this letter. In case you have any questions or comments please do not hesitate to contact us or Michaël Deinema, Policy Advisor on Capital Markets in the Department of Strategy, Policy and International Affairs (michael.deinema@afm.nl).

Yours sincerely,
The Dutch Authority for the Financial Markets

L.B.J. van Geest
Chair of the Executive Board

H. van Beusekom
Member of the Executive Board

<u>Annex 1: AFM responses to specific questions in ISSB survey 1</u>
ED IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Question 1 (Overall approach)
The AFM's remarks on the overall approach of ED IFRS S1 relate to (1) the unclear definition of 'sustainability' provided; (2) the guidance on qualitative characteristics of useful sustainability-related information; (3) the proposed approach to industry-specific requirements; (4) the use of the terms 'significant' and 'material'; (5) cross-referencing and connectivity with (other) information in the Management Commentary; and (6) ways to improve convergence with the standards developed by the Global Reporting Initiative (GRI) and European Financial Reporting Advisory Group (EFRAG).

1. The AFM notes, similarly to ESMA, that ED IFRS S1 does not clearly indicate the scope and definition of sustainability-related matters that the ED addresses. The AFM recommends that the ISSB clarifies its definition of 'sustainability' and indicates which Economic, Social and Governance (ESG) topics fall within that definition. Furthermore, the AFM would recommend selecting a scope and definition of 'sustainability' which converges with that of GRI. Converging with GRI's definition and scope would further encourage global consistency in sustainability reporting and enhance comparability and interoperability with the European Sustainability Reporting Standards (ESRS) under development. The AFM also recommends that the ED provides clarity on any differences in the definition of the terms 'sustainability-related financial information' and 'sustainability-related financial disclosures' which are both used in the ED.

2. Regarding the Appendix with guidance on the qualitative characteristics of useful sustainability-related financial information, based on the Conceptual Framework, the AMF recommends including in this Appendix also relevant guidance on the implementation of such characteristics and on the cost constraint (similar to that in the Conceptual Framework). In the AFM's view, more emphasis on the implementation of these qualitative characteristics will help issuers address the so-called 'disclosure problem' which leads to information that is of limited relevance for investors.

3. Regarding the industry-specific standards, clarification is needed on the interplay between the Appendix B of IFRS S2 on industry-specific requirements derived from SASB and the list of sources in paragraph 51 of IFRS S1. While the latter is meant to point at possible sources of any risks and opportunities (and related disclosures) which may result in material information, the former is an appendix that is expected to be specific to climate disclosures, but it instead seems to relate, in some cases, to disclosure requirements that go beyond climate-related matters strictly speaking. Furthermore, the granularity of these requirements, coupled with the fact that industry classifications vary across the world (e.g. EU classification would differ from the SASB classification), may make it necessary to introduce these requirements in a phased manner, so as not to hamper convergence at international level with other initiatives, most notably EFRAG in Europe and GRI which has for many years been setting standards at global level to reflect sustainability-related impacts. We would therefore recommend considering how sector-specific guidance could be included as part of the standards at this stage. Any sector-specific guidance should be considered as part of the broader task of building international convergence with other international and regional initiatives. In this respect,

subject to other specific comments in relation to IFRS S2, we support the current approach to introduce relevant SASB guidance as an appendix to the climate standard rather than as standalone guidance and we would recommend that the ISSB follows the same approach for other future topic-specific standards.

4. The AFM would also like to join ESMA in flagging one aspect the use of the terms “significant” and “material” throughout IFRS S1 and S2. The way that those are used now may impair the ability of enforcers and auditors to determine whether an entity has complied with the Standard. It would be important to understand the relationship between material information and significant risks and opportunities from a process perspective and how to distinguish what is material from what is significant, if any difference is meant to exist.

5. The AFM notes that connectivity between sustainability-related and other financial information is crucial for investors. Enterprise value creation is best assessed when sustainability-related risks and opportunities are presented in the wider context of the entity’s purpose, business model, products and services and interaction with the value chain. Therefore, the AFM, like ESMA would suggest that the ISSB considers how relevant content of the IFRS Foundation’s Practice Statement on Management Commentary may be incorporated into the sustainability reporting standards to complement the sustainability-related disclosures with relevant context, for example, a description of the business and of the external environment in which the entity operates, the entity’s main markets and competitive position, the main products and services, business processes and distribution methods, the entity’s structure and how it creates value. Where this information is presented elsewhere than in the sustainability report, it would be useful that appropriate cross-referencing to this information is made. This is because it would be important to ensure that sustainability-related information is set out in the broader context of an entity’s operations.

6. Finally, to encourage global comparability of sustainability-related information and interoperability with other sets of standards, the AFM recommends that the ISSB (together with other major standard-setting initiatives, such as GRI and EFRAG) engages in a joint mapping exercise of its general requirements and climate-related requirements with those of GRI and EFRAG in order to (i) clearly identify areas where convergence can still be built, (ii) better understand areas of justified divergence, (iii) be able to explain those to the wider audience and (iv) assess areas of present and possible future compatibility. More generally, consistency in architecture and terminology between the ISSB’s general and climate-related requirements and other major standard-setting initiatives should be achieved as far as possible when the underlying concepts are meant to be the same. Similarly, when the same data points and narrative information are meant to be requested under the ISSB and other standards, the terminology used for those common disclosure requirements should be as aligned as possible.

Question 2 (Objective)
7. The AFM notes that the text in paragraph 1 refers to the usefulness of the information to the primary users both to assess enterprise value and decide whether to provide resources to the entity. Whereas the definitions of sustainability-related financial disclosures and information in Appendix A only refers to ’assess enterprise value’ and no reference is made to the fact that users will use this information to decide whether

to provide resources to the entity. In our view, it would be helpful to repeat in Appendix A the intended value of the sustainability-related financial information for decisions regarding resource provision to the entity. It would also be helpful if the ISSB clarifies in paragraph 1 which types of resource provision, and by which types of actors or stakeholders (e.g. credit lenders, enterprises seeking to engage in joint projects with the reporting entity, governments considering providing subsidies, etc.) are referred to. The AFM would recommend adopting a (relatively wide) definition of resource provision that matches the wide definition of single materiality that the AFM supports (see our response to Question 8). The intended usage of the sustainability-related financial disclosures and information and definition of resource provision could also be addressed in the Appendix where guidance is provided on the implementation of the qualitative characteristics of useful disclosures and information (see also our response to Question 1, comment 2).

8. As set out in response to Question 1 (overall approach), we would suggest defining in Appendix A what is meant by ’sustainability’. The AFM would also suggest clarifying the difference between ’sustainability-related financial disclosures’ and ’sustainability-related financial information’ and the relationship between those two terms and what is the intended outcome in applying this distinction.

Question 4 (Core content)
The AFM’s remarks regarding the core content of the ED relate only to the proposed reporting requirements on “Strategy” and “Metrics and targets.” Our remarks are mostly in line with ESMA’s on the same topics.

In relation to **Strategy**:

9. In paragraph 15, the ISSB should consider explaining how the notions of ’business model’ and ’strategy’ relate to the notion of ’enterprise value creation’. For example, in paragraph 15.b the ED requires disclosure of the effects of significant sustainability-related risks and opportunities on its business model and value chain. However, this information would be useful only if complemented by disclosures illustrating the business model and value chain of the entity which, as mentioned in paragraph 7, IFRS S1 does not require.

10. In paragraph 17 we suggest that it may be useful to define ’resources’ since, in the context of sustainability reporting, this notion could diverge from the notion of ‘Economic resources’ that is referred to in the Conceptual Framework.

11. In paragraph 18, the AFM would recommend that the ISSB clarifies time bands or at least provides more examples and guidance on the drivers that may help define the ’short, medium and long’ term. It would also be important to ensure consistency with these notions as adopted in financial reporting.

12. In relation to paragraph 20, we note that it could be difficult for reporting entities to retrieve information to monitor the risks and opportunities arising upstream across the value chain, especially when entities do not control these suppliers. While entities are expected to have sufficient knowledge of their counterparties in the supply chain to address any material risks and opportunities that may arise from the

relationship with them, the Standard may need to provide examples to help assess such risks and opportunities, especially when direct information from the suppliers is not available. For the sake of global comparability of sustainability-related information, the guidance on information gathering in relation to value chains and any possible alleviations allowed for in specific cases should be agreed upon and converged internationally as much as possible.

13. In paragraph 22, it is stated that 'an entity shall disclose quantitative information unless it is unable to do so'. In our view, a reporting entity should be required to explain why it is unable to provide quantitative information and which efforts it is undertaking (if any) to remedy that inability. Furthermore, it should be encouraged generally that the reporting entity complements the quantitative information it discloses with qualitative and narrative explanation.

14. Paragraph 22(b) indicates that the period over which a significant risk that there will be a material adjustment to the carrying amounts is considered is limited to the next financial year. We note that this period may need to be extended, considering the nature of sustainability-related risks and opportunities and their longer tail than financial risks. For instance, it would be important to know which sustainability-related risks do not yet trigger recognition of financial impacts in the current period's financial statements or in the next period, but may do so in a longer and still reasonably estimable period under certain conditions (for example, if there is lack of action from companies to take measures to mitigate or prevent material environmental and/or social risks).

15. In paragraph 22(c), examples are provided of the effects of current and committed investment plans on financial position - we would suggest that 'possible impairment of existing assets' be included as an example.

16. In paragraph 23, it would be useful to specify that reporting entities have to be transparent on the main assumptions and uncertainties when disclosing the resilience analysis as these are key for an understanding of the disclosures and for their verifiability.

On **Metrics and Targets:**

17. Paragraph 28 indicates that reporting entities must include metrics that are defined in other applicable IFRS Sustainability Disclosure standards and metrics developed by the reporting entity itself. The metrics developed by the reporting entity can address either topics not yet addressed in the ISSB standards, or topics already addressed by ISSB standards. In the latter case, the AFM believes that the Standard should require additional transparency to ensure that adequate information is provided to investors on their definition and underlying calculation methodology. In this respect, we suggest considering as examples of possible disclosures the requirements in ESMA's Guidelines on Alternative Performance Measures and the accompanying Q&As which, for example, require the use of meaningful labels for the metrics disclosures and the reconciliation with any other (mandatory) metrics of which the entity-developed ones would constitute an 'adjusted' version. When entity-specific metrics constitute adjusted versions of any mandated

ISSB metrics, transparency on that fact should be provided and care should be taken in ensuring that these metrics are not made more prominent than the metrics required by other IFRS Sustainability disclosure standards or those in paragraph 54.

Question 5 (Reporting entity)
The AFM agrees with ESMA's comments relating to the reporting entity in the ED (see comments 18 and 19). We additionally want to flag the particular difficulty associated with interpreting the boundaries of the value chains of financial enterprises and the need to achieve a common global understanding of those boundaries in relation to material sustainability-related risks and opportunities for the enterprise value creation of financial enterprises (see comment 20).

18. The AFM supports the definition of reporting entity (i.e., mirroring financial statements boundaries). However, we would suggest clarifying the reference in paragraph 40 to associates as entities on which the reporting entity has control, as associates are not typically within the control perimeter of the reporting entity. It would be beneficial to draw a distinction between the reporting entity (whose perimeter should squarely match that of financial reporting consolidation) and the sustainability reporting boundary which may go beyond the reporting entity and include associates and value chains.

19. In general, in relation to paragraph 40, the AFM believes that reporting entities may have difficulty in providing information relating to value chains, and particularly suppliers, when they do not control these operators, which may impair the quality of the reported information. It would be important to envisage alternative mechanisms in an initial phase of the mandatory reporting for reporting entities to gather the necessary information when relevant data is not available directly from suppliers or is incomplete. Provisions in this regard could include the use of estimates (accompanied by appropriate disclosures on the nature and source of estimates/data and implementation guidance) and the list of material entities in the value chain for which information was not directly available and the reasons for this fact. See also our response to Question 4 (comment 12).

20. It is the AFM's view that, in the absence of clear guidance in this respect, financial enterprises will experience particular difficulties in applying consistent interpretations of the extent and breadth of their value chains which are relevant to sustainability-related risks and opportunities. Apart from their supply chains and service providers, it may be assumed that the counterparties to loans, insurance contracts and investments done (or securities held) by financial enterprises are relevant to the value chains of financial enterprises. We believe, however, that it may be difficult for financial enterprises to apply in consistent ways this extended conception of their value chains in their sustainability reporting. Guidance would be required concerning the criteria for incorporating certain counterparties in the materiality analyses of financial enterprises. Similarly, guidance is needed regarding the extent to which the value chains of these counterparties themselves should be form part of such a materiality analysis. We encourage the ISSB to collaborate with GRI and EFRAG to develop internationally-accepted and interoperable conceptions of the value chain of financial enterprises. Furthermore, we would like to stress that the Standards should aim to establish a view of such value chains which optimally balances comprehensiveness (for the users of

sustainability-related financial information) and manageability from the entity's point of view. The AFM therefore asks the ISSB to develop an adequate, relevant, bounded and feasible definition of financial-sector value chains.

Question 6 (Connected information)

21. The AFM strongly supports the requirements to promote connectivity across the sustainability reporting and with other parts of the annual financial report, including the financial statements. However, in concurrence with ESMA, we suggest that in relation to paragraph 42 the Standard explicitly requires consistency, where possible, with assumptions and estimates used in financial statements for the same horizons as those used in the sustainability reporting and an explanation for the cases in which such consistency could not be achieved. Consistency should also be required with respect to the contents of the management report, for example on the business model and (impacts) on strategy.

22. In line with ESMA, the AFM also notes that part of the information requested in paragraphs 42-44 may already be part of the IFRS financial statements when there is an effective incorporation of climate-related matters in financial reporting. In this respect, we recommend that the Standard clarifies two aspects: (i) the disclosures on linkages between sustainability-related financial information and financial statements do not replace the need for adequate reflection of sustainability-related matters in IFRS financial statements; and (ii) entities should not duplicate sustainability-related information already present within the financial statements but rather make cross-reference to it when necessary to complement the sustainability information.

Question 7 (Fair presentation)

23. In paragraphs 51-54, the ED proposes a list of authoritative sources for the identification of significant risks and opportunities and the related disclosure requirements. However, the AFM believes it would be important to clarify whether reporting entities are expected to review each one of the listed sources of guidance in paragraph 54 and whether these sources are meant to be used in any particular order of preference (i.e., as a hierarchy of sources, for example in the order in which they are listed in the ED).

Question 8 (Materiality)

24. The AFM notes, with ESMA, that investors interested in sustainability-related matters may also be interested in 'impacts' per se and not necessarily in connection with the ability of an investee company to preserve or increase enterprise value. Furthermore, that lack of standardisation of the 'impact' side of materiality may contribute to the greenwashing noise that makes it more difficult for investors to target – when they so wish – investments which are capable of having real-world sustainability impacts or that are assessing corporations which are on a path towards meeting certain sustainability objectives.

25. The AFM strongly recommends that the ISSB expounds in the Standards a (wide) definition of the enterprise value creation materiality principle that explicitly describes the myriad ways in which a corporation's external social and environmental impacts can affects the corporation's own financial prospects and value creation potential of a corporation in the short, medium and long term. In our view,

this is key to requiring reporting entities to develop and report a full view of the material sustainability-related risks (transition, physical, reputational, etc.) and opportunities they face, which in turn is key for investors to assess the enterprise value creation. A corporation's negative impacts on societies or the environment can lead to financial losses through for example civil lawsuits, consumer boycotts, exclusion by institutional investors, or future legislation which prohibits certain activities and therefore leads to stranded assets. Negative impacts can also affect enterprise value in subtler ways, such as through reputational effects that damage a corporation's ability to hire talent or diminishes the eagerness of other companies to work with the corporation. Corporations can also degrade their own raw input production base through unsustainable soil or resource exploitation. Conversely, sustainable practices can create value for enterprises through reputational effects, so called 'greeniums', and by making corporations more resilient in the face of changing legislation, social preferences and resource squeezes. A full view of the relationship between sustainability and enterprise value creation therefore goes far beyond *direct* effects of sustainability matters on enterprise value creation (e.g. deteriorating production conditions resulting from climate change) and includes many more indirect effects of the corporation's own impacts on societies or the environment which create (potential) positive or negative feedbacks for the corporation itself.

26. The AFM also recommends, following ESMA, that the ISSB considers providing guidance on how to perform materiality analyses (plural) and illustrates different approaches to performing a materiality analysis. In particular, one specific issue of the materiality assessment process which requires clarification is the role of ’impacts’ in the architecture of the draft IFRS S1. If not addressed, this issue may make interoperability with other reporting standards more difficult. The issue can be summarised as follows:

a. Impact materiality and enterprise value creation materiality are two intertwined concepts whereas impacts that reporting entities generate on people and environment may activate a feedback loop that ultimately affects enterprise value. In other words, some of the identified impacts will also be relevant from the perspective of enterprise value creation. See our comment 25 (above).

b. The identification process of all relevant impacts is well-structured and identified in GRI Standard #3 Material Topics 2021.

c. The identified impacts should then still pass through the “filter” of the risks and opportunities they pose to enterprise value creation.

d. In order to enable interoperability with initiatives looking at both enterprise value creation and ’impact materiality’, it would be important, that this process for identifying all relevant impacts is as much as possible agreed upon internationally.

e. To this end, we would like to make the following suggestions:

i. On the basis of the existing cooperation agreements, the ISSB continues to engage in discussions with GRI as well as with EFRAG to achieve a common understanding and deliver largely consistent requirements on the impact identification process; and
ii. IFRS S1 to spell out this process for identifying impacts and then filtering them through the enterprise value creation lens more clearly. See also our comment 25 (above).

27. The AFM believes it would also be useful if, in addition to those in paragraph 6, the Standard would list other examples of potentially material sustainability-related topics which should be referred to as non-exhaustive. This list of examples should complement a definition of 'sustainability-related matters' that, as indicated in our response to Question 1 (comment 1), would be necessary.

28. The materiality approach chosen by the ISSB lacks the 'impact materiality' perspective (included in GRI standards and the ESRS) and will cover impacts only to the extent that an entity's external impacts result in risks and opportunities that are relevant to enterprise value creation. It is important that the existing cooperation with GRI and, as part of the jurisdictional working group, with EFRAG focuses on practical convergence mapping which can help building interoperability of the respective standards. Ultimately, the users of sustainability-related information will be interested in relying on a comparable, reliable and relevant set of disclosures and it would be important that it is clear how the different standards and resulting information compare with and complement the others.

29. Lastly, in paragraph 57 the ED provides an example of material sustainability-related risks and opportunities with high impact but low probability outcomes. It may be important for investors, however, to also have information about high-probability events which trigger risks and opportunities such as the impacts of climate change which may have a or moderate impact on an entity.

Question 10 (Location of information)
30. The AFM recommends that, without preventing the use of other locations, the Standard indicates as the preferred location for the sustainability statements the management commentary. This will facilitate connectivity with the other information sitting in the management report, including those on an entity's purpose and business model. It will also be in line with the ESRSs as the EU's Corporate Sustainability Reporting Directive (CSRD) requires the sustainability report to be part of the management commentary.

31. In relation to paragraph 75, the AFM suggests requiring the disclosure of a table identifying where sustainability-related information is placed within the general-purpose financial reporting or in other documents through the incorporation by reference mechanism. This table would facilitate identifiability and accessibility of this information, help the digitalisation of the reporting and support the work of external auditors and enforcers.

Question 12 (Statement of compliance)
32. In relation to paragraphs 91-92, the AFM is generally supportive of the proposed relief to provide certain disclosures that would otherwise be required by an IFRS Sustainability standard when such

disclosures would be prohibited by local laws or regulations. However, the AFM considers it not appropriate to claim full compliance with the IFRS sustainability standards in the event that certain material information is not published due to national regulation. In this situation, the AFM rather believes that the entity should clearly state that it complies with the standard except for the omitted disclosure and the reason for not disclosing this information. In this way, it can be avoided that users of the sustainability reports have the impression that they have been presented with all material information when that may not be the case due to local disclosure restrictions. Furthermore, the risk of regulatory arbitrage can be mitigated.

33. In particular, the AFM suggests requiring that when an entity applies such relief, it also clearly describes in the statement of compliance which of the required disclosures have not been provided and the source of the restriction.

Question 14 (Global baseline)
34. In the AFM's view several improvements to the ED would be desirable in order for the IFRS Sustainability Disclosure Standards to provide a comprehensive global baseline for the assessment of enterprise value.

a. The standards could provide a clearer definition of the topics covered in ISSB's definition of 'sustainability.' See also our response to Question 1 (comment 1).

b. The introduction of industry-specific requirements drawn from the SASB framework could be delayed to ensure the possibility of achieving interoperability with yet-to-be developed industry-specific ESRSs and amended to better reflect global definitions and industry classifications. See also our response to Question 1 (comment 3).

c. Efforts should be made to align the standards, where they overlap regarding enterprise value creation, with the standards developed by the GRI and regional standard setters such as EFRAG in terms of terminology, definitions and architecture, after differences have been identified by means of joint mapping exercises. See also our response to Question 1 (comment 6).

d. The ISSB could provide guidance on how reporting entities are to assess risks and opportunities in their value chain, especially where sufficient data and information is lacking. In developing this guidance, the ISSB should ideally ensure alignment with the guidance provided by other major global and regional standard setting initiatives. See also our response to Question 4, comments 12).

e. We furthermore recommend that the ISSB explicitly adopts a wide interpretation of enterprise value creation in its definition of materiality and that this definition includes risks and opportunities for a corporation that result from the corporation's (social and economic) impacts. See also our response to Question 8.