Global investor responses to the International Sustainability Standards Board draft sustainability and climate-change standards: Sites of dissonance or consensus.

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Global investor responses to the International Sustainability Standards Board draft sustainability and climate-change standards: Sites of dissonance or consensus.

Abstract.

Purpose – This paper examines sites of dissonance or consensus between global investor responses to the draft standards, IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures), issued by the International Sustainability Standards Board (ISSB).

Design/methodology/approach – A thematic content analysis was employed to capture investor views expressed in their comment letters submitted in the consultation period (March to July 2022) in comparison to the ex-ante position (issue of draft standards, March 2022) and ex-post summary feedback (ISSB staff papers, September 2022) of the ISSB.

Findings –There was investor consensus in support of the ISSB and the development of the draft standards. However, there were sites of dissonance between investors and the ISSB, notably regarding the basis and focus of reporting (double or single/financial materiality and enterprise value); definitional clarity; emissions reporting; and assurance. Incrementally, the research further highlights that investors display heterogeneity of opinion .

Practical and social implications – The ISSB standards will provide a framework for future sustainability reporting. This research highlights the significance of such reporting to investors through their responses to the draft standards. The findings reveal sites of dissonance in the development and alignment of draft standards to user needs. The views of investors, as primary users, should help inform the development of sustainability related standards by a global standard setting body apposite to current policy and future reporting requirements, and their usefulness to users in practice.

Originality/value – The paper makes an original contribution to the comment letter literature, hitherto focussed on financial reporting with a relative lack of investor engagement. Employing thematic analysis, sites of dissonance are examined between the views of investors and the ISSB on their development of sustainability reporting standards.

Keywords, Investor, comment letters, dissonance, International Sustainability Standards Board (ISSB), Draft Standards, IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information), IFRS S2 (Climate-related Disclosures).

Paper type Research paper

1. Introduction.

This research examines global investor responses to the draft standards, IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures) issued by the International Sustainability Standards Board (ISSB) in March 2022, and the subsequent ISSB summary stakeholder feedback in September 2022. Investor responses were derived from comment letters following the consultation period that ended in July 2022. This comparative analysis enables the research to identify core areas of consensus and dissonance between the draft standards and investors, as a primary user group.

In issuing the draft standards[1], IFRS S1 (IFRS, 2022a) and IFRS S2 (IFRS, 2022b), the ISSB asserted that the standards "respond to calls from primary users (investors, lenders and other creditors) of general-purpose financial reporting for more consistent, complete, comparable and verifiable sustainability-related financial information to help them assess an entity's enterprise value" (IFRS, 2022a, p. 5)[2]. Further, the intention of the ISSB was to develop "a global baseline of disclosure requirements designed to give *investors* high quality, globally comparable sustainability information" (IFRS, 2021a) (emphasis added) which would help them make informed decisions. Hence, the views of investors, should serve as a source of considerable interest to the ISSB in the development of their standards.

Comment letters, forming part of the lobbying process (Georgiou, 2004; Gipper *et al.*, 2013; Reuter and Messner, 2015; Bamber and McMeeking, 2016) are viewed as an important means of stakeholder input into the development and legitimacy of new regulations such as accounting standards. Indeed, the IFRS (2023) explicitly recognises that, "comment letters play a pivotal role in collecting feedback on consultation documents such as exposure drafts and developing an IFRS standard, because the letters provide considered, public responses to that formal consultation".

This research is timely as it sheds further insights into a number of debates relevant to current policy and practice in relation to sustainability and climate-change reporting[3]. Indeed, Adams and Mueller (2022, p. 1328) explicitly call for research to examine the "views of corporate stakeholders, including investors concerning future sustainability reporting". Moreover, Georgiou, (2018, p. 1325) asserts that "a better alignment of the views between users and standard setters will lead to improved accounting, and hence to improved investment decisions, making investigating user views a worthwhile task for accounting researchers". This research directly responds to these calls.

In total, 83 investor-related comment letters formed the corpus of this research, the analysis of which revealed the following key themes. There was a consensus of strong support for the ISSB and for the introduction of globally consistent and comparable reporting standards which, drawing on prior frameworks, promote interoperability of reporting. However, there were clear tensions regarding the basis and focus of reporting between investors and the ISSB proposals. Whilst some respondents were happy with the IAS 1 definition of financial materiality (which ties directly into enterprise value), a sizeable group advocated double materiality and a greater alignment with the approach proposed by EFRAG (2022a). More generally, there was strong pushback regarding a lack of definitional clarity around the terms 'significant' and 'material', and the lack of guidance beyond the IAS 1 definition (relevant to financial materiality). Further concerns were expressed about the apparent latitude given to preparers around what constitutes material in relation to sustainability. Similar definitional vagueness was also identified in relation to short-, medium- and long-term impact on enterprise value, again driven by financial materiality. Many investors highlighted the necessity of assurance if sustainability reporting was to be credible to them. Assurance had been included in the Consultation Paper (IFRS, 2020)[4] but was not explicitly referred to in either IFRS S1 or S2 or any of the related questions for discussion. Finally, there was support for the ISSB proposals for emissions reporting and specifically the reporting of Scope 3 emissions (in IFRS S2), although some investors raised concerns around its practical implementation and the credibility and comparability of disclosures.

We adopt the theoretical framing of dissonance (Stark, 2009; Berthoin Antal *et al*., 2015; Hutter and Stark, 2015) in our analysis of the emergent areas of tensions between the ISSB and investor opinion. Stark (2009, p.23) in his work on sites of dissonance highlights that dissonance occurs "as the proponents of different conceptions of value contend with each other" which provide for empirical investigation (Hutter and Stark, 2015). Sites of dissonance have been employed in prior accounting research to analyse fundamental or principled disagreement between parties reflective of values-based dissonance (Mennicken and Power, 2015), a dissonance of emphasis between parties (Georgiou, 2018) or translation/interpretative dissonance between the intentions of an author compared to users' interpretations (Mazzi *et al*., 2022). We apply and extend the sites of dissonance in our analysis.

Additionally, the research provides insights into the implicit assumption that investors, as a primary user of reporting, are a homogeneous group. Notably, Adams and

Mueller (2022, p. 1323) comment that the Foundation "incorrectly assumed that all investors have the same "perspective" on these matters or shared the perspective of the IFRS Foundation Trustees". Abhayawansa *et al.* (2022) identified differences in the demand for higher frequency or real time reporting between types of investor groups. Stratification by types of investor groups was also reported by Muniandy *et al*. (2016) and Sherman *et al*. (1998). Indeed, our findings display considerable heterogeneity across the range of investor responses pertinent to the thematic areas of analysis.

Our study makes a number of contributions. Firstly, we contribute to the comment letter literature through our analysis of investor comment letters. The prior financial reporting-based research on comment letters has been characterised by low levels of investor response and has largely been dominated by a preparer perspective (Durocher *et al*., 2007; Larson, 2007; Jorisson *et al*., 2012; Holder *et al*., 2013; Adhikari *et al*., 2014; Bamber and McMeeking, 2016; Wingard *et al*., 2016; Pelger and Spieß, 2017; Bhimani *et al*., 2019). This has largely precluded meaningful empirical analysis of investors as a primary user group. Our research directly addresses this empirical gap in the literature.

Secondly, the non-financial reporting setting for this investor-based analysis is unique to the literature. To our knowledge, the only other investor comment letter-based research on the development of reporting outside of a financial reporting context was that of Reuter and Messner (2015) who examined comment letters in relation to the International Integrated Reporting Council (IIRC) proposals. However, their analysis was necessarily restricted to preparers and auditors due to the very low level of response by investors common to that noted above. Accordingly, this research gives a unique insight into investor comments on the draft stage of standards and in a non-financial reporting context. We therefore make a contribution to the sustainability reporting literature by directly examining investor views on the development of reporting standards.

Thirdly, through our empirical analysis we extend and develop sites of dissonance (Stark, 2009; Hutter and Stark, 2015; Mennicken and Power, 2015). First, drawing on silence in reporting (Merkl-Davies and Brennan, 2007; Cooper and Slack, 2015, Boiral and Heras-Saizarbitoria, 2020), and distinct to values-based dissonance where opposing values are explicitly known, our comparative approach enables us to identify dissonance by omission. The ISSB raised the issue of assurance in their initial consultation but despite demands by investors, and reflective in the ex-post feedback summary, it was absent from the related discussion questions on the draft standards. Second, we highlight the need for upstream definitional clarity in developing standards – without this, it is likely that subsequent interpretative dissonance identified in prior financial reporting research (Mazzi *et al*., 2022) may emerge. Whilst Mazzi *et al*. (2022) explore interpretative dissonance through the consequences of vagueness in an accounting standard (ex-post), our research highlights this concern in the development of the standard itself (ex-ante). Third, practical dissonance is a variation of dissonance of emphasis (Georgiou, 2010) whereby while supporting a proposal in principle, practical issues may serve to undermine its effective implementation. Finally, whilst values-based dissonance is well covered in the prior literature, we illustrate this in a sustainability reporting context in the principled clash between financial and double materiality.

The remainder of the paper continues as follows. Section 2 reviews the literature on comment letters as part of the lobbying process in the development of standards and Section 3 reviews the theoretical framework of dissonance. Section 4 provides a background to the ISSB and the development of IFRS S1 and S2 with investors as a primary user group. Section 5 details the methods employed in this study. Section 6 presents the findings and related analysis. Discussion and conclusions are presented in Section 7 along with the limitations of this study and areas for further research.

2. Comment letters to standard setting bodies: An investor perspective.

Comment letters are regarded by standard setters as a key input, acting as an important source of legitimacy in the standard setting process and for the subsequent standard (Georgiou, 2004; Larson, 2007; Durocher *et al*., 2007; Georgiou, 2010; Durocher and Fortin, 2011; Holder *et al*., 2013; Anantharaman, 2015; Bamber and McMeeking, 2016; Reuter and Messner, 2016; Wingard *et al*., 2016; Pegler and Spieß, 2017). Pelger and Spieß (2017, p. 75), referring to the IASB, comment that “consideration of users is important for the IASB’s input legitimacy, because this is the main target group of all the IASB’s endeavours” common to the proposed ISSB standards with investors as the primary user audience.

Through comment letters, stakeholder groups are enabled to express opinions and seek to exert influence over proposed regulations forming part of wider lobbying activities (Sutton,1984; Weetman *et al*., 1996; Larson, 1997; Georgiou, 2004; Hochberg et *al.*, 2009; Gipper *et al.*, 2013; Bamber and McMeeking, 2016). Reuter and Messner (2015, p. 366) comment that “there is a general understanding that comment letters are used to try to influence the content of the standards eventually issued by the standard-setter”. More widely, standard setting is regarded as a political process (Sutton, 1984; Fogarty *et al*., 1994; Holder *et al.*, 2013), between the standard setting body and groups affected by the standard which may have differing or conflicting views. Indeed, Orens *et al*. (2011) remark that comment letters can act as a mechanism to help address and alleviate potential conflicts prior to the issuance of the standard.

Empirically, prior research on comment letters considering an investor perspective has been necessarily drawn from financial reporting due to the relative lack of mandatory reporting requirements on sustainability reporting to date and the recent advent of the ISSB in 2021. Reuter and Messner (2015) is the only other research to examine investor comment letters in the non-financial reporting arena. Their study examines comment letters to the 2011 International Integration Reporting Council (IIRC) discussion paper. However, despite the orientation of IIRC and the Integrated Reporting Framework to providers of finance (i.e. investors) they report a low level of investor response precluding any fine-grain analysis.

This low investor response is reflective of a general historic lack of investor engagement through comment letters to global standard setters. For instance, Holder *et al.* (2013) compared comment letter submissions to both the FASB and IASB to their respective Exposure Drafts on accounting for contingencies. They report that for the FASB 18 out of 245, and for the IASB seven out of 124, comment letters related to investors with the largest groups representing preparers (42%) followed by accounting firms and professional bodies (22%). Overall, these findings of low investor engagement and the dominance of preparers is common with virtually all prior research in both a US/FASB setting (for instance Yen *et al*., 2007; Hochberg *et al.* 2009; Adhikari *et al.* 2014; Anantharaman, 2015) and in an IFRS setting (Larson, 2007; Jorissen *et al*., 2012; Bamber and McMeeking, 2016; Wingard *et al*., 2016; Pelger and Spieß, 2017; Bhimani *et al*., 2019). Indeed, Jorisson *et al*. (2012, p. 720) comment on the need for IASB to "stimulate users to participate more actively" (and see Bengtsson, 2011) in reporting that only 47 out of 3,234 comment letters received over the period 2002 to 2006 were from users.

In view of this, perhaps it is not surprising, that from a user perspective, there are widespread criticisms regarding the actual role of comment letters, being a rhetorical or symbolic device. For instance, Young (2003, p. 629) reflects that there is more rhetoric than substance in standard-setters' reference to user needs such that users, despite being the primary audience of the resultant financial reporting, remain "shadowy figures within the paragraphs of financial accounting standards" (and see Weetman, 2001; Young, 2006; Georgiou, 2010; Durocher and Fortin, 2011; Larson and Herz, 2013; Stenka and Jaworska, 2019; Stenka, 2022). Further, Georgiou (2018, p. 1297) laments that standard setters invoke "the imagined demands of an imagined user" in relation to "how accounting should be done and used, and hence what practices are to be considered valuable".

Overall, despite the orientation of financial reporting standards towards investors and other providers of finance as primary users, the prior literature highlights a relative lack of investor input and a resultant lack of any subsequent research analysis of investor comments. In light of the current debates concerning the basis and focus of sustainability reporting (for instance double vs. single/financial materiality and enterprise value) and the significant increase in investor demand for sustainability reporting (discussed in Section 4), their notable participation in IFRS S1 and S2 directly considered in this research reflects a unique setting.

3. Theoretical framing: Dissonance.

Drawing on the social sciences literature (Stark, 2009; Hutter and Stark, 2015; Mennicken and Power, 2015), we employ the theoretical framing of dissonance to help explain the tensions between the standard setters' draft standards (IFRS S1 and S2) and the views of investors. Dissonance reflects a range of coexisting logics and value frames pertinent to different criteria upon which to value the worth of something (Stark, 2009; Berthoin Antal *et al*., 2015). Three main forms are reflected in the prior literature ranging from fundamental and opposing values reflecting incommensurable or antagonistic frameworks (values-based dissonance), positions of differing emphasis (dissonance of emphasis) or different interpretations of a subject matter (interpretative dissonance) as to the worth of something.

Forms of dissonance occur across a variety of "sites or moments of dispute" (Hutter and Stark, 2015, p. 10) where values or orders of worth are disputed such as work-life balance, political viewpoints or the worth of a painting at discrete points in time. Values-based dissonance (Stark, 2009) can be commonly seen in fundamental economic or political disagreement, for instance, the commissioning of nuclear power plants. However, as Stark (2009, p. 18) recognises, such opposing but coexisting principled standpoints mean that "no standpoint can be taken for granted as the natural order of things", as the site of dissonance persists, and the power of a party may change over time resulting in a future change of order. Dissonance of emphasis arises in sites where different ways of evaluating coexist but, unlike values-based dissonance, without being involved in a fierce contest of the order itself (Boltanski and Thévenot, 2006; Stark, 2009). It is a disagreement about what counts (Stark, 2009), for instance, the balance concerning the degree of state involvement in the promotion of economic growth. Finally, interpretative dissonance (Hutter, 2015) arises where different interpretations are evidenced between the intention of authors (the 'authoring phase') and the subsequent interpretations by users (the ‘reading phase’). Such dissonance may arise due to double meanings in the text (Stark, 2009) or vagueness such that the text is open to multiple interpretations by its audience giving rise to alternative meanings.

Whilst there are multiple forms of dissonance, as Stark (2009, p. 5) notes “instead of enforcing a single principle of evaluation as the only legitimate framework, [organisations] recognize that it is legitimate to articulate alternative conceptions of what is valuable, what is worthy, what counts”. Such implied healthy debate produces organising dissonance whereby, as Clune and O’Dwyer (2020, p. 16) contend, “actors with different value frames….stimulate productive collaborations yielding innovations altering existing institutional arrangements (Beunza and Stark, 2004; Stark, 2009)”. In contrast to organising dissonance through dialogue, Stark (2009, p. 23) warns that in sites of dissonance where “arguments displace action… nothing is accomplished” and tension between parties persists.

Mennicken and Power (2015), on dissonance in accounting, cite Carruthers and Kim (2011, p. 253) that “we can think of accounting valuation as having a quality of plasticity….[where] value is a contested and provisional judgment”. Indeed, Mennicken and Power (2015, p. 210) remark that accounting values and their worth are “sustained by an apparatus [i.e. the reporting environment and standards] which becomes visible in times of crisis and whose components are inherently malleable and contestable”. As such, a small number of studies in prior accounting research have employed the concept of dissonance that are now discussed.

Firstly, values-based dissonance was evident in the principled clash between standard setters and preparers/users of accounting information over brand valuation on the balance sheet in the UK in the early 1990’s (Mennicken and Power, 2015). The British Accounting Standards Committee fundamentally opposed brand recognition as an asset as they considered that the valuation of brands was unreliable and too subjective with no recognisable cost measurement. However, both preparers and their auditors increasingly included brands on the balance sheet in recognition of their market value. Subsequently, in direct contrast to the position of the standard setter, brand accounting and recognition “became part of a new and powerful ‘order of worth’ (Boltanski and Thévenot 2006)” (Mennicken and Power, 2015, p. 217) as the new natural order. Similarly, Mennicken and Power (2015) and Dichev *et al*. (2013) highlight the dissonance between advocates of fair value versus historic cost accounting such that “it was a source of considerable dissonance within the accounting profession, and beyond” (Mennicken and Power, 2015, p. 220). Dichev *et al*., (2013) reported the popularity of the matching principle and conservative accounting and the limited support for fair value accounting by CFO’s. In direct contrast, the FASB’s official position was supportive of fair value accounting (Barth, 2007). Dichev *et al*. (2013, p. 21) conclude that “this is perhaps our clearest finding of dissonance between the views of standard setters and the most important producers of financial reports”.

Secondly, dissonance of emphasis between parties. In this regard, Georgiou (2018), examining fair value, found that standard setters (IASB) emphasised its use as a basis for valuation compared to investors who emphasised fair value as a measure of performance. He concluded that the findings revealed a “situation of disharmony on the use of fair value”, as accounting is not used in practice in the way expected by standard setters, but that this was due to “different principles of evaluation” (p. 1299) and, importantly, not arising from a principled dispute as to whether fair value itself should be used.

Thirdly, translation or interpretative dissonance was employed by Mazzi *et al*. (2022) in their examination of the signalling effect of capitalised development costs to investors under IAS 38. They reported that investors do not regard such assets (capitalised development costs) as providing an adequate signal of future value creation to them, even though this was an expectation of the standard setters. This was attributed to translation dissonance inherent in the vagueness or ambiguity of the standard and a lack of definitional clarity, to be applied by preparers (and subsequently consumed by users), in setting out the six conditions specified in the standard for capitalisation.

More generally, Young (2003, p. 621) highlights that when considering standard setting “through inclusion by measurement and disclosure, importance and relevance are assigned to some matters and objects; and through exclusion, immateriality and insignificance are ascribed to others”, giving rise to omission or differential positions of principle, emphasis or translation in practice. Indeed, Mennicken and Power (2015, p. 214) highlight that the relationship between accounting and presumed communities of users remains “a very complex one since accounting constitutes both objects and subjects of value, the latter being “accounting users” as they are commonly called (Young 2006)” and the focus of this research.

4. Investors as a primary user group: The development of IFRS S1 and S2.

A multitude of primarily voluntary-based frameworks have emerged relating to sustainability and climate change reporting (ACCA 2016; Arvidsson, 2023). EY (2022) estimated that there are 600 environment, social and governance (ESG) reporting bodies and guidelines globally with the more prominent including Carbon Disclosure Project (CDP), Climate Disclosure

Standards Board (CDSB), Global Reporting Initiative (GRI), Integrated Reporting Framework (IRF), Sustainability Accounting Standards Board (SASB), and the Task-Force on Climate Related Financial Disclosures (TCFD).

This plurality of reporting frameworks (so called ‘alphabet-soup’) has led to criticism concerning a lack of comparable, consistent and relevant information for investor decision-making (CFA Institute, 2017; Friede, 2019; Pinney *et al*., 2019; McKinsey, 2019; World Resources Institute, 2019; Tett, 2020; Slack, 2022). Canlas (2019) reported, “many investors have called on companies to provide better communication on how climate change could impact their businesses amid concerns that assets are being mispriced because the risk is not being factored in”. Further, Baboukardos *et al*. (2022, p. 5) comment that the range of different frameworks “do not necessarily attempt to link sustainability-related information with financial information and hence are not always viewed as being directly relevant to capital markets”.

Nonetheless, it is increasingly recognised that sustainability and associated reporting are fundamental to investment decision-making (Dawkins, 2018; Financial Reporting Council, 2019; Schroders, 2021; Investment Association, 2022; PwC, 2022; Ilhan *et al*., 2023) consistent with the increasing importance of ESG ratings data for investors (Abhayawansa and Tyagi, 2021), with agencies calling for greater reporting standardisation (Adams and Abhayawansa, 2022). Indeed, EFAMA (2022, p. 24) highlighted the importance of capital markets as “[a]sset managers have become key contributors to the transition to a sustainable economy by incorporating ESG factors in their investment processes”.

Reflecting the importance of ESG investment, PwC (2022) reports an increase in global assets under management from $2.2 trillion in 2015 to $18.4 trillion in 2021, a trend accelerated due to COVID-19, with assets forecast to grow to $33.9 trillion by 2026 representing over 20% of total assets under management. For instance, UBS (2020, p. 2) noted that “COVID-19 has elevated the importance of how companies operate and accelerated the already increasing relevance of ESG considerations to investors”. The impact of COVID-19 on the increase in ESG-related investment was no doubt helped by the outperformance of ESG-focused funds during that crisis episode (Albuquerque *et al*., 2020; Ferriani and Natoli, 2020; Singh, 2020; Abhayawansa and Mooneeapen, 2022) prompting further investor demand for capital-markets based ESG/sustainability reporting. More critically, Adams and Abhayawansa (2022) highlight concerns regarding the privileging of investors, with an emphasis on financial materiality. They argue that COVID-19 and the increase in ESG investing provided a further rationale exploited by capital markets-based proponents (such as Accountancy Europe, 2019, 2020; World Economic Forum, 2020) for the harmonisation of reporting under the auspices of IASB and subsequently ISSB[5].

Against this background of potentially competing and/or overlapping frameworks, but also cognisant of investor demand for sustainability-related reporting, in September 2020 the International Financial Reporting Standards (IFRS) Foundation initiated a consultation process regarding global sustainability standards, receiving over 750 responses across stakeholder groups and geographies. The feedback (including responses received from investors) generally supported and emphasised the need for the development of global sustainability related standards led by the Foundation to improve reporting consistency and comparability (IFRS 2021b) (c.f. Adams and Abhayawansa, 2022; Adams and Mueller, 2022) resulting in the formation of ISSB in November 2021. Thereafter, to help coalescence global sustainability standards, the IFRS Foundation completed its consolidation with the CDSB and the Value Reporting Foundation (comprising the IRF and the SASB). Further, in March 2022 the IFRS Foundation and GRI[6] announced a Memorandum of Understanding to join each other's consultative bodies related to sustainability reporting and to align, where possible, terminology, standards structure and metrics, to help reduce the reporting burden for companies (IFRS, 2022c).

The ISSB issued Draft IFRS S1 (IFRS, 2022a) and Draft IFRS S2 (IFRS, 2022b) in March 2022. For both proposed standards, the primary users were identified as "existing and potential investors, lenders and other creditors" (IFRS, 2022a, p. 40) clearly being capital market orientated (De Villiers *et al*., 2022; Giner and Luque-Vilchez, 2022; Stolowy and Paugam, 2023).

5. Method.

A thematic content analysis research method was adopted to capture the ex-ante position of the ISSB (issue of draft standards, March 2022) in comparison to the investor views expressed in their comment letters submitted during the consultation period (March to July 2022) supplemented with the initial ex-post feedback summaries, although largely collective across all respondents (ISSB staff papers, September 2022). This comparative approach enables us to examine the extent to which we can observe investor consensus, or dissonance, with the ex-ante position adopted by the ISSB.

Following the issue of the draft standards in March 2022, a virtual platform was set up for comment letters through the ISSB website with comments to be received by 29 July 2022 and held as a public record. Each draft standard contained detailed questions for response. In total 735 and 700 comment letters were submitted in respect of IFRS S1 and S2 respectively. Both researchers independently reviewed the list of comment letters to identify those that related to individual investment companies and investment associations (Georgiou, 2010). This resulted in relevant comment letters for 56 investment companies and for three investment associations. Of these, 33 out of 56 (and two out of three) were single comment letters addressing both IFRS S1 and S2, the remainder provided separate comment letters individually covering IFRS S1 and S2. The comment letters were often very detailed responses running to over 10 sides. For instance, Scotia Group (IFRS 1: 15 sides, IFRS 2: 22 sides) and NEI Investments (IFRS 1: 9 sides, IFRS 2: 15 sides), and for consolidated responses, Capital Group (14 sides), DWS (15 sides) and PGIM (17 sides).

Overall, this evidences a substantial investor engagement in the feedback process allowing for meaningful analysis compared to the relatively low absolute levels reported in the prior literature on financial reporting standards reflected in Section 2. Recognising both single and dual submissions, all comment letters were saved as pdf files for analysis. A manual content analysis method was adopted consistent with the approach taken in the prior literature (Yen *et al*., 2007; Larson, 2008; Holder *et al*., 2013; Anantharaman, 2015; Reuter and Messner, 2015; Bamber and McMeeking, 2016).

Initially, both researchers independently reviewed the comment letters covering IFRS S1 and S2 for six investment companies (Amundi, Fidelity International, HSBC UK Pension Fund, Calpers, Calvert and Vanguard Group). This purposive selection covered active and passive funds, pension funds and SRI orientated investment, allowing us to cover all major categories of investment management rather than, for example, only selecting active funds. Following this, both researchers met to compare their individual results and to agree common themes for subsequent analysis across the remaining comment letters (and including those in the initial sample to ensure consistency of final coding analysis). Table 1 serves as an exemplar to illustrate the process of thematic coding and sub-coding for one of our themes (Enterprise Value). This underpins the analysis which we present in Section 6.2. We performed similar coding for analysis for all of the other themes discussed in Section 6.

===================INSERT TABLE 1 HERE ==========================

In common with the approach taken by Larson (2008), Anantharaman (2015) and Reuter and Messner (2015), the first identified coding area was binary, specifically whether the comment letters expressed overall support or opposition to the ISSB and their development of sustainability-related standards. Secondly, commonly reported themes were identified highlighting areas of tension between the proposed standards and investor responses. This was partially informed by the authors' a priori background reading (for instance on double versus single materiality) as well as their independent reviews of the six comment letters (this is consistent with the approach of Holder *et al*., 2013; Adhikari *et al*., 2014; Bamber and McMeeking, 2016). This enabled key themes to be agreed, together with supporting illustrative qualitative comments relevant to each, to inform all subsequent coding. These themes were common across the sample comment letters and subsequent coding of the full sample with no new prevalent themes emerging. Some of the themes contained a number of distinct elements.

Theme 1 comprised investor views on the ISSB primacy of enterprise value and relatedly financial versus double materiality. Theme 2 related to the basis for reporting, and specifically, within the draft standards, the continued references to 'significant' and 'material' in reporting. Further, matters deemed as 'material' are linked to IAS 1 definition of financial materiality[7] promulgating a focus on the financial impact of sustainability related reporting on enterprise value from Theme 1. Theme 3 considers the time horizon of reporting and the ISSB's proposed use of short, medium and long term for sustainability-related impacts on enterprise value. Theme 4 relates to Scope 3 emissions reporting as proposed in IFRS S2. Finally, Theme 5 is investor views on assurance. As discussed, a coding sheet for each theme was set up to help analyse all comment letters. The analysis was facilitated by the use of key words to search the pdf comment letters (for instance, enterprise, materiality, significant, assur*, scope, medium) to help capture all of the investors' views by theme along with indicative quotes to highlight the issue being referred to.

Directly following the consultation period, two IFRS staff papers were prepared for the ISSB meeting held in September 2022, relating to the draft standards IFRS S1 (IFRS, 2022d) and to S2 (IFRS, 2022e). These staff papers play an important role in summarising the collective responses received during the consultation period. Although they do not contain any direct responses by the ISSB to the points raised by investors and other stakeholders, they provide insights into the ISSB's ex-post interpretations of the general feedback they had received. For instance, over what is given prominence and the level of detail provided. This adds a further stage to our analysis of the key themes we identified. Collectively, they offer some triangulation of the identified key issues raised by stakeholders, albeit at an aggregated level and also help contextualise our more fine-grained analysis of investor responses.

6. Findings.

The presentation of the findings by theme follows a consistent format. First, the ex-ante positioning of the ISSB is presented as set out in IFRS S1 (IFRS, 2022a) and S2 (IFRS, 2022b). This is followed by a discussion of the views expressed by investors in their comment letters in respect of the key themes outlined above. Finally, the ex-post summary of the consultation feedback of the ISSB drawn from IFRS (2022d) and IFRS (2022e) is shown.

A first noteworthy finding from our analysis was the high level of investor engagement we observed; this is echoed in IFRS (2022d, p. 2) which highlights both the high volume of responses and the diversity of respondents. As described in Section 2, a core theme of the prior comment letter literature is the typically low level of engagement in public consultations by users, and specifically investors. Our experience is very different: not only did we see a relatively high level of engagement with the consultation process in terms of the number of participating investment firms, asset owners and industry bodies but, as the excerpts quoted below make clear, the depth and quality of the submissions was generally very high. We might attribute this level of user engagement to the increasingly strong degree of investor interest in sustainability and related reporting highlighted in Section 4.

6.1 Broad support for the ISSB

The ISSB's draft standards were warmly welcomed in principle by all the responding investment companies and investment associations. The response from BMO Global Asset Management was typical:

> We also believe that the global convergence of sustainability-related disclosure standards represents a tremendous opportunity to advance actual progress on systemic sustainability challenges such as climate change. (BMO Global Asset Management)

The central point here was echoed by many respondents: the need for globally comparable standards as opposed to what Invesco termed the current "fragmented sustainability reporting landscape" reflective of the so-called alphabet soup criticisms. The proposed introduction of a global baseline standard would "finally provide investors with critical information needed to adequately assess sustainability information, thereby improving the efficiency and transparency of capital markets" (Neuberger Berman). This positive reaction to "a pivotal turning point for the industry" (Northern Trust) echoes comments made by Mary Schapiro, Head of the TCFD Secretariat (IFRS, 2022f): "By building on the TCFD's framework, the ISSB's climate proposals will create further consistency, comparability and reliability across climate disclosure so investors can make more informed financial decisions. I welcome and support the ISSB's work, which will bring further transparency on the financial impacts of climate change".

This broad support for the ISSB was prominently highlighted in the IFRS staff paper (2022d, p. 2), which notes that "[a]lmost all respondents supported the ISSB's overall aim to develop a comprehensive global baseline of sustainability-related financial disclosures *for the capital markets*" (emphasis added). It is notable that this re-enforces the positioning of the standards to serve the needs of the capital markets. Despite this support for the ISSB, nonetheless many respondents highlighted tensions and the need for further debate and development of the draft standards which we present in the following analysis.

6.2 Enterprise value and financial versus double materiality

The clear focus of the ISSB's proposals is on financial materiality and enterprise value:

> These proposals [IFRS S1 and S2] were developed in response to calls from primary users of general-purpose financial reporting for more consistent, complete, comparable and verifiable sustainability-related financial information to enable them to assess an entity's enterprise value (the market value of its equity and net debt) (IFRS S1 BC 6).

Under the proposals, reporting entities would be required "to disclose [material] sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities *on an entity's enterprise value*" (emphasis added) (IFRS, 2022a, p. 10). Material information is defined in IFRS S1 (2022a, p. 6) as being "in alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1".

This privileging of financial materiality by ISSB is at odds with the double materiality approach traditionally employed in sustainability reporting (Adams and Abhayawansa, 2022; Adams and Mueller, 2022) and at a regulatory level, consistent to that advocated by GRI (see Adams *et al*., 2021) and subsequently EFRAG (2022b)[8]. As highlighted by van de Wijs (GRI Chief External Affairs in Adams *et al*., 2021, p. 2), "the GRI Standards, with a focus on the impacts of organizations on people and planet, is the only global sustainability reporting framework that captures comprehensively that outward impact". Indeed, this tension between single and double materiality reveals a significant fault line within the investor responses. Whilst 27 respondents expressed support for the ISSB's proposal, 16 directly opposed it, and a further 16 either expressed a mixed view (with some support for both financial and double materiality) or did not offer a clear opinion.

In our analysis, four main positions emerged. Firstly, those supporting the ISSB's position on financial materiality and enterprise value emphasised the financial nature of their fiduciary responsibilities. In this vein, both CalSTRS and Capital Group deployed an argument based on their fiduciary responsibilities to underline their need for information which would help them to achieve their investment objectives:

> The Exposure Drafts also focus on issues which may impact an issuer's enterprise value which we support. As fiduciaries to our beneficiaries, we are required to focus our investment analysis on those issues that may impact investment results. (CalSTRS)

> As fiduciaries on behalf of our end investors, we are required to focus our investment analysis on issues which may impact investment results. The Exposure Drafts' focus on issues which may impact an issuer's enterprise value supports our ability to carry out this responsibility. (Capital Group)

In direct contrast, a second position are those who advocated double materiality, united around a single argument: that the enterprise value/financial materiality approach is too narrow and hence incapable of capturing the broad range of sustainability-related issues. Like DWS in the quote below, a number of respondents highlighted that the double materiality approach has already been advocated by global corporate reporting bodies such as GRI and EFRAG, and that the new ISSB standards should conform with existing 'best practice' frameworks:

> We recommend that the ISSB focus on double materiality reporting of sustainability from the onset and should work with EFRAG to devise a workable double materiality concept (or at a minimum ensure compatibility). In practice, this would mean a set of sustainability reporting standards which are science based, incorporate double materiality and capture a broad range of sustainability issues such as inequality, human rights, water risks, biodiversity loss and climate. (DWS)

> A double materiality approach would deliver investors a much clearer picture of the sustainability performance of an issuer including risks, opportunities and impacts. (PGIM)

Building on this, the third position highlights the consequences of a narrow financial materiality approach being inadequate in providing the information which investors need. This view was expressed by, among others, BMO Global Asset Management, Calvert, Amundi and the HSBC Bank Pension Trust:

> Universal owners need a double materiality lens to inform critical, long-term decision making. […] Universal owners seek more than just entity-level enterprise value to understand the value and risks faced by their total portfolio, including adopting a double materiality lens. (HSBC Bank Pension Trust)

The message here is clear: the single materiality approach which the ISSB is advocating will not provide the information investors need to understand the sustainability-related impact *of* an organisation rather than solely the financial impact *on* the investee company.

Finally, a smaller, fourth group highlighted the practical problems associated with the calls for the introduction of a double materiality approach. For AIA, “there is significantly less clarity and established practice in applying materiality judgements to sustainability-related financial disclosures”. Dimensional Fund Advisers argued that the increased costs associated with reporting based on double materiality did not justify the benefits. While Fidelity International shared these practical concerns, they advocated a steady, gradualist move towards double materiality reporting.

Overall, the views expressed by the proponents of a double materiality approach illustrate the extent of the fundamental disagreement on the appropriate definition of materiality within the investor community, and hence the existence of a significant dissonance between a sizeable sub-group of investors and the position of the ISSB. This as an example of what Mennicken and Power (2015) and Dichev *et al*. (2013) refer to as a values-based dissonance arising from an explicit fundamental clash of principles between groups. The disagreement between investors over single and double materiality originates in very different views of the role and purpose of the investment industry. For the advocates of single materiality, the purpose of the investment industry is clear: maximisation of financial returns to investors – the fiduciary argument highlighted above. The strong advocates of double materiality, by contrast, frame the purpose of the investment industry in a much broader context: talking about addressing global sustainability issues, and importantly the entity impact on (rather than how it is affected by) sustainability.

This values-based dissonance is reflected in the ISSB’s staff papers. IFRS (2022d, p. 18) clearly signposts pre-established ISSB position by starting its commentary by reporting that (albeit at an aggregate level), many respondents supported the ISSB’s adoption of the definition of materiality from the IASB’s Conceptual Framework. The papers subsequently acknowledge the tension on this point: “respondents provided mixed feedback on whether the proposed definition and application of materiality is likely to capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity”, with some respondents reported as expressing concerns that “the ISSB’s proposed definition of materiality and the focus on enterprise value could potentially be too narrow to capture the breadth of information that is relevant and decision useful for investors”. However, in relation to the second and third positions of investor comments, there is no explicit reference to double materiality in either document or of a gradual movement in that direction (IFRS, 2022d;f). Hence, based on the investor responses, this values-based site of dissonance is likely to persist.

6.3 The basis for reporting.

IFRS S1 requires an entity to "disclose *material* information about all of the *significant* sustainability-related risks and opportunities to which it is exposed" (IFRS, 2022a, p. 9) (emphasis added). The basis for reporting was mentioned by 32 of the responding institutions, and in almost all cases in critical terms. A common criticism centred on the lack of precision and clarity in the terminology used and their apparent interchangeability:

> The exposure draft would benefit from clearer definitions around what 'significant' sustainability risks and opportunities are, as well as what is 'material' information around those risks […] The draft would benefit greatly from additional guidance on how to determine what constitutes "significant" and "material". (Schroders)
>
> PGIM believes that there is a need for greater clarity and consistency of definition/wording of materiality. For example, the Exposure Drafts use two different phrases interchangeably: "significant sustainability/climate-related" when referring to risks and opportunities and "material sustainability/climate-related" when referring to financial information. PGIM requests that ISSB clarify how 'significant' be interpreted and how it relates to the application of materiality. (PGIM)
>
> We encourage greater consistency and clarification around definitions of enterprise value, materiality and "significant" sustainability risks and opportunities, as these seemed to be used interchangeably throughout both S1 and S2. (BMO Global Asset Management)

Other responses went further still: not only are the terms 'significant' and 'material' poorly defined, but so too is the concept of sustainability:

> Key terms such as "sustainability-related risks and opportunities", "sustainability-related financial information" and "knowledge-based assets" would benefit from further clarification and more precise definitions in the standards, as would the term "significant" and how this differs from how the exposure draft defines materiality, and the term "sustainability-related". (Federated Hermes)
>
> We have concerns about the lack of definition of 'sustainability'. While we recognise that this is a contentious term, we believe it is the role of global standard setters to define it. (abrdn)

Though investors do not use the term, the criticism here is one of tautology: the interchangeable use of 'significant' and 'material' can lead to an understanding that something should be considered significant if it is material, and material if it is significant. This critique is grounded in the IFRS' requirement (IFRS, 2022a) that companies provide material information on all significant risks and opportunities. A solution proposed by DWS is to adopt the EFRAG ESRS 1 (EFRAG, 2022b) principle whereby the terms have the same meaning when referring to impacts, risks and opportunities.

Several investors discuss why this confusion or tautology is problematic. The inconsistent use of terminology causes "ambiguity" (State Street Global) and risks damaging the usability of the standards for investors (Fidelity International). Further, that definitional vagueness "is likely to lead to subjective interpretations and inconsistency across disclosures" (PGIM), a point developed by CIBC Asset Management:

> We believe that the latitude accorded to companies to devise and select their own metrics to measure and communicate performance on key sustainability-related risks, compromises the objective and rationale of the ISSB to standardise sustainability-related disclosure. (CIBC Asset Management)

The critique here is an emphatic one. The failure to define what is meant by "significant" and "material", and their difference, will make it possible for companies to self-select disclosure and associated metrics, reflective of criticisms as to a lack of balance in reporting (Slack, 2022). Potentially, this would serve to undermine the purpose, rationale and integrity of the ISSB's mission.

IFRS (2022d) reflected the general demand, including that of investors as users, for greater definitional clarity, especially in relation to 'significant' and its positioning to, and distinction from, materiality. Further, the ISSB acknowledged the "mixed feedback on whether the definition of 'sustainability-related financial information' is clear" (p. 9), with respondents asking for clarification on the definition of terms including "enterprise value" and "sustainability-related risks and opportunities".

It is clear from our analysis that investors are highly critical of the vague, interchangeable, and tautologous use of terms such as "material", "significant" and "sustainable" in the draft standards. We frame this tension as arising from an upstream lack of definitional clarity which, if not resolved, may result in subsequent interpretative dissonance (Hutter, 2015). Over time, this risks undermining the usefulness of sustainability-related reporting, as noted by CIBC in their response shown above. A lack of ex-ante definitional clarity can hence be seen as a precursor to ex-post interpretative dissonance – a point implicitly made by Mazzi *et al*. (2022), when, drawing on interpretative dissonance.

6.4 The time horizon of reporting

The draft standard specifies that "enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital" (IFRS, 2022a, p. 5). We find here similar definitional vagueness reported by investors regarding the quantification as to what is meant by short-, medium- or long-term.

Respondents proposed a number of different solutions to this issue. The most popular was the adoption of a precise definition, a recommendation made by, among others, Wellington and DWS:

> Wellington Management supports assessments of materiality over the short, medium, and long term. Rather than leaving definition entirely to each company, some standardization should be established across companies. We are concerned that allowing each company to use its own definition of short, medium, and long term will result in disclosures that are not comparable and therefore less decision-useful for investors. (Wellington)

> There is a need to define more clearly what is considered short, medium, and long *"time horizon"* and we therefore suggest alignment with ESRS 1 *"General principles"*, where short-term is one year, medium-term is two to five years and long-term is more than five years. However, the standard should provide flexibility to deviate from the baseline with appropriate justification. (DWS)

Wellington's argument is that without standardisation, the reports of different companies (in the same industry) will be inherently difficult to compare with each other and will therefore be of limited use in informing investors' decision-making. As they did in reference to the materiality/significance issue, DWS point out that EFRAG has already addressed this issue in their ESRS 1 (EFRAG, 2022b) and that there hence exists a ready-made precedent.

Other solutions proposed include the idea of a set of indicative date ranges (Amundi) or a requirement for issuers to explicitly disclose how they interpret short-, medium- and long-term time frames (Aware Super). Others argue for a more flexible interpretation, as we find in Temasek's submission:

> [W]e believe that ISSB should allow companies the flexibility to determine a more relevant time horizon for the disclosures on cashflow impact depending on their operating context. (Temasek International)

Finally, some investors viewed time horizons reporting an "excessive requirement with limited utility" for users of the reports exemplified by the response of Scotia Group:

> The requirement in paragraphs 15(d) and 44(a) to disclose the effects of sustainability-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term – including how sustainability-related risks and opportunities are included in the entity's financial planning – is an excessive requirement with limited utility for primary users. (Scotia Group Asset Management)

This is a further instance of heterogeneity between investors with some investors expressing a high degree of related concerns but others, such as Scotia Group, challenging the utility of the exercise. The ISSB acknowledges that "[m]any respondents asked for clarification on the time horizons applicable to the short, medium and long term" (IFRS, 2022d, p. 11). Hence, as with that observed in Section 6.3, without resolving this ex-ante definitional issue it may result in consequential ex-post interpretative dissonance, again, potentially impairing the usefulness of reporting to investors.

6.5 Scope 3 emissions

IFRS S2 (IFRS, 2022b) sets out the requirements for reporting Scope 1, 2 and 3 emissions. In respect of the reporting of Scope 3 emissions, the draft standard makes a number of proposals: entities should include both upstream and downstream emissions in their measure of Scope 3 emissions; should disclose the activities included within their measure of Scope 3 emissions; and should provide some explanation as to which emissions associated with their value chains they have chosen to include and/or the basis on which such emissions have been excluded. These proposals are consistent with those set out by the TCFD and build upon the requirement by SASB (SASB, 2017) that companies evidence the consolidation of reporting as demanded by investors. Again, a number of positions were evident in our analysis.

Firstly, those respondents who expressed support for the proposals, arguing that they should be implemented as soon as possible. Data on Scope 3 emissions, as Capital Group argues, is essential for informed decision-making and, as the HSBC Bank Pension Trust describes, the current reporting framework is not fit for purpose:

> As long-term investors seeking superior results for our clients, in our bottom-up security analysis, we find that Scope 3 GHG emissions data, where material, offers key insights into how a company is managing material climate-related risks and opportunities in the energy transition. (Capital Group)

> There remains a significant gap in reported Scope 3 GHG emissions data relative to Scopes 1 and 2 by corporate entities, meaning investors like ourselves are required to rely on proxies (where they are available) or indeed operate with incomplete information. […] We therefore strongly support the inclusion of this factor within the Standards and hope it will improve the reliability of GHG emissions data for both corporate and sovereign entities. We also note and commend the requirement to calculate and include both upstream and downstream Scope 3 GHG emissions. (HSBC Bank Pension Trust)

Other respondents related the proposals to existing frameworks, Wellington stating a strong view that reporting entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions, and Northern Trust urging the ISSB to go beyond “the strong encouragement of TCFD’s recommendations”. Finally, NGS Super emphasised the importance of a prompt implementation of the proposals:

> Scope 3 emissions reporting will inevitably require reporting entities to source data, make reasonable assumptions, and perform calculations to meet the disclosure requirements. This will require some capacity and willpower to prioritise, and we see adequate capacity and expertise available to enable a 1 January 2023 implementation. We view with skepticism concerns that are raised in relation to reporting entities needing long lead times to meet the disclosure requirements. (NGS Super)

This first group of respondents all expressed a position of strong support for the disclosure of Scope 3 emissions, like NGS Super giving little credence to negative arguments raised by preparers about the practical challenges associated with such disclosures.

A second group of respondents, while remaining broadly supportive of the proposal, placed a greater emphasis on the trade-off between the benefits and usefulness of Scope 3 emissions reporting to users and its practical costs and challenges. For instance, Australian Super recommended a phased-in approach:

> We support a phased in approach where disclosures rely on underlying entity reporting such as relating to Scope 3 emissions Category 15: Investments. Data gap allowances for this category of emissions disclosures should also be considered, factoring in transparency as to what the gaps are, reasons for them and improvements anticipated in future reporting periods. (Australian Super)

BlackRock proposed one solution to the inconsistent quality of the data available, that issuers be allowed to limit their reporting to the Scope 3 categories which they deemed material to their business (although raising issues of self-determination of reporting):

> Given methodological complexity for Scope 3 emissions and the lack of direct control by companies over the requisite data, our investors believe the usefulness of this disclosure varies significantly right now across industries and Scope 3 emissions categories. We encourage regulators to adopt a disclosure framework that accounts for this significant variation. Under this framework, companies would disclose emissions estimates for any of the fifteen Scope 3 categories that are material to them. (BlackRock)

Thirdly, those who opposed the proposal did so not on principle but because they felt that the practical costs and challenges associated with Scope 3 reporting outweighed the benefits. For example, the Investment Association and PGIM both argued that Scope 3 reporting has not yet developed to the point where it is sufficiently robust and therefore useful:

> IA members recognise disclosure of Scope 3 emissions are currently nascent and several concerns remain including: (i) data availability; (ii) calculation methodologies; (iii) scoping; and (iv) organisational barriers. […] Despite current difficulties in reporting on Scope 3 emissions, we believe it is an important cross-industry metric entities should strive towards, greater disclosure should help to create improvements in methodology and coverage of disclosure. (Investment Association)

The concerns expressed here around data availability and the lack of calculative methodologies were noted by others including AIA, Vanguard and Invesco. Further, Temasek referred to the prohibitive cost of any such reporting, while Future Super based their opposition on the risk that multiple interpretations of the guidance would hurt comparability. The most vehement opponents, however, were those respondents who, because of the unreliability of data, saw no benefit in the reporting of Scope 3 emissions, among them Dimensional Fund Advisers:

> We also encourage the ISSB to reconsider whether requiring disclosure of Scope 3 emissions is appropriate, even when material. Companies in most industries are not able to estimate their Scope 3 emissions with reasonable reliability at this time. Estimates of Scope 3 emissions may vary substantially because of differences in the assumptions made and methodology employed. Such data is of limited use to investors. (Dimensional Fund Advisers)

The staff paper relating to draft S2 (IFRS, 2022e), reports that most users agreed with the proposal that all entities disclose absolute gross Scope 3 GHG emissions. Our analysis, although broadly supportive, illustrates a number of different user stances. Reflective of the observed heterogeneity of investor responses, we frame the dissonance we observe here as an example of practical dissonance: while generally supporting a proposal in principle, different respondents place different salience on practical issues or challenges which may undermine the effective implementation of that proposal and its subsequent use. This form of dissonance is a variant of the dissonance of emphasis discussed by Georgiou (2018). Supporters of the disclosure of Scope 3 emissions may have questioned its usefulness to them by invoking practical challenges but, because they placed a higher emphasis on the former over the latter, ended up expressing support for the proposal. In contrast, a second group used these practical considerations to support their arguments against the introduction of Scope 3 reporting (the emphasis here was reversed); in its most extreme form, this comes close to a values-based dissonance. Here, perhaps more than anywhere else in our study, we see the rich and heterogeneous views expressed by investors.

6.6 Assurance

The ISSB's Consultation Paper (IFRS, 2020, para 52) reports that "to achieve globally consistent sustainability reporting practices, sustainability information reported by companies will ultimately need to be subject to external assurance". The statement here as to the importance of external assurance, however, is qualified by the recognition that there are "conceptual and practical challenges to achieving such assurance, including the need for a consistent global framework and the difficulties of setting out qualitative sustainability-related disclosure requirements". We recognise that assurance falls outside the jurisdiction of standard setters and is the remit of other independent bodies such as the International Auditing and Assurance Standards Board (IAASB). Nonetheless it is interesting that whilst assurance was explicitly raised as a question in the consultation phase it was excluded from the draft standard discussion questions to ascertain its importance to users and hence the decision-usefulness of the reporting to them.

Notably, despite this exclusion, assurance emerged as a prominent key theme with 24 of the responding institutions explicitly discussing the topic. Within this group a large majority strongly advocated the incorporation of some form of assurance into the ISSB's framework for reasons (credibility, consistency, interoperability) which are summarised well in the responses of Aviva and CalPERS:

> Assurance will be key to the credibility of sustainability reporting going forward, hence the ISSB should consider the needs of assurance providers in developing ISSB standards. In particular ensuring

> that terminology and definitions are sufficiently precise and robust to support assurance. We believe this will be key in driving global comparability and consistency. (Aviva)

> CalPERS strongly favors including an assurance mechanism. We note that the ISSB remains flexible on the location of the disclosures, so it is uncertain what enforcement mechanisms will be available to a particular adopting jurisdiction. Further, it is even less clear that any of the disclosures will be audited in a given jurisdiction because this is dependent on disclosure location as well. Given the uncertainty surrounding enforcement and ability to audit, assurance within the standard becomes even more important. Therefore, we support having strong assurance provisions included in the standard. Providers of assurance should be independent and skilled and most certainly can be the regular audit firm. (CalPERS)

Further, investors identified a number of organisations with whom the ISSB could constructively collaborate such as the Public Company Accounting Oversight Board (PCAOB), the IAASB or the International Ethics Standards Board for Accountants (IESBA).

Though a large majority of investors expressed positive support for the incorporation of assurance into the ISSB's framework, a smaller number expressed some dissent, whether on the grounds of cost (Schroders), the absence of a suitable framework for auditors to use (State Street Global), or a more general lack of competence within the auditing and assurance profession:

> We are concerned about the capacity and skillsets of auditors to properly determine compliance with the proposals at this stage. Commercial issues may arise from an under-developed market for auditors and a potentially scarce service. To allow the market space to develop, we would support the introduction of auditing requirements over the medium-term. (abrdn)

While the subject of assurance is not addressed in the draft standards or questions, it is referred to in the staff papers. IFRS (2022d, p. 8) indicates substantial differences of opinion between respondents: feedback was "mixed … on whether the requirements provided in [draft] S1 would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the requirements". Many users (which implicitly includes investors) "noted the importance of effective and robust assurance in ensuring confidence in the integrity of the disclosure of sustainability-related financial information" (*ibid*, p. 8). However, many other respondents (i.e. preparers and auditors) highlighted the practical challenges involved in complying with various aspects of draft S1.

We find here a different form of dissonance from those discussed in previous sections; we term this dissonance by omission. Dissonance by omission is important as it recognises that standard setters can and should expect challenge on what they leave out of their proposals, or related consultation questions, as much as on what these contain. We note the relevance of Young (2003) in her contention as to the apparent levels of (in)significance of matters conveyed to users ascribed through their presence or apparent exclusion. Given that many investors share the view expressed by Aviva that assurance is the key to the credibility of sustainability reporting, such omission may undermine the foundations of the ISSB's project towards decision-useful reporting for capital market users.

7. Discussion and conclusion

Based on our findings and analysis, we now discuss our contributions set out under two main headings: insights into the comment letter literature and especially that concerning non-financial reporting and contributions to the dissonance literature..

First, by studying the consultation process (primarily the ISSB's ex-ante draft standards compared with investors' comment letters) we are able to offer new insights into the comment letter literature. Specifically, relating to non-financial reporting, only a very small number of papers (Reuter and Messner, 2015; Adams and Mueller, 2022) have examined stakeholder comment letters during consultation processes. Whilst Reuter and Messner (2015) examined integrated reporting, only 16 comment letters related to investors, so that their subsequent analysis reflected primarily that of preparers and the accounting profession. This low level of investor response is perhaps even more surprising when compared to the Integrated Reporting Framework (2013, p. 4) which states, "the primary purpose of an integrated report is to explain to *providers of financial capital* how an organization creates value over time" (emphasis added) serving "to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital". The only other research in this area is that by Adams and Mueller (2022) who analysed academic responses to the initial IFRS Consultation on Sustainability Reporting. Our analysis of investor comment letters sheds light on their views, as primary users, relevant to a significant development in sustainability reporting unique to the literature.

Further, we contribute to the comment letter literature through our analysis of the corpus of investor comment letters. The more prevalent prior financial reporting-based research on comment letters has been characterised by consistent low levels of investor response (Jorisson et al., 2012; Holder *et al*., 2013; Adhikari *et al*., 2014; Wingard *et al*., 2016; Pelger and Spieß, 2017 and Bhimani *et al*., 2019). Indeed, Bamber and McMeeking (2016, p. 68) report a "passive user (investor) community at least in the public phase of consultation". Reflective of the low levels of prior investor engagement, Durocher and Georgiou (2022, p. 2) remark that "standard setters prefer to 'imagine' financial statement users' needs during standard-setting processes, rather than obtain these empirically". Our research addresses this lacuna, showing in this instance that investor groups demonstrated a high level of engagement with the consultation process and offered a depth of response enabling a fine-grained analysis and which contradicts the past characterisation of them as passive and disinclined to engage with the process.

Second, theoretically, we based our study on sites of dissonance, a framing which is particularly relevant given the tensions we have identified between the ex-ante position of the ISSB and the views expressed by investors. In Section 6 we identified three forms of dissonance which were inductively derived from our study: values-based dissonance, practical dissonance, and dissonance by omission. We also report that a lack of definitional clarity ex-ante can serve as a precursor to subsequent interpretative dissonance ex-post (see Mazzi *et al*., 2022). Values-based dissonance is well understood in the existing literature (Stark, 2009; Dichev *et al*., 2013; Mennicken and Power, 2015) but we apply it for the first time to a discussion of sustainability reporting, and specifically the principle-based clash between financial and double materiality. We explored practical dissonance in the context of Scope 3 emissions, framing the concept as a variant of dissonance of emphasis (Georgiou, 2010) in which, in our case, different groups placed different emphasis on the practical challenges associated with timely and accurate Scope 3 reporting and its subsequent consumption by them.

The final form of dissonance we derive is new to the literature. Dissonance by omission emerged from our comparative research method in the discussion of assurance in Section 6.6. Without a comparative approach omission cannot be identified (Cooper and Slack, 2015). This is distinct from the values-based dissonance discussed in Section 3 where, there is explicit and known fundamental disagreement between parties based on issues of principle (Dichev *et al.*, 2013; Mennicken and Power, 2015). Likewise, dissonance by omission is distinct from the dissonance of emphasis whereby different parties place a very different value on particular issues. Rather, dissonance by omission has more in common with the concepts of selectivity, omission and silence which have been explored by accounting scholars in the context of impression management (Merkl-Davies and Brennan, 2007; Cooper and Slack, 2015) and sustainability reporting (Boiral and Heras-Saizarbitoria, 2020). The latter is most relevant to our framing of dissonance by omission: Boiral and Heras-Saizarbitoria (2020, p. 11) discuss how a silence on key reporting aspects creates conditions that may contribute to "problems which could undermine [their] legitimacy" and without resolution, for instance through disclosure, can persist.

We noted earlier that an important implication of dissonance by omission is that standard setters should expect to be held as accountable for what they omit from a proposed standard and related consultation as much as for what they include. Whilst recognising that assurance is outside the remit of the ISSB, nonetheless, we also noted the apparent puzzle that assurance was included in the ISSB's initial Consultation Paper (IFRS, 2020) but not in the subsequent Exposure Drafts or related questions (IFRS, 2022a, 2022b), and that the staff papers (IFRS, 2022d, 2022e) reported significant concerns over this omission from certain stakeholder groups. Unlike the antagonistic positions in value-based dissonance, what is not explicitly shown is the view of ISSB on assurance. Moving forward, we suggest that one way of resolving this dissonance constructively would be for subsequent staff papers to show a pathway for the consideration of assurance and its scope through possible collaboration with other external bodies such as PCAOB or IAASB.

As Clune and O'Dwyer (2020) describe, in a positive scenario there is what they term an 'organising dissonance' which helps to bring about a 'productive collaboration' between standard setter and users, similar to the argument by Orens et al. (2011) that comment letters can facilitate constructive debate. Rather, recalling Stark's (2009, p. 23) "danger […] that arguments displace action and nothing is accomplished", the risk facing the ISSB is that, in the absence of a positive response, investors' calls for double materiality and assurance may remain sites of dissonance. These may cast into doubt the usefulness of the resultant reporting to them and potentially undermine the claims made in IFRS1 (2022a, p. 5) that the new standards "respond to calls from primary users (investors, lenders and other creditors)" for sustainability-related information. In this regard, our paper makes no comment on the effectiveness of those response letters but rather was designed to report on investor engagement with the process and to identify sites of consensus or dissonance.

Arising from the findings, we also provide further evidence as to the heterogeneity of investors. While there was broad agreement on the importance of a sustainability reporting framework and a shared critique of key terms, we showed that there were also clear areas of disagreement within the investor community, for example in their preference for reporting based on single or double materiality or their attitudes towards Scope 3 reporting. This finding on the heterogeneity of investor responses is not new. Adams and Mueller (2022) challenged the IFRS Foundation's assumption that there is an "investor view" shared by a homogeneous community of investors. Further, Abhayawansa *et al.* (2022, p. 14) argued that "[r]egulators and policymakers need to recognise the diversity in capital market participants and understand how that diversity of users manifests in their specific information requirements before making policy decisions”. We also found considerable heterogeneity in the responses of investors and within the same broad groups of investor type (such as active or passive funds) evident in our findings and reported in Section 6.

What is surprising, however, are the instances where investors criticise the ISSB for not going far enough in mandating the disclosure of information. Prima facie, we might expect the ISSB’s proposals to be broadly welcomed by investors. Indeed, they might even represent some form of regulatory capture, as critically described by a respondent quoted in Adams and Mueller (2022, p. 1326) who suggested that the “proposals represent the capture of the standard-setting process by powerful groups such as large accounting firms and large asset managers”. The concerns expressed by investors vis-à-vis the standard setter (Georgiou, 2018) refutes this and suggests rather that there are gaps, some of which are principles-based, between the needs and desires of a diverse investor group and the draft standards.

We end by discussing some of the limitations of our study and suggestions for further research. From an empirical point of view, we accept there is a degree of overlap between our findings and those summarised by the IFRS in their two staff papers (IFRS, 2022d, 2022e). Importantly, we move beyond the staff papers and contribute to both the sustainability reporting literature and the comment letter literature by our analysis. As noted, the ISSB staff papers do not separately analyse investor responses; rather, the staff papers present an amalgam of all responses not identified by specific groups of respondents. These are naturally dominated by the perspectives of preparers and the accounting profession as highlighted in prior comment letter research. These groups have different interests and modus operandi. In contrast, we offer a fine-grained analysis with a sole focus on investors, as primary users, such as their range of views on single and double materiality or Scope 3 emissions. This enables our research to show clear themes and discrete sub-themes within their responses. Through this, we highlight sites of dissonance between the positions of the standard setter and those of investors. Our paper is the first to do this.

From a methodological perspective, Krippendorff (2018) warns against the potential unreliability of self-applied investigator-developed recording instructions. We attempted to address concerns over reproducibility and reliability with the use of independent coding at the pilot stage to identify the emergent themes, through detailed thematic coding sheets and regular meetings during the main coding phase to critically challenge and discuss those themes. Further, as part of research dissemination to practice, several informal meetings were held to elicit feedback with members of domestic standard setting and other regulatory bodies globally. These informal meetings helped to confirm the overall sense-check of our findings.

Nevertheless, as Weber (1990, p. 62) notes "interpretation (of text) is in part an art"; our results should be viewed with this limitation in mind. Finally, we recognise that our ex-post analysis is necessarily time limited to the initial ISSB staff letters on their summaries of the consultation feedback. These do not reflect the final deliberations of the ISSB with regard to the subsequently issued standards that, as noted, future research could fruitfully examine and hence comment on the effectiveness or otherwise of the consultation process.

Since our empirical focus was solely on the content of comment letters, we did not explore any other lobbying methods by which investors might engage with standard setters, such as formal meetings or informal conversations. We acknowledge this as a limitation and suggest that it might be an avenue for other researchers to explore. In a similar vein, we suggest that an exploration of indirect lobbying around this consultation process would complement this study and that it would also be interesting to study the tone of the response letters. Finally, we see rich opportunities for cross-border studies engaging with investors, for example on their perspectives on the interoperability of GRI, EFRAG, SEC and ISSB standards when applied to a global portfolio of reporting investee companies.

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[1] Throughout the paper we use the term draft standard as issued by the ISSB [Draft] IFRS S1 and S2. This term is synonymous to Exposure Draft referred to in some of the quotes by respondents and in other research examining the development of financial reporting standards.

[2] Enterprise value is "the total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt" (IFRS 2022a, Appendix A, p. 40).

[3] For a discussion of standard-setting of sustainability reporting and related issues please see the Special Issue of Sustainability Accounting, Management and Policy Journal (2022, Volume 13, Issue 6).

[4] "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?" (Question 10, p. 16, IFRS Foundation, 2020)

[5] Readers are referred to the Special Issue of Critical Perspectives on Accounting (2022, Volume 82) for further critical discussions on the impact of COVID-19 and environmental accounting and reporting more widely.

[6] There is wide adoption of global sustainability-related reporting based on key frameworks that will coalesce under the ISSB. KPMG's (2022) Survey of Sustainability Reporting reports that 78% and 61% of G250 global companies report under GRI and TCFD respectively.

[7] "The draft standard defines material information in alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general-purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'" (IFRS 2022a, p. 16)

[8] In September 2023 EFRAG and GRI published a joint statement on the high level of interoperability achieved between the European Sustainability Reporting Standards (ESRS) and the GRI Standards (EFRAG, 2023). This reflects their commitment to double materiality in reporting.

Table 1: Example of thematic coding and sub-coding: Enterprise Value

Support Enterprise Value (i.e. Single Materiality)			Main coding: Oppose Enterprise Value (i.e. Double Materiality)	
Sub-coding components	**Illustrative excerpts**		**Sub-coding components**	**Illustrative excerpts**
Financial materiality is investors' main concern	We support the approach that entities will be required to disclose information that is material and gives insight into an entity's sustainability-related risks and opportunities that affect enterprise value. **(Australia Super)**		**Need to conform with existing 'best practice' frameworks (e.g. GRI and EFRAG)**	The focus on 'enterprise value' materiality runs counter to the EU's Corporate Sustainability Reporting Directive (CSRD) proposal for double-materiality. **(abrdn)**
	The focus on enterprise value and the users of general-purpose financial statements seem sensible. **(Aviva)**			Clearer definition on scope, and/or explicit acknowledgement in these paragraphs [IFRS S1paras 1-7] would be welcomed along with a clear incorporation of the double materiality ("impact") described in Paragraph 17....EFRAG's concept of double materiality includes both financial and impact materiality. Clearer alignment from the ISSB would be helpful. **(Schroders)**
	It is important when assessing materiality that there is clarity over the expectations from assessing a firm's enterprise value. **(Legal & General)**			We believe that the ISSB framework should also consider and embrace the 'double materiality' concept promoted by the EU Commission and reflected by EFRAG proposed standards. **(Candriam)**
Adequacy of existing standards (i.e. IAS 1)	We consider that the proposed objective is clear but broad in requiring information that will inform the investment decision making of existing and potential investors, lenders and other creditors as			We recommend that the ISSB focus on double materiality reporting of sustainability from the onset and should work with EFRAG to devise a workable double materiality concept (or at a minimum ensure

	the primary users of standardised sustainability reporting. The definition of materiality is clear **and** follows the International Accounting Standards Boards (IASB) conceptual framework for financial reporting. **(Federated Hermes)**			compatibility). In practice, this would mean a set of sustainability reporting standards which are science based, incorporate double materiality and capture a broad range of sustainability issues such as inequality, human rights, water risks, biodiversity loss and climate. **(DWS)**
	We are therefore supportive of the approach adopted by the ISSB which focuses on financial materiality […]. ISSB standards provide the necessary bandwidth for some jurisdictions, such as the European Union, to go beyond financial materiality. **(Neuberger Berman)**			Building on this dialogue and in line with 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 to respond to the EU regulation CSRD. **(Groupama Asset Management)**
	[support a] more flexible approach that would enable companies to apply the same materiality standard as they do for financial reporting today, or to remove the reference to "enterprise value" and instead utilize the definition provided by IAS 1 **(T Rowe Price)**		**Inadequacy of narrow financial materiality approach to meet investors' needs**	Universal owners need a double materiality lens to inform critical, long-term decision making. Many investors, including ourselves, adopt a 'Universal Owner' mind-set. Universal owners can broadly be characterised as investors with highly diversified and long-term portfolios that represent a slice of the global economy. Corporate practices that maximise enterprise value at the individual entity level can contribute to additional costs, or externalities, which can negatively impact the enterprise value of other firms in the portfolio. Universal owners seek more than just entity-level enterprise value to understand the value and risks

				faced by their total portfolio, including adopting a double materiality lens. **(HSBC Bank Pension Trust)**
Lack of clarity in assessing non-financial materiality	While the application of materiality to general purpose financial reporting is generally well understood (albeit potentially subject to judgement), there is significantly less clarity and established practice in applying materiality judgements to sustainability-related financial disclosures. **(AIA Group)**			Our overarching constructive feedback on both S1 and S2 is that restricting the scope of sustainability-related disclosures to enterprise value would not sufficiently meet the current and evolving needs of primary users of general purpose financial reporting, including universal owners or diversified asset managers such as BMO GAM. **(BMO Global Asset Management)**
Fiduciary argument	The Exposure Drafts also focus on issues which may impact an issuer's enterprise value which we support. As fiduciaries to our beneficiaries, we are required to focus our investment analysis on those issues that may impact investment results. **(CalSTRS)**			This approach is not in line with the double materiality principle we support. Investors such as asset managers and their clients will want to be able to consider material "impacts" of an entity on the people and the planet "as such" and over time, in addition to the impact on the enterprise value. **(Amundi)**
	As fiduciaries on behalf of our end investors, we are required to focus our investment analysis on issues which may impact investment results. The Exposure Drafts' focus on issues which may impact an issuer's enterprise value supports our ability to carry out this responsibility. **(Capital Group)**			The focus on enterprise value is understandable and is appropriate for financial reporting. However, we believe this is too narrow a focus for climate related reporting. We would prefer that the standard explicitly acknowledge the concept of double materiality, or reporting on both the impact of climate change on the enterprise's value, and the impact of the enterprise's own operations on climate change. **(Impax Asset Management)**
	Within the parameters set forth by the PERA Board of Trustees (PERA Board) to achieve our investment objectives, PERA considers financially material factors when making investment decisions			Double materiality approach would deliver investors a much clearer picture of an issuer including risks, opportunities and impacts **(PGIM)**

	in our public and private market portfolios. **(Colorado Public Employees' Retirement Association)**		
Costs of DM reporting outweigh benefits	Advocates for double materiality often cite demand from diversified investors for information about how their investments contribute to systemic risks that, whilst not material at the company level, may be material at the portfolio level, particularly over the long term. However, in our view, the costs of such an approach outweigh the benefits. **(Dimensional Fund Advisers)**		We note that in our December 2020 submission on the IFRS Foundation's Consultation Paper on Sustainability Reporting 10, we endorsed the concept of a) 'double materiality' and b) a broader approach to defining sustainability issues….We continue to support the concept of 'double materiality' as we believe that stakeholders, including investors, are looking for information on how companies are impacted by sustainability-related issues and how they themselves impact stakeholders in relation to those sustainability-related issues. **(NEI Investments)**
Definitional difficulties	We fear that defining a standard of what would constitute significant impacts on the external environment ('double materiality') would be very difficult. **(J. Safra Sarasin)**		We would therefore recommend that the ISSB broaden the scope of reporting beyond a simple focus on implications for enterprise value, as such data have boarder meaning for both companies and their investors. A broader more holistic reporting framework, embracing the double materiality concept, will ensure that investors are provided with more of the information they require. **(USS)**
Gradualist approach needed	We believe that a gradualist approach is appropriate to encourage broad adoption, but that over time the ISSB should consider how its approach should evolve to the principle of double materiality. **(Fidelity International)**	**Alternative approaches**	*Dynamic materiality:* We deem it as absolutely essential that the ISSB's materiality concept is defined in a way to cover investors' information demands in their entirety, namely by fully embracing the concept of dynamic materiality and taking into account that investors are, already today, interested in a significant number of inside-out impacts, either due to

				sustainability preferences or due to expected second-tier effects on enterprise value in the (potentially long-term) future. **(Allianz)**
				Nested materiality: In particular, we suggest that the ISSB should explicitly reference the concept of nested materiality used in its outreach materials (see below) to elaborate the significant overlap, as well as any differences between an enterprise value-focused materiality lens (purple box, below) and a multi-stakeholder impact lens. **(Generation Investment Management)**
			Mixed views	Thought will therefore need to be given as to how the ISSB standards can be used as building blocks that can sit within different legal regimes [Interoperability], particularly given varying legal definitions of materiality, for example in the US with a narrow focus on financial materiality compared with the ISSB definition of enterprise value or the EU which also includes sustainability impact. **(Invesco)**

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