AFG

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

Paris, 29th July

Re: Comment letter on ISSB Consultation

Dear Mr Faber,

The AFG federates the asset management industry for 60 years, serving investors and the economy. It is the collective voice of its members, the asset management companies, whether they are entrepreneurs or subsidiaries of banking or insurance groups, French or foreigners. In France, the asset management industry comprises 680 management companies, with €4355 billion under management and 85,000 jobs, including 26,000 jobs in management companies.

This letter sets out the most important matters that French asset managers have identified.

We welcome and overall support the ISSB initiative to develop global baseline standards for sustainability disclosures.

The fight against climate change is a priority at European level. Climate reporting plays an important role in achieving global climate-related objectives, notably keeping the temperature below 2°C and pursuing efforts to limit it to 1.5°C above pre-industrial levels. As a member of the G20 countries, France is committed to promoting a convergence in international reporting standards on climate and recognized that climate-related objectives would be hard to achieve without a harmonization of jurisdictional reporting standards. We believe that investors that operate globally will benefit from such convergence and harmonization.

Such convergence in international reporting standards across different jurisdictions will be beneficial to:

- investors operating globally,

- preparers that will have their reporting costs reduced
- and all stakeholders that need relevant, consistent and comparable 'sustainability related information' to avoid greenwashing and redirect capital flows towards sustainable investment.

In the context of the urgent need to improve the consistency, comparability and reliability of sustainability reporting for investors, we support the ISSB's proposal to require disclosing '*sustainability related information*'. This should enable investors to better understand how climate change may affect their investments. We also welcome the efforts to build upon the existing commonly accepted frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD). We note that European Sustainability Reporting Standards (ESRS) on Climate Change are also inspired by the TCFD. Accordingly, we believe there is a high potential for compatibility in the disclosure requirements between those in the ESRS on climate change (ESRS E1 *Climate change*) and in the IFRS S2.

To maximize the efficiency of the collective efforts in converging sustainability standards at EU and global level, we invite the ISSB to consider the following recommendations:

1. **<u>Interoperability and dialogue</u>**

We believe that **interoperability between reporting frameworks must be a priority** to ensure that undertakings reporting under the future ESRS are also compliant with the ISSB framework.

In this regard, **we support the ISSB initiative to set up a working group of jurisdictional representatives** – including the SEC and the European Commission – **to establish dialogue for enhanced compatibility between the various jurisdictional initiatives on sustainability disclosures.**

2. **<u>Broadening the scope of the disclosures: '*double materiality*' and full ESG spectrum</u>**

Building on this dialogue and in line with the EFRAG proposed ESRS, we are convinced that companies should disclose information on both financial and impact materiality. Indeed, we believe that impact of companies on the people, planet and economy is relevant for investors to assess the entity's enterprise value over the short, medium and long term. Then, **we believe that the ISSB framework should also consider and embrace the '*double materiality*' concept promoted by the EU Commission and reflected by the EFRAG standards.**

When it comes to the content, we welcome the ISSB efforts to build a framework for climate-related disclosures. However, **to have a fair understanding of sustainability information, we believe that the disclosure** scope should not only cover 'climate-related information' but **should cover all the other ESG topics** (biodiversity, water and marine resources, circular economy pollution, social, and governance). We urge the ISSB to develop disclosure on all the ESG topics. Such disclosure could be based on EFRAG's work, having in mind that EFRAG's work should be simplified and prioritised.

3. Including some mandatory indicators

The European Union in building its' ambitious framework, adopted the Sustainable Finance Disclosure Regulation which aim is to provide further transparency with regards sustainability factors of financial products and prevent greenwashing.

Pursuant to this regulation, financial institutions are required to disclose 'principal adverse impacts' (PAI) of investment decisions on sustainability factors. To fulfil this requirement, financial institutions will have to publish a list of 'adverse sustainability indicators' among a list of 48 indicators (14 mandatory indicators and 2 additional indicators to be published by financial institutions). Financial institutions rely on information from their counterparts to answer this requirement.

EFRAG, when drafting the ESRS Exposure Drafts, made its best to make sure that most of SFDR PAI indicators (48 indicators) would be covered by the proposed disclosure requirements. The approach taken by EFRAG was to directly implement the indicators wherever possible or, when not possible, to make sure that the information needed by the financial institutions would be easily identified and found in the ESRS Exposure Drafts Disclosure Requirements.

We would urge the ISSB to also include these indicators in their requirements to allow financial institutions to comply with the SFDR.

4. Transition plans and carbon offsets

We support ISSB proposal to require companies to disclose their transition plans. Indeed, these plans are essential to help investors understand companies' trajectory and efforts towards climate transition.

To avoid greenwashing, we believe that the Exposure Draft should clarify that:
- The absence of a transition plan should be clearly stated and explained by the company.
- '*Absolute GHG emission reduction actions*' should be a mandatory feature of the transition plan.
- Transition plan content should clearly refer to emissions reduction targets without using carbon offsets.

While we agree that carbon offset disclosures will enable users to understand a company's approach to reduce its' emissions, we believe that further transparency should be provided on the matter. We believe that ISSB should draw on EFRAG

work and make a distinction between '*emissions reduction targets*' and '*GHG neutrality targets*'. To that extent, we believe that '*carbon offsets*' should not be counted in '*GHG emissions reduction targets*'.
The Exposure Draft should also distinguish disclosure related to '*emissions offsetting*' and to '*GHG emission reduction in the value chain*' as they cover actions of different nature.

5. Clarifications

The Exposure Drafts require further clarification on the following key concepts:

- **The definition of '*sustainability-related*' financial information:** we believe that the definition should be aligned with EFRAG approach and cover all the ESG aspects (Environment as a whole, social and governance.
- **The definition and use of the terms '*material*' and '*significant*':** both terms are used along the Exposure Drafts and it is unclear how we should distinguish them. The relationship and difference between these two terms should be clarified.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Philippe Setbon