THE CHURCH OF ENGLAND

The Church of England Pensions Board submitted a response to the consultation for the International Sustainability Standards Board (ISSB)'s

Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information:

The Church of England Pensions Board provides retirement housing and pensions for those who serve or work for the Church. We assist over 41,000 people across almost 700 employers with their pensions, carefully stewarding the funds under our care of almost £3.7 billion.

As an asset owner, we have a fiduciary duty to our beneficiaries to take full account of the implications of social and environmental issues for the short-term and long-term performance of our investment portfolios. Given that we have highly-diversified, long-term portfolios that are representative of global capital markets, we also have a responsibility to ensure that the behaviours and actions of our investee companies do not damage or degrade the social and environmental systems upon which we rely for economic and financial success of our investment portfolios and, most importantly, not to negatively impact the world into which our beneficiaries will retire into.

Our ability to assess the interactions between social and environmental issues and the way this impacts our investment portfolios is central to our ability to invest and to act in line with our fiduciary duties and our wider interests and responsibilities. Our ability to meet these duties and responsibilities is, however, constrained by the inconsistencies and limitations in current corporate sustainability reporting. We recognise the potential for global accounting standard setters to help address these issues and to build a global reporting framework that is fit for purpose. As such we have welcomed ISSB's announcement that it will develop general and issue-specific (in the first instance, on climate change) requirements for the disclosure of sustainability-related financial information.

However, having read the exposure drafts issued in March 2022, we are concerned that the ISSB's approach will not result in the delivery of data that meets our requirements and is, in fact, likely to exacerbate the lack of attention paid to sustainability issues in the investment system.

Our view is that the issues result directly from the ISSB's opinions on how users use sustainability related information. In particular, its statements that 'users' use sustainability-related data to assess enterprise value and to "make decisions on whether to provide resources to the entity." There are four major issues with this framing:

- The assumption underpinning the emphasis on enterprise value is that there is a clear transmission mechanism from sustainability-related issues and impacts to enterprise value. In practice, by the time sustainability-related impacts actually manifest themselves in enterprise value, is usually far later than the point at which investors need to understand the potential impact of an emerging issue.
- The emphasis on enterprise value is too narrow and means that many important risks and impacts are likely to be excluded from company and investor decision-making. In financial reporting, a factor is considered 'financially material' (and, therefore, as something that needs to be reported) if it has an impact on the decisions of primary users of an entity's financial statements. This emphasis means that most companies will be required to report on very few, if any, environmental or social impacts. This is exacerbated by the effects of discounting (i.e., assigning less importance to impacts in the future than impacts today) and the tendency to downplay or even exclude probabilistic risks in many

financial models.

- The emphasis on enterprise value suggests that there is a specific way that investors use and interpret company data. In practice investors use sustainability-related information in multiple ways, e.g., as a screening tool, as a company risk assessment tool, as a sustainability management tool, as a sectoral and portfolio risk assessment tool, as the basis for deciding how to deliver on their stewardship and engagement responsibilities.
- Investors are not the only audience for corporate information. Other audiences include employees, customers, government agencies, regulators and local communities. While these audiences have different needs and interests, they are united in wanting to understand companies' impacts on the natural environment and on society, and to understand how companies are managing these impacts.

In summary, our view is that by defining users and users' interests so narrowly, ISSB is unlikely to provide disclosures that will meet the needs of asset owners or of many of the stakeholders. We, therefore, believe that ISSB needs to take a properly holistic approach to the development of sustainability-related disclosure standards.

We believe that this starts with ISSB setting the objectives of its reporting standards as being to: "...require entities to provide information about their exposure to climate-related risks and opportunities, and about the scale and significance of their sustainability (environmental and social) impacts on climate change." By taking this approach, and then driving that logic through all of its work, ISSB is likely to deliver reporting standards that:

- Produce disclosures that fully assess the implications of social and environmental issues for a company, and the company's impacts on social and environmental issues that are of concern to asset owners and other stakeholders.
- Shift materiality assessment processes from driven solely by the enterprise's views on importance and significance (and where individual enterprises can arbitrarily decide what is or is not material) to one where the significance or scale of social and environmental impacts is a critical determinant on what is reported (even if the company does not consider the issue to be financially material).
- Are underpinned by sustainability-oriented sector or industry-specific disclosure frameworks. While we note the work conducted by SASB, we are also clear that SASB's recommendations suffer from the same financial materiality biases that underpin the ISSB's recommendations.
- Meet the needs of the range of stakeholders concerned about the sustainability performance of companies.

We believe that the ISSB could play a transformative and catalytic role in driving corporate sustainability reporting. However, its current objectives and resulting draft exposure standards do not have a sufficiently robust emphasis on the sustainability-related aspects of corporate practice and performance. As such, they are currently a long way short of delivering the watershed moment on decision-useful, sustainability data that we all hoped for.

While we have made some criticisms of the draft exposure standards, we would like to reiterate our commitment to working with and supporting the ISSB with the development of sustainability reporting standards that fully meet our needs as fiduciary investors.

Yours sincerely,

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Church of England Pensions Board

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