MSCI'S FEEDBACK ON IFRS FOUNDATION CONSULTATION PAPER ON SUSTAINABILITY REPORTING

MSCI

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INTRODUCTION

MSCI appreciates the opportunity to comment on the **IFRS Foundation Consultation Paper on Sustainability Reporting**

About MSCI

MSCI ESG Research

For over 40 years, MSCI ESG Research has measured and modelled Environmental, Social and Governance (ESG) risk[1]. MSCI is a leading provider of ESG ratings, indexes and analytical tools. We aim to help investors integrate ESG across their entire investment process; powering better investment decisions.

Our solutions:

*First ESG provider to assess companies based on industry financial materiality, dating back to 1999. Only dataset with live history (12+ years) demonstrating economic relevance[2]. For over 11 years, we have rated companies on their exposure to, and management of, industry-specific ESG risks. We rate nearly 14,000 issuers representing more than 680,000 securities, with 90% of equity and fixed income market value. Our research is used by over 1,400 clients globally. Clients can use ESG ratings to support fundamental and quant analyses, portfolio construction and risk management and thought leadership and engagement.

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* MSCI ESG Analytics: Our ESG research, data and indexes are available within MSCI's analytics systems. MSCI Analytics clients can explore ESG exposures on 680,000 securities and 8 million derivatives to support security selection, portfolio construction, stress testing, and risk and performance attribution analysis.

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1. Through MSCI ESG Research and its legacy companies KLD, Innovest, IRRC, and GMI Ratings
2. Origins of MSCI ESG Ratings established in 1999. Produced time series data since 2007
3. Based on publicly available information in press releases published from 2014 to date

IFRS Foundation Consultation Paper on Sustainability Reporting

Consultation Questions

Q1. Is there a need for a global set of internationally recognised sustainability reporting standards?

(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?

(b) If not, what approach should be adopted?

A1. Yes, we welcome initiatives that promote material ESG disclosures. Sustainability disclosures are helpful when used to compare ESG performance among companies. A global set of internationally recognized sustainability reporting standards will help in improving comparability of disclosures and, in our view, aid policy makers and investors in making informed decisions. Greater transparency resulting out of better disclosures are welcomed by such stakeholders in our experience. Global sustainability reporting standards may also lead to better disclosures from companies due to uniformity of framework.

Q2. Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?

A2. Yes, a Sustainability Standards Board (SSB) operating under the governance structure of the IFRS Foundation may be an appropriate body to develop and maintain a global set of sustainability-reporting standards. Operating alongside the International Accounting Standards Board (IASB), we believe the SSB would benefit from the three-tier governance structure of the IFRS Foundation and the oversight of Trustees and Monitoring Board of IFRS Foundation. This may enhance the credibility of the SSB's efforts and potentially assist in gaining buy-in from investors, policy makers and reporting organizations.

Q3. Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for

achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

A3. We agree with the requirements for success as listed in the paper. We believe that gaining support from different stakeholders and developing synergies with other sustainability reporting initiatives will be critical. A reduction in the complexity of sustainability reporting is likely to be welcomed by companies. Improvements in disclosures due to their reduced complexity and consistency may help meet the demands of greater transparency from investors and policy makers. The IFRS Foundation has long-standing experience of standard-setting for financial reporting through IASB. SSB, while working alongside IASB, would potentially gain from this experience while enacting a robust governance structure. Developing adequate technical expertise among staff would be an essential requirement if the IFRS Foundation does not have prior experience of sustainability reporting standard-setting.

In our view, the overall success of the SSB would depend on its meeting the expectations of investors, corporates, policy makers and other stakeholders while enriching the sustainability reporting landscape.

Q4. Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?

A4. The IFRS Foundation is in favorable position to leverage its global presence and engage with stakeholders for establishing SSB developed sustainability reporting standards. However, the extent of adoption and application hereof would be highly dependent on engagement with users of these standards for reporting such as issuers and users of reported information such as investors and policy makers.

Q5. How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

A5. Recently, global standard setters have expressed their commitment towards working together for consistent sustainability reporting standards.[1] The IFRS Foundation has an opportunity to engage with them towards achieving greater consistency.

[1] https://www.cdp.net/en/articles/media/comprehensive-corporate-reporting

Q6. How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?

A6. The IFRS Foundation can leverage its global presence and relationships with stakeholders developed through IASB for promoting a consistent and global solution for sustainability reporting. While there is some amount of overlap between existing jurisdictional initiatives, these have been largely developed in silos. The IFRS Foundation may be able to play an important role by engaging with policy makers to expedite the evolution of these initiatives and increase comparability between regional disclosures. To succeed, we believe the SSB may need to develop capability among its staff to evaluate regional disclosure initiatives and define a roadmap to achieve consistent sustainability reporting.

Q7. If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?

A7. Recommendations on climate-related financial disclosures by Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) have steadily gained popularity since introduction in 2017. Over 1,500 organizations have expressed support and many have begun to implement TCFD recommendations towards improving their climate-related financial disclosures. Considering recent progress in climate-related disclosure frameworks, our view would be that the SSB consider the creation of afull disclosure framework which builds on existing frameworks in line with the objective of developing a global set of sustainability standards.

Q8. Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

A8. Companies are affected by climate change in different ways. Extreme weather may damage assets at a company facility or the introduction of new climate change policies may require technological change. Climate-related impacts and financial risks emerge from physical scenarios relating to several extreme weather hazards, such as extreme heat and cold, heavy snowfall and precipitation, wind gusts, tropical cyclones, coastal flooding/sea level rise and fluvial flooding. [1]

We are of the opinion that climate change should be part of broader environmental risk and that the SSB consider broader environmental factors while defining climate-related risks.

[1] Climate Value-at-Risk, MSCI, 2020.

Q9. Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?

A9. We believe that meaningful sustainability disclosures should be considered in terms of materiality/economic relevance because requesting companies to report on data not directly relevant to their sector may add unnecessary costs or burdens. Also, the data disclosed may not be relevant to that issuer and could lead to company bias or greenwashing by showing positive disclosures in areas that are not material for that sector.

We support the proposed approach of initially focusing efforts on the sustainability information most relevant to investors and other market participants.

Q10. Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?

A10. Considering less than widespread adoption of sustainability reporting, not all companies may be able to publish externally assured sustainability reports. In order to motivate companies to adopt SSB proposed sustainability standards, it would be helpful if the sustainability report contents are self-declared to be complete and reliable. However, the ultimate objective of sustainability reporting should be external assurance of disclosures, enhancing credibility of published information.

Q11. Stakeholders are welcome to raise any other comment or relevant matters for our consideration.

A11. It is widely understood that ESG and climate-related risks and opportunities can vary by market sector and industry: what is material to one may not be as material to others. ESG and climate-related risks and opportunities, and which are considered to be material, can also change over time.

MSCI recently introduced an ESG Industry Materiality Map, a representation of the current Key ESG Issues and their contribution to issuers' MSCI ESG Ratings. It is part of our ESG Ratings transparency initiatives and may be of assistance to the IFRS in its deliberations. Please see https://www.msci.com/our-solutions/esg-investing/esg-ratings/materiality-map.

We also highlight MSCI's *Foundations of ESG Investing* research. Covering both equities and fixed income asset classes, our research suggests that changes in a company's ESG characteristics may be a useful financial indicator and may also be suitable for integration into policy benchmarks and financial analyses. Please see https://www.msci.com/our-solutions/esg-investing/foundations-of-esg-investing.

Contact us

clientservice@msci.com

AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

* = toll free

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