Boston Trust Walden
Principled Investing.

July 28, 2022

International Sustainability Standards Board (ISSB)
The International Financial Reporting Standards Foundation (IFRS Foundation)
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

RE: Comment on IFRS Sustainability Disclosure Standards, General Requirements Exposure Draft

Dear ISSB Board,

Boston Trust Walden Company is an independent, employee-owned investment management firm with approximately $12.7 billion in assets under management.[1] Our firm has been integrating environmental, social, and governance (ESG) factors, inclusive of climate risk, into investment decisions since 1975—one of the longest track records of any institutional investment manager.

At Boston Trust Walden, we seek to invest in enterprises with strong financial underpinnings, sustainable business models, prudent management practices, and a governance structure that supports these objectives. Consideration of ESG factors is part of our fiduciary duty to ensure client assets are invested in a set of securities well situated to produce attractive risk-adjusted returns over the long term.

Since 2017, Boston Trust Walden has served as a member of the Sustainable Accounting Standards Board (SASB) Investor Advisory Group (soon to transition to the ISSB Investor Advisory Group) to support the development of a globally recognized framework for consistent, comparable, and reliable disclosure of financially material, decision-useful ESG information. To further this goal, we have led and facilitated numerous collaborative Investor Advisory Group engagements with companies to encourage adoption of the SASB Standards. Outside of the IAG, we regularly promote the uptake of the SASB Standards in conversations with portfolio companies.

We write to express our support for the ISSB's recently published exposure drafts *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Disclosure*[2] (IFRS S1) and *IFRS S2 Climate-related Disclosures*[3] (IFRS S2). We commend the ISSB and the IFRS Foundation for proposing these frameworks that appropriately recognize the need for a global set of baseline sustainability disclosure standards that provide consistent, comparable, and reliable sustainability

[1] Includes assets managed by Boston Trust Walden Company and its wholly owned investment adviser subsidiary, Boston Trust Walden Inc. as of June 30, 2022.
[2] "Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information." IFRS Foundation, March 2022. https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf
[3] "Exposure Draft IFRS S2 Climate-related Disclosures." IFRS Foundation, March 2022. https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf

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information to ensure a modern, competitive, and healthy global financial marketplace. We also applaud the ISSB's "building block" approach in developing these Exposure Drafts, which serves to better facilitate additional jurisdiction- or stakeholder-specific requirements. This interoperability of sustainability standards is of paramount importance given the current sustainability-related financial information disclosure rules being considered at the US Securities & Exchange Commission (SEC) and the European Financial Reporting Advisory Group (EFRAG).

We appreciate the opportunity to comment on the Exposure Drafts, which we hope will gain international adoption to better serve investors and the broader market. In the sections that follow, we provide supportive comments and suggestions for enhancement on various elements of the General Requirements Exposure Draft, as requested by the ISSB Chair and Vice-Chair, with specific questions from the Exposure Drafts cited parenthetically. Please note comments follow the order of the Exposure Draft and do not necessarily reflect order of importance.

Overall Approach

We believe the proposed requirements in IFRS S1 meet the stated objective for reporters to disclose information about significant sustainability-related risks and opportunities that are useful to investors when assessing enterprise value (Question 1[b]).

Access to consistent, comparable, and reliable information is critical to our ability to comprehensively incorporate ESG factors into investment decisions. While the growth in the absolute number of companies producing some form of sustainability reporting has been noteworthy, the quality of disclosure remains inconsistent and generally lacks decision-useful context to enable a more comprehensive assessment by investors of corporate enterprise value.

The proposed requirements address this challenge in three ways. First, by leveraging for the core content the Task Force on Climate-Related Financial Disclosures (TCFD) reporting structure (governance; strategy; risk management; metrics and targets). This is an approach that many investors will be familiar with given the proliferation of the TCFD among global reporters, and one that aligns with our own framework for assessing corporate management of sustainability-related risks and opportunities. Use of the TCFD structure is just one example of the ISSB leveraging existing frameworks that have undergone robust due diligence processes resulting in strong market buy-in—a key positive to the overall approach of IFRS S1.

In addition, by pointing reporters to consider the industry-based SASB Standards when identifying sustainability-related risks and opportunities, the ISSB ensures that disclosures focus on material aspects of a company's business. The SASB Standards are unique in that they were designed to fill the need for ESG disclosures tailored to investors and other providers of financial capital. Instructing reporters to reference these standards when developing the scope of reporting will serve to enhance the usefulness of the IFRS Sustainability Disclosure Standards among the target audience.

Finally, additional guidance on topics such as connected information, comparative information, frequency of reporting, and location of information all serve to strengthen the consistency and comparability of sustainability-related disclosures across the market.

Objective

The proposed objective of disclosing sustainability-related financial information is clear and additive to the current sustainability-related disclosure landscape (Question 2 [a]).

As an investment manager that integrates sustainability-related risks and opportunities into our decision-making process, greater insight into *if* and *how effectively* a company is managing its material risks and opportunities helps us ensure our client assets are invested in a set of securities better positioned to manage risk and produce attractive risk-adjusted returns over the long term.

By focusing on material information to assess corporate performance against sustainability-related risks and opportunities, as well as directing reporters to explain how this information affects enterprise value, the IFRS S1 seeks to address an information gap that no existing sustainability-related framework has been able to comprehensively fill. The impacts that a company has on people and the planet are rarely explicitly tied to the financial performance and outlook for a company, hindering a comprehensive assessment of enterprise value and the overall risk profile. We believe the objective to fill this information gap is made clear in IFRS S1, and the content of the entire Exposure Draft delivers on this objective.

Connected Information

We welcome the requirement for reporters to provide information enabling an assessment of the connections between various sustainability-related risks and opportunities (Question 6[a]).

As an investment manager that examines company ESG performance to enhance our understanding of potential financial outcomes associated with issues ranging from risks (e.g., losing the license to operate) to opportunities (e.g., generating new sources of revenue), requiring reporters to demonstrate the connectivity between these activities and long-term value creation is critical. Currently, many companies provide anecdotal disclosures on sustainability topics such as energy management and design for the circular economy, but few connect performance against these risks and opportunities with information in general purpose financial statements – detailing effects on revenues, expenses, assets, or risk reduction, for example.

Explaining connections between sustainability-related risks and opportunities and enterprise value creation should also benefit reporters by enhancing management's analysis, decision-making, resource allocation, strategy, and response to external factors such as regulation and consumer trends. Such connectivity also serves to help investors understand why – or why not – a company has undertaken a specific action to address a sustainability-related risk or opportunity.

The guidance provided in paragraphs 43 and 44 is useful in aiding reporters to conceptually understand how to implement the requirement for connected information. That said, we recognize only a small number of reporters currently connect information to the extent prompted by the Exposure Draft, and the broad nature of the guidance could hinder the underlying goal for consistent, comparable, and decision-useful sustainability-related financial information.

- ***To address this potential gap, we encourage the ISSB to develop a core set of questions and/or prompts for connected information to better standardize and focus the disclosure efforts of reporters.*** While the suggestions for consideration within the current guidance provide ample flexibility for reporters, we are concerned implementation may prove challenging without additional illustrative guidance for how companies should demonstrate the connectivity between various sustainability-related risks and opportunities within general purpose financial reporting. Although we note that two examples of connected information are provided in Paragraph 44, we worry this may not be sufficient in guiding reporters to the extent necessary to promote comprehensive, comparable, and decision-useful disclosure. While recognizing the desire to avoid being overly prescriptive, as well as the challenges in foreseeing all potential avenues for connectivity, we believe additional structure and context for the scope of expected disclosure is necessary to meet the information needs of investors.

In addition to the intersectionality between sustainability-related risks, opportunities, and financial factors, it is also important to recognize that many sustainability issues cannot be managed in isolation—addressing one issue can have a knock-on effect on another. IFRS S1 provides a hypothetical example, referencing a company's "decision to restructure its operations in response to a sustainability-related risk could have consequential effects on the future size and composition of the entity's workforce." As highlighted by the example, interdependent issues often require trade-offs between two or more potentially competing impacts. The required disclosures for connected information would be strengthened by requiring reporters to identify if and/or how they manage trade-offs between sustainability-related risks, including the governance structure in place for making such decisions.

- ***We encourage the ISSB to include specific language instructing reporters to consider credible future standards or guidance on the topic of connectivity.*** Given the proliferation of frameworks for corporate sustainability-related disclosure published in recent years, it is possible that more robust standards on how to better demonstrate connectivity may be developed in the near future. Such standards could serve to enhance the consistency and comparability of reporters discussing connectivity, while also ensuring that the proper conversations and connections are being made at the company level. As a member of the United Nations Principles for Responsible Investment (UN PRI), we are aware of a comment letter it submitted suggesting the ISSB provide a broad statement requiring entities refer to the most recent pronouncements of other standard-setting bodies and initiatives to help guide the scope and formatting of disclosure. We concur with this approach.

Fair Presentation

We support the use of the industry-based SASB Standards as a source of guidance for reporters to identify sustainability-related risks and opportunities (Question 7[b]).

We find the sources of guidance to identify and disclose against sustainability-related risks and opportunities in Paragraph 51 to be comprehensive and complete, strengthened by the inclusion of the SASB Standards within the list of sources to be considered by issuers. Boston Trust Walden has long supported and encouraged the use of SASB Standards as a core element of corporate sustainability-related disclosures given 1) the focus on financial materiality, 2) the connection between sustainability and enterprise value creation, 3) the rigorous and transparent due diligence process for Standards creation, and 4) the industry-based approach. In addition, using and building upon well-established and widely-accepted sustainability disclosure standards, such as the SASB Standards, allows for an effective and efficient response to market demands.

The industry-based approach of the SASB Standards is important as it rightly reflects the fact that sustainability-related risks and opportunities vary between and within sectors. For example, the sustainability-related opportunities for the financial sector can include the development and integration of ESG factors within products and services offered to capitalize on the growing consumer demand for sustainable finance, while also serving to mitigate exposure to systemic risks such as climate change. Decision-useful metrics related to this opportunity may not apply to companies within the consumer staples or healthcare sectors, nor would they necessarily apply to certain industries within the financial sector, such as Consumer Finance or Security & Commodity Exchanges.

An industry-based approach to sustainability-related financial information is consistent with the approach taken by traditional fundamental analysts when analyzing the quality and business model strength of issuers. Investment professionals look at companies within sectors compared to peers, requiring different information sources. For example, the profitability and growth prospect indicators considered by a real estate sector analyst differ from those of an energy sector analyst. Recognizing the fundamental differences in material ESG risks and opportunities between and within various sectors, an industry-based approach to sustainability related financial information is appropriate.

- ***Given the critical value an industry-based approach brings to the usefulness of disclosures prompted by IFRS S1, we encourage the ISSB to develop and communicate an accelerated timeline for moving the SASB Standards through ISSB due process to become IFRS Sustainability Disclosure Standards***. Doing so would serve to further legitimize the Standards in the eyes of all stakeholders, while providing reporters ample time to align data tracking and reporting functions in advance of potential regulatory adoption. The credibility of the SASB Standards is largely derived from its rigorous, transparent, and market-informed due process, which included evidenced-based research, broad stakeholder engagement, and independent oversight by the SASB Standards Board. We hope that recognition of the robust due process of the SASB Standards can serve to expedite formal ISSB due process for adoption without sacrificing the rigor and transparency the ISSB seeks.
- ***In addition, we encourage the ISSB to develop agile due process standards for updating and refining IFRS Sustainability Disclosure Standards***. In recent years, corporate sustainability reporting and the information needs of investors and investment managers have rarely evolved in step. Ensuring the IFRS Sustainability Disclosure Standards remain relevant in a rapidly changing business and investment environment is paramount to the long-term success of the ISSB.

While we support the inclusion of the SASB Standards in Paragraph 51, we recognize these Standards alone cannot anticipate every possible jurisdictional- or business model-specific consideration. The additional sources provided appear to respond comprehensively to these potential gaps and, as a result, we do not have any recommendations for supplementary or alternative sources.

Materiality

The definition and application of materiality would be enhanced by requiring a discussion of the process by which reporters assess materiality to the business of sustainability-related risks and opportunities (Question 8[a]).

Despite our consistently stated support for the sources of guidance provided to identify sustainability-related risks and opportunities within IFRS S1, we are also cognizant that the notion of materiality is dynamic. The SASB Standards, to which the ISSB points to as leading guidance to reporters, implicitly acknowledges as much through its ongoing updates and maintenance of the Standards. As we have often observed through our decades of engagement with portfolio companies on sustainability-related risks and opportunities, it can sometimes take years for a company to fully appreciate the material impacts a sustainability-related topic can have on the business. These are not determinations that occur at the flip of a switch – rather, it can take time for a full understanding of an issue to matriculate across all levels of an organization, and external factors to the business can also influence whether an issue becomes material. As investors, it is critically important for us to understand how reporters come to determine the scope of material sustainability impacts at any given point.

- ***We encourage the ISSB to amend the section on Materiality in IFRS S1 (Paragraphs 56-62) to include requirements for a discussion regarding the process by which the company identified material issues.*** The Draft Exposure currently lacks any requirement to this end, which we believe would be useful for investors in understanding *how* a company determines if a specific topic is or is not material. The process by which companies determine materiality of sustainability-related topics is fundamental for investors to understand business strategy and response, strengthening the ability to assess connectivity between management of sustainability-related impacts and financial information. Prompting this additional disclosure could also serve to enhance comparability within an industry, enabling companies to evaluate how peers consider a specific sustainability-related risk or opportunity to be material and then to bring that lens to their own reporting practices.

Frequency of Reporting

We support the proposal requiring that sustainability-related financial disclosures be provided at the same time as the financial statements to which they relate (Question 9).

Given that the scope of the Exposure Draft seeks only to include material sustainability-related financial information on all significant sustainability-related risks and opportunities, we believe it is appropriate and necessary that reporting against the Standards in IFRS S1 occurs in parallel with traditional financial reporting. Doing so serves to further the goal of enhancing the connectivity of information between sustainability-related risks and opportunities with information contained in general purpose financial statements.

Investors and companies both need credible risk information to make prudent financial decisions. In practice, for both investors and reporters, it is challenging to integrate sustainability-related financial information into decision-making processes comprehensively and holistically without considering this information in tandem with financial statements. Moreover, requiring sustainability-related financial disclosures be provided alongside the financial statements to which they relate enhances the likelihood of assurance for sustainability-related financial information (where feasible) – serving to maximize user trust and confidence in the information disclosed. Where a high degree of assurance is not feasible, such as with future events with uncertain outcomes, we find the guidance within Paragraphs 79-83 to be useful in aiding preparers.

Ultimately, we believe this requirement would result in companies breaking down the siloed nature of corporate financial and sustainability-related reporting that exists today.

Global Baseline

We support the intention of the IFRS Sustainability Disclosure Standards to serve as a global baseline for sustainability-related financial disclosures, enabling regulators or jurisdictions to build upon the proposed standards with additional sustainability-related risk and opportunity disclosures (Question 14).

The global regulatory landscape for corporate sustainability reporting is at a historic juncture. After decades of reliance on voluntary disclosure of sustainability-related financial information, which ultimately led to inconsistent and incomparable disclosures, the European Financial Reporting Advisory Group (EFRAG) recently released draft European Sustainability Reporting Standards (ESRS) and the Securities and Exchange Commission (SEC) introduced a proposal for mandatory climate-related disclosures in the US.

We support the IFRS Sustainability Disclosure Standards' aim to not conflict with these emerging frameworks, while enabling any additional jurisdiction-specific requirements to be added on as a "building-block" to the General Requirements. The IFRS Sustainability Disclosure Standards serve this function by relying on established frameworks and concepts, such as the structure of the TCFD and the topics and metrics of the SASB Standards, in guiding the format and content of sustainability-related financial disclosures.

We find this approach responsive to the reality of corporate operations and their broader societal impacts--sustainability issues and business operations often transcend jurisdictional borders, and thus the alignment and interoperability of various reporting standards is critical to reduce the burden on reporters, while also striving to meet the needs of investors, local regulators, and other stakeholders.

Likewise, the information needs of investors, local regulators, and other stakeholders are not uniform across the world. Although there is a dire need for a global baseline to improve the consistency and comparability of assessing sustainability-related impacts on corporate enterprise value, we acknowledge this may not serve the information needs of all stakeholders. In our view, there are no obvious aspects of the proposed IFRS Sustainability Disclosure Standards that would hinder the ability of regulators or jurisdictions to build upon the proposed standards with additional jurisdictional-specific disclosure topics or themes.

Costs, Benefits, and Likely Effects

We believe the benefits of the Exposure Draft proposals appropriately balance the associated costs and benefits of implementation (Question 16[a]).

As an investment manager integrating sustainability-related information into our investment decision-making process, we are encouraged by the wide range of benefits likely to come from the implementation of IFRS S1.

Implementation should drive efficiencies in sustainability-related risk and opportunity research and analysis for investors and lead to more efficient capital markets. As previously noted, our analysts examine quantitative and qualitative sustainability-related corporate disclosures to enhance our understanding of the existing and potential financial outcomes associated, ranging from risks (e.g., losing the license to operate) to opportunities (e.g., generating new sources of revenue). In the absence of mandated disclosure requirements, we rely in part on the data of third-party research providers, which includes a mix of issuer provided data and estimates. Our analysts then seek to fill data gaps through additional research and analysis, outreach via written requests, meetings, and shareholder resolutions seeking the expanded disclosure we require.

These processes for gathering necessary sustainability-related disclosures are inefficient and resource intensive. In May 2022, the SustainAbility Institute by ERM (ERM) released the results of a survey of corporate issuers and institutional investors regarding the costs of climate-related data measurement and management. The survey found that issuers reported an average annual cost of $533,000 for climate-related disclosure activities (closely in line with the US SEC's own estimate of

$530,000). The survey also found that investors spend an average of $1,372,000 annually to collect, analyze, and report climate data to inform their investment decisions.[4]

Although the survey cited above is solely focused on climate-related data measurement and management, we believe this is an instructive data point for considering the costs and benefits of broader sustainability-related disclosures. Access to the quantitative and qualitative information prompted by IFRS S1 that is consistently reported and comparable among companies will importantly 1) reduce investor costs related to data collection and analysis, 2) improve evaluation of sustainability-related risk and opportunities across portfolios, and 3) properly inform engagement priorities with companies.

Enhancing the accessibility of consistent, comparable, and decision-useful sustainability-related financial information also serves to benefit smaller market participants, reducing the access bias provided to larger asset owners and managers. In our experience, when seeking information beyond that currently disclosed in corporate sustainability reporting, many companies prioritize requests and dialogues made by institutional investors and investment advisors that own large stakes in the company's equity or, based on their size, have the potential to make a sizable investment. These standards would serve to "level the playing field" and enhance access for all investors and investment managers.

We recognize that implementation of the IFRS S1 may result in additional costs for some reporters who are less familiar with tracking and publicly reporting on key sustainability-related risks and opportunities. The prospects of additional costs are likely eased given the General Requirements' reliance on established frameworks and concepts, such as the structure of the TCFD and the topics and metrics of the SASB Standards, in guiding the format and content of the IFRS Sustainability Disclosure Standards.

Corporate reporting based on the recommendations of the TCFD and the SASB Standards has increased dramatically in recent years. In 2021, over 2,600 organizations across 89 countries and jurisdictions were supporters of the TCFD recommendations, an increase of 410% from 2018.[5] Similarly, over 1,300 unique companies reported sustainability-related information using the SASB Standards in 2021, an increase of over 1,000% from the 117 SASB-aligned reporters in 2019.[6] Just over half of all SASB-aligned reporting entities since 2019 are domiciled outside of the US, demonstrating the rapid uptake of the SASB Standards as a leading global sustainability reporting framework.

As an asset manager integrating sustainability-related information into investment decision-making since 1975, we are greatly encouraged by the prospects of the ISSB's proposal to improve the consistency, comparability, reliability, and decision-usefulness of sustainability-related risks and opportunities disclosure. The development of the IFRS Sustainability Disclosure Standards demonstrates a keen responsiveness to global investor demands and will be instrumental in

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[4] Lee, Mark, Emily Brock, and Doug MacNair. "Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors." The SustainAbility Institute by ERM, 2022. https://www.sustainability.com/thinking/costs-and-benefits-of-climate-related-disclosure-activities-by-corporate-issuers-and-institutional-investors/.
[5] 2021 TCFD Status Report, October 2021 https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Status_Report.pdf
[6] Global Use of SASB Standards: Company Use, accessed July 2022 https://www.sasb.org/about/global-use/

facilitating a more robust assessment of corporate enterprise value. We commend the Board for its work to date and appreciate the opportunity to provide comment on the initial Exposure Drafts.

Sincerely,

Amy D. Augustine

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Director of ESG Investing