

The IFRS Foundation
Columbus Building
7 Westferry Road
Canary Wharf
London, E14 4HD

August 31, 2023

Dear Members of the International Sustainability Standards Board (ISSB),

The U.S. Impact Investing Alliance (“the Alliance”) writes in response to the May 2023 Consultation on Agenda Priorities. The Alliance has been supportive of the efforts to establish the ISSB¹ and its publication of General Sustainability and Climate-Related disclosure standards.^{2,3} We applaud you for your continued leadership and efforts to establish a global baseline for sustainability reporting.

The Alliance is an organization committed to catalyzing the growth of impact investing in the United States. We define impact investing broadly to include those investments that create financial returns alongside measurable and positive social, economic or environmental impacts across asset classes. Members of our boards and councils include institutional investors and high-net-worth individuals collectively owning hundreds of billions of dollars of invested assets, in addition to asset and fund managers collectively managing over one trillion dollars in assets.

With regard to the ISSB’s proposed two-year work plan, we write to strongly encourage you to prioritize the following:

- (i) Beginning new research and standards-setting projects, specifically a single standard on social reporting encompassing human capital and human rights; and,
- (ii) Supporting the implementation of ISSB Standards IFRS S1 and IFRS S2, specifically focusing on capacity building for and engagement with stakeholders from the Global South and emerging economies.

We thank you for the opportunity to provide this input.

Prioritizing New Research and Standards-Setting Projects

As stated in the comments cited above, the Alliance believes that establishing baseline disclosure standards on general sustainability and climate-related factors was an important milestone. However, it is also abundantly clear that investors, including those the Alliance represents, are demanding additional information, particularly around “S” or social factors. We believe that the proposed research on human capital and human rights would significantly address that demand.

¹ [U.S. Impact Investing Alliance Comments Re: IFRS Foundation Consultation on Sustainability Reporting](#), December 30, 2020

² [U.S. Impact Investing Alliance Comments Re: Exposure Drafts: IFRS Sustainability Disclosure Standards \(General Requirements for Disclosure of Sustainability-related Financial Information and Climate-related Disclosures\)](#), July 29, 2022

³ [U.S. Impact Investing Alliance Applauds ISSB on Issuance of First Set of Standards](#), June 29, 2023

The Alliance has led efforts in the United States to encourage the Securities and Exchange Commission (“SEC”) to propose and adopt a mandatory human capital management disclosure rule.⁴ Information on human capital management—such as a company’s workforce composition, compensation, health and safety, and diversity practices—is vital to investor decision-making. Investments in human capital are associated with higher risk-adjusted returns, return on assets, return on capital, profitability and overall outperformance compared to benchmarks.^{5, 6}

Critically, however, we believe it would be inappropriate to separate human capital and human rights, as suggested in the Consultation. As defined by ISSB, these two areas include significant overlapping elements related to assessing human capital considerations across the entire value chain of an enterprise.

Where the two topics diverge, prioritizing one over the other would stymie many investors who take a holistic view of “S” factors from effectively evaluating companies. For instance, there is significant public interest in the United States in addressing forced labor in supply chains. Investors, including retirement savers, would potentially be denied comprehensive information about this important issue if the ISSB prioritized human capital over human rights considerations. Further, perverse incentives could emerge, such as encouraging greater use of unregulated informal workers.

Finally, we believe that a single standard encompassing human capital and human rights is more likely to align with the expected proposed rulemaking by the SEC, thereby encouraging greater global alignment on disclosure. The Alliance has actively supported consideration by the SEC of ISSB and other relevant standards for disclosure, where appropriate.⁷ U.S.-domiciled businesses and investors would benefit from this alignment, as will investors active in both U.S. and other global markets. Furthermore, interoperability of ISSB standards with SEC mandates will encourage the speedy adoption of ISSB standards in some jurisdictions that are close trading partners of the U.S.

Supporting the Implementation of ISSB Standards IFRS S1 and IFRS S2

The Alliance also encourages the ISSB to prioritize the implementation of Standards IFRS S1 and IFRS S2 in its work plan, with a specific focus on capacity building for and engagement with stakeholders from the Global South and emerging economies. We take note of the fact that it appears there have been significantly more comments to date on ISSB processes from U.S., European and Asian respondents compared to other jurisdictions. As the ISSB considers the impact of establishing a global baseline for sustainability disclosure on globally disaggregated value chains, it is imperative to ensure that Global South and emerging economy stakeholders are included in this process.

We are particularly concerned that a lack of capacity to implement ISSB standards could negatively impact the business of suppliers in the Global South and emerging economies. Already, we have observed anecdotally that firms in some jurisdictions are concerned that a lack of preparedness for reporting will lead to lost business and capital flight. While this provides an important incentive to all

⁴ [Investor and Company Letter in Support of Mandatory Human Capital Disclosure Standards](#), June 17, 2022

⁵ Investor Responsibility Research Center Institute (IIRCi), [“The Materiality of Human Capital to Corporate Financial Performance,”](#) April 2015.

⁶ McBassi & Company, [“Human Capital Management Predicts Stock Prices,”](#) June 2010

⁷ [U.S. Impact Investing Alliance Comments Re: SEC File Number S7-10-22 “The Enhancement and Standardization of Climate-Related Disclosures for Investors,”](#) May 26, 2022

jurisdictions to adopt and implement ISSB standards, ensuring that the necessary capacity is built in every emerging economy should be prioritized.

The Alliance has observed a similar dynamic in the U.S., in which the potential costs to micro-, small-, and medium-sized enterprises ("MSMEs") of accommodating the reporting requirements of larger publicly held enterprises becomes a political liability to the advancement of transparency and accountability measures. Every appropriate step should be taken to ensure the MSMEs – particularly those in the Global South or emerging economies – are equipped with the tools needed to participate in global sustainable supply chains.

Concluding Thoughts

We again reiterate our gratitude for your leadership and the opportunity to offer these thoughts. We welcome the opportunity to provide additional context as needed.

Best,

A handwritten signature in black ink that reads "Fran Seegull". The signature is written in a cursive, flowing style.

Fran Seegull
President, U.S. Impact Investing Alliance