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December 10, 2020

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Re: IFRS Foundation *Consultation Paper on Sustainability Reporting*

Dear Mr. Liikanen & the IFRS Foundation Trustees,

IFAC welcomes the opportunity to respond to the IFRS Foundation's Consultation Paper on Sustainability Reporting (the "Consultation") and we applaud the IFRS Foundation Trustees for taking this bold and necessary step. As the global voice of the accountancy profession, IFAC represents over 170 Professional Accounting Organizations in 130 jurisdictions, thereby representing over three million professional accountants worldwide.

The Consultation identifies important and challenging questions that should be considered by the IFRS Trustees—including the scope and sequencing of standards, the approach to materiality, and how to build off existing initiatives. However, in answer to the fundamental issues at stake—is there a need for a *global* set of internationally recognized sustainability reporting requirements, and should the IFRS Foundation play a leading role through the establishment of a new sustainability standards board (SSB)—**IFAC believes, based on extensive stakeholder outreach, that the answer is a resounding "Yes."**

On September 11, 2020, IFAC published *Enhancing Corporate Reporting: The Way Forward* ("The Way Forward"). In this document, IFAC proposed that a new standard-setting board is necessary to build and coordinate a coherent global system of interconnected corporate reporting that will rationalize the current fragmented ecosystem. IFAC called on the IFRS Foundation, with an enhanced remit and composition, to establish this board, leveraging the independence and success of IFRS governance (i.e., Monitoring Board and IFRS Foundation Trustees).

In developing The Way Forward, IFAC conducted extensive engagement with its membership and other stakeholders. Since the publication of the Consultation, this engagement has accelerated and has encompassed input (i.e., regional roundtable sessions and bilateral interviews) from stakeholders in jurisdictions across Asia-Oceania, Africa, the Caribbean, Europe, Latin America, and North America. The Consultation also figured prominently in the agenda for IFAC's 2020 global Council meeting last month, which was attended by over 250 representatives from over 110 professional accountancy organizations. While IFAC's voice represents the accountancy profession, we have also informed our views with input from both users and preparers of corporate information. This global engagement has served to reinforce the fundamental recommendations set out in The Way Forward—that a global approach to sustainability reporting requirements best serves the public interest and that the IFRS Foundation is best positioned to play the leading role in the process of establishing a global system of sustainability standards.

In IFAC's submission to the IFRS Foundation, we address each question of the Consultation, with the issues highlighted above being, in our view, the most pressing. We understand that this will be a challenging initiative, made all the more so by the urgency of the climate emergency.

The accountancy profession, for its part, must play an active role in helping companies, economies, and societies achieve a more sustainable future. We believe that the standardization of high-quality sustainability information will bring new relevance to our work in corporate reporting and assurance and will advance the public interest. IFAC stands ready to engage with the IFRS Foundation, as well as our member bodies and other stakeholders, to ensure the success of this important initiative.

Sincerely,

Kevin Dancey, CEO

Questions for Consultation

1. **Is there a need for a global set of internationally recognized sustainability reporting[1] standards?**

   Yes.

   IFAC believes that relevant, reliable, comparable, and assurable sustainability information serves the public interest because it enhances the relevance of communication between companies and their stakeholders. In our November 2019 Point of View on Enhancing Corporate Reporting, we highlighted the complex mosaic of voluntary disclosures under various frameworks and standard-setting initiatives focused on sustainability and value creation.[2] We noted that stakeholders find it difficult to both rationalize the information being provided by and between companies and to understand the linkage to financial information.[3] This situation perpetuates inefficiency, increased cost, and a lack of trust in reported information.

   Rationalization and alignment towards a *global* approach needs to occur in order for sustainability information to achieve its full potential—before a fragmented, jurisdiction-by-jurisdiction approach becomes ensconced practice. We believe both companies and investors increasingly support this view.[4] Likewise, feedback we have received from our stakeholders around the world further confirms this view.

   Throughout 2020, amid calls to "build back better" after the COVID-19 pandemic, momentum has been steadily building through a series of proposals and consultations for organizing how companies communicate with their investors and other stakeholders about sustainability information—culminating in a joint paper by five leading initiatives.[5] As a further collaborative step, the IIRC and SASB have announced their intention to combine and form the Value Reporting Foundation. This brings two enterprise value focused initiatives into one organization and should support the interconnectedness of the IASB's work with that of a new SSB. (See Building Blocks in response to question 5 and response to question 9.)

   IFAC also acknowledges the leadership that European Union policymakers have shown through the European Commission's recent Review of the Non-Financial Reporting Directive, the preparatory work being done by EFRAG, and pending legislative action. IOSCO's Board-level task force and the WEF/IBC Stakeholder Capitalism metrics are also important projects that can contribute to an emerging global system. We believe that these efforts are important catalysts and demonstrate demand for high-quality sustainability reporting. This said, it is

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[1] IFAC acknowledges that the terminology "sustainability reporting" is used throughout the Consultation. We also acknowledge that this terminology many be interpreted or used differently by stakeholders. In our response, we apply the more general meaning as defined in the Consultation itself (footnote 39): "For the purpose of this paper [the Consultation] the term 'sustainability reporting' is used as a catch-all ph[r]ase referring to information related to all environmental, social, or governance (ESG) matters."

[2] IFAC's Point of View: Enhancing Corporate Reporting.

[3] CFA Institute 2017 "Environmental, Social and Governance (ESG) Survey" (p. 18) highlights a lack of appropriate quantitative ESG information, lack of comparability across firms, and questionable data quality/lack of assurance.
McKinsey 2019 survey "More than Values: The value-based sustainability reporting that investors want" (including 50 companies, 27 asset managers, 30 asset owners) identifies the "excessive effort and expense" in providing similar information in answer to multiple requests. Investors and corporate executives cited "inconsistency, incomparability, or lack of alignment in standards as the most significant challenge" related to sustainability reporting.

[4] McKinsey survey revealed 86% of corporations / 88% of investors favor a single or fewer standards for sustainability reporting.

[5] Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, September 11, 2020.

difficult to project how these initiatives, on their own, can evolve into a global framework with acceptance and legitimacy comparable to what has been achieved with respect to financial reporting.

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

Yes.

IFAC strongly believes that with its independence, good governance, and track record of due process, the IFRS Foundation is uniquely positioned to contribute to and promote a system for sustainability reporting that will garner support from public authorities like IOSCO, the Financial Stability Board, and the G20—which is critical to legitimacy and the ultimate adoption of sustainability reporting requirements around the world.

In their open letter to the Chair of the Sustainable Finance Task Force of IOSCO, the leadership of five leading sustainability and integrated reporting initiatives (i.e., CDP, CDSB, GRI, IIRC, and SASB - "The Five") explained the benefits that the IFRS Foundation and a new SSB could bring to their collective initiative:

> Our standards and frameworks act as a starting point for the technical content, while the IFRS Foundation could provide an appropriate governance architecture to achieve global acceptance. Integration with the IFRS Foundation's governance and oversight could deliver internationally-accepted institutional arrangements for sustainability disclosures relevant for the capital markets, ensuring robust governance, rigorous due process and independent standard-setting, within the context of accountability to public authorities who foster outcomes that are in the public interest. This public/private model has proven to be effective in leading to general acceptance and widespread adoption of financial accounting standards.[6]

IFAC agrees with this assessment. Under the IFRS umbrella, the SSB will be separate from, and must not detract from, the work and the role of the IASB. However, it should work alongside the IASB to ensure that sustainability standard-setting is compatible with IFRS Standards.

A framework such as Integrated Reporting, in conjunction with the IASB's Management Commentary, and the work of the TCFD with respect to climate can provide the basis for connecting financial and sustainability reporting. However, the new board's initial focus should not be diverted from its standard-setting work (drawing on the work of existing sustainability initiatives—see response to question 5). The IIRC's recent strategic consultation,[7] along with its merger with the SASB, provides an opportunity to enhance a framework that accommodates a global system for sustainability reporting and connects it with financial reporting.[8]

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[6] Open Letter to Erik Thedeen, Director General of Finansinspektionen, Sweden, Chair of the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO), September 30, 2020

[7] See IFAC's response to the IIRC's Consultation Draft of the International <IR> Framework 2020

[8] Also see SASB's Conceptual Framework, and proposed revisions in 2020, for information regarding guidelines for i) the Standards Board and technical staff to carry out their standard-setting activities, ii) helping stakeholders understand SASB's approach to standard setting, and iii) helping improve the Standards Board's and technical staff's engagement and consultation with stakeholders.

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

   Yes.

   The IFRS Foundation should create a new sustainability standards board alongside the IASB. A coordinated, global approach for developing high-quality sustainability standards, led by the SSB, can prevent regulatory fragmentation, can address global sustainability topics like climate, and can best foster consistency and global comparability.

   We agree with the assessment of the Trustees detailed in the High-level Options Section of the Consultation Paper. Maintaining the status quo, or merely facilitating existing initiatives, will not lead to a rationalized, streamlined, global system. A new SSB, under the IFRS Foundation and alongside the IASB, will garner legitimacy and have the best potential for wide-spread acceptance and adoption.

   IFAC sees three approaches to sustainability reporting:

   > First, is a market-driven approach that relies on voluntary reporting using disclosures and metrics as decided by the reporting entities. The World Economic Forum's Measuring Stakeholder Capitalism initiative can enhance this process by building consensus for specific metrics from the existing sustainability initiatives that may be onboarded by members of the International Business Council (and others). However, market-driven, voluntary reporting cannot achieve relevant, reliable, and comparable information globally, which is what global capital markets require. Nor is it likely to have legitimacy and backing from public authorities.
   >
   > Second, various country-specific/regional approaches, driven by legislative or regulatory mandates, can play an important role as a catalyst for broader sustainability reporting. However, these local regulatory requirements are unlikely to achieve global scale. The comparability needed to support capital markets activities will not be achieved.
   >
   > Finally, there is the independent, private-sector approach that relies on transparency, due process, and public accountability. Only this approach will lead to legitimacy with public authorities—*globally*—and widespread acceptance of high-quality standards. This is the demonstrated path that has provided regulators around the world with the essential tools for mandated financial reporting requirements in accordance with IFRS Standards.

   Based on our outreach, IFAC concludes that a new SSB under IFRS Foundation oversight is best positioned to achieve the goal of high-quality, sustainability information that is also connected with financial reporting. This global approach will also provide a better foundation for assurance engagements (see question 10).

3. **Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?**

IFAC strongly supports the SSB initiative, based on the seven requirements for success identified by the Trustees in the Consultation Paper.

In addition, we believe the following factors are also important for success.

1. **Must deliver at speed:** Because the demand for rationalizing sustainability reporting is urgent, we urge a timely process and the establishment of the new board with a clear mandate to move with speed—leveraging existing expertise and standards (see "Building Blocks" approach in question 5), especially with respect to climate. Respecting stakeholder engagement and due process, as much progress as possible must be made by the SSB in the shortest amount of time, while remaining focused on high-quality outcomes. As a roundtable participant succinctly summarized, the new SSB cannot take three to five years to accomplish its initial climate-related work. The speed with which jurisdiction-specific policy initiatives are developing also requires a timely response by the SSB—to mitigate unnecessary regulatory fragmentation and to ensure opportunities for collaboration with the work of regional efforts. The existing body of work established over many years by The Five (and others) provides a unique opportunity to meet urgent stakeholder demand with timely standard setting. In both their Statement of Intent and Letter to IOSCO, The Five express their commitment to working with the IFRS Foundation and IOSCO.[9] This strategy will put the SSB on the path to primacy and rationalizing the current fragmented ecosystem.

2. **Board structure and expertise:** We encourage the IFRS Foundation to examine the range of business models currently used by standard-setters around the world that have demonstrated high-quality outcomes, including the IAASB, IESBA, IPSASB, SASB, and GRI. Adaptability of structure, diversity in background and geography of board members, part-time vs. full-time board membership, accounting vs. non-accounting areas of expertise, are all areas for consideration in constituting the SSB. In particular, we note the need to affect the right balance of standard-setting and accountancy expertise, complemented by expertise and experience in technical subject matter related to sustainability topics. Similar to our support for adopting a building blocks approach that draws on existing reporting requirements, the existing sustainability initiatives can also provide experienced experts for the SSB and its dedicated technical support staff.

3. **Comparability and metrics:** We believe that investors, policymakers, and stakeholders want relevant, reliable, and comparable *data* and information. The work of the SSB must deliver comparability across jurisdictions and enterprises. As such, sustainability standards must not only rely on qualitative disclosures but should also require quantitative metrics wherever possible. To achieve this goal, the SSB will need to be open-minded to an industry-specific approach so as to most effectively leverage

[9] See Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, September 11, 2020, and Open Letter to Erik Thedeen, Director General of Finansinspektionen, Sweden, Chair of the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO), September 30, 2020

the work of SASB in setting standards suitable for reporting on enterprise value creation.

4. **Broad international engagement**: A global system should include jurisdictions that do not currently use IFRS Standards for financial reporting, such as the United States, China, and India (although these jurisdictions have achieved varying degrees of convergence with IFRS Standards). The IFRS Foundation and IASB have demonstrated expertise in working collaboratively across geography, culture, and economies. This unique experience will be valuable as the SSB has an important role to play in engaging with various sustainability initiatives (be they regional, stakeholder, or sustainability topic specific).

5. **Consolidation**: Finally, we believe that continued rationalization and consolidation of sustainability initiatives under IFRS leadership, especially within the enterprise value creation space, is needed to eliminate duplication and confusion, to achieve operational efficiencies, and to help attract appropriate financial support for a stable sustainability standard setting system.

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

The IFRS Foundation, in conjunction with the work of the IASB, has successfully worked to secure the use of IFRS Standards in 144 jurisdictions around the world.[10] IFRS Trustees, members of the IASB, and technical staff enjoy relationships with national standard setters, regulators, other public authorities, and market participants worldwide. These global relationships are a central advantage of the IFRS Foundation establishing a sustainability standards board with a global remit. Ongoing engagement with these authorities will serve to establish a critical mass of jurisdictions where the standards of the new SSB become mandatory or recommended. Likewise, stock exchanges—in particular, the members of the Sustainability Stock Exchanges Initiative—can be important allies in driving the use of the standards amongst their listed companies.[11]

IFAC, through its activities to promote and monitor adoption of international standards and facilitate consistent implementation, also stands ready to support the work of the IFRS Foundation.

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

The key to working with existing sustainability initiatives, including jurisdiction-specific initiatives, is to adopt a "Building Blocks" approach. The collaborative work of CDP, CDSB, GRI, IIRC, and SASB provides standards and frameworks that should serve as a starting place for the new SSB. Their ongoing collaborative effort on climate-specific reporting can hopefully serve as a cornerstone of the SSB's initial focus on climate.

[10] https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis

[11] The SSE initiative is a UN Partnership Program organized by UNCTAD, the UN Global Compact, UNEP FI and the PRI. The SSE's mission is to provide a global platform for exploring how exchanges, in collaboration with investors, companies (issuers), regulators, policymakers and relevant international organizations, can enhance performance on ESG (environmental, social and corporate governance) issues and encourage sustainable investment, including the financing of the UN Sustainable Development Goals.

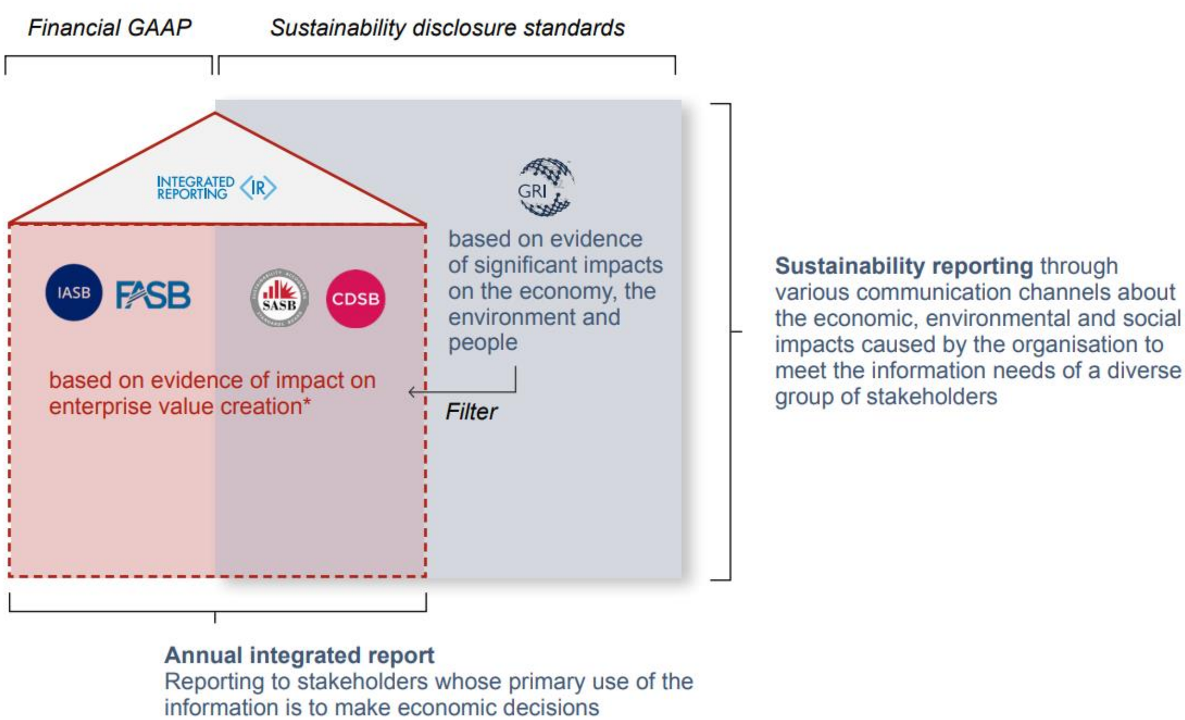
In our "Way Forward," IFAC outlined three components—Building Blocks—of the system for sustainability standard-setting:

<u>BLOCK 1</u>: The SSB should establish a core set of standards addressing sustainability through an investor-focused lens—requirements for material non-financial information focused on company performance, risk profile, economic decisions and "enterprise value creation." This information will be of interest to investors, is consistent with the work of the IASB, and will attract global support.

<u>BLOCK 2</u>: The SSB should also collaborate with respect to reporting requirements primarily designed to address broader, material sustainable development and company impacts on economy, environment, and people. These requirements may ultimately be incorporated or endorsed into SSB standards.

<u>BLOCK 3</u>: A global system must anticipate some jurisdictions-specific requirements that support local public accountability. For example, societal goals or policy initiatives like the European Union's Green Deal may drive country/region-specific regulatory reporting requirements on sustainability factors above and beyond global norms for such requirements—meaning specific, additional metrics or disclosures, not changes to or customization of standards otherwise in Blocks 1 or 2.

Figure 6. Sustainability disclosure standards, as a complement to Financial GAAP



* Comprehensive value creation would also need to include manufactured and intellectual capital

Blocks 1 and 2. Source [Statement of intent to work together towards comprehensive corporate reporting]

Together, these Building Blocks comprise a system for standard-setting that leverages the professional expertise and existing disclosure requirements developed by The Five (see figure above). Upon publication of the Consultation, The Five sent an open letter to IOSCO that acknowledges a 3-Block architecture.[12] The Building Blocks, specifically including standards from GRI and SASB, are also the primary basis for the World Economic Forum/International Business Council Measuring Stakeholder Capitalism project that includes support from the four largest global accounting network.[13] IFAC acknowledges the compatibility and complimentary nature of GRI and SASB standards with respect to climate and other sustainability topics.[14]

The Building Blocks approach provides an architecture for reconciling differing materiality preferences (see question 9) and acknowledges that the materiality of sustainability topics to a company and its stakeholders may evolve over time (i.e., "dynamic materiality" as explained by The Five in their Statement of Intent).

Block 2 of the approach specifically calls on the SSB to collaborate with initiatives who have expertise in multi-stakeholder-focused standard setting in order to avoid duplicative work and to minimize gaps in reporting requirements—perhaps facilitated by a formal, collaborative agreement between the SSB and GRI. IFAC believes that collaboration among and between The Five and the SSB is critical. In this way, the new system for sustainability reporting will deliver reporting requirements addressing *both* enterprise value creation *and* sustainable development and impacts. Work by The Five to achieve "interoperability"—the use of the same sustainability factors and metrics for measurement in both Block 1 and Block 2 types of reporting—would further harmonize this system for reporting.

IFAC urges a new SSB to take this focused, pragmatic, Building Blocks approach that initially relies on pre-existing standards, rather than start anew. This approach best facilitates the SSB's ability to move with speed, to gain broad acceptance for investor-focused reporting requirements, to allow multi-stakeholder-focused requirements (e.g., those of GRI) to progress in parallel with the work of the SSB, and to further rationalize the ecosystem for sustainability reporting to continue.

As noted in our recommended requirements for success (see question 3, point #5), opportunities for the IFRS Foundation/SSB to facilitate rationalization and consolidation among the various sustainability initiatives should be pursued. The November 25th announcement by the IIRC and SASB to combine into the Value Reporting Foundation enhances the value that these two organizations offer to a new SSB. We believe that there is stakeholder support for further consolidation.[15]

[12] Open Letter to Erik Thedeen, Director General of Finansinspektionen, Sweden, Chair of the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO), September 30, 2020

[13] WEF/IBC Measuring Stakeholder Capitalism, September 22, 2020

[14] Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, September 11, 2020. Further, in their joint statement, Promoting Clarity and Compatibility in the Sustainability Landscape, published on July 12, 2020, GRI and SASB articulate their respective, complimentary roles in sustainability reporting: "SASB's industry-specific standards identify the subset of sustainability-related risks and opportunities most likely to affect a company's financial condition (e.g., its balance sheet), operating performance (e.g., its income statement), or risk profile (e.g., its market valuation and cost of capital). The GRI standards focus on the economic, environment and social impacts of a company, and hence its contributions—positive or negative—towards sustainable development. Users of the GRI Standards identify issues that are of primary importance to their stakeholders. If not already financially material at the time of reporting, these impacts may become financially material over time."

[15] See IIRC-SASB-Press-Release-Web-Final.pdf, 2020-11-25 GRI welcomes consolidation of value reporting organizations, and The Value Reporting Foundation – What is next for CDSB? | Climate Disclosure Standards Board

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

   Our recommendations for collaborative engagement with jurisdiction-specific initiatives mirror our response above with respect to sustainability reporting organizations. We agree with the characterization that SSB standards can provide a global platform for jurisdiction-specific sustainability reporting initiatives. Any sustainability reporting requirements set by individual countries or regions would also be expected to draw on the work of The Five[16] and ultimately, align with standards set by the SSB. Where differences exist, best ideas/practices should be appropriately considered by the SSB.

   Block 3 of the Building Block approach is intended to acknowledge the possibility of jurisdiction-specific requirements that may be consolidated into the global system or may persist as exceptions to globally accepted core sustainability reporting requirements. We note the important collaborative work of the IFRS Foundation in establishing the Accounting Standards Advisory Forum. IFAC believes that similar efforts to engage directly and inclusively with jurisdiction-specific initiatives can serve to enhance the work of the SSB, especially with respect to sustainable development and impact related topics (i.e., Block 2). Ultimately, a conceptual framework for the SSB's work would help guide jurisdictions who want to adopt/follow global standards but, for public policy/accountability reasons, also need to develop additional requirements.

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

   Based on our stakeholder engagement and analysis of factors that will determine success for the new SSB, IFAC concludes that the demand for sustainability reporting standards is not singularly focused on climate (or environmental) factors.

   To effectively rationalize the existing fragmented ecosystem for sustainability reporting, we believe that the IFRS Foundation must position the SSB with a comprehensive mandate to address sustainability topics relevant to enterprise value creation with a clear intent—even if forward looking—to encompass the breadth of environmental (climate and otherwise), societal and governance topics. Many of these topics have already been well-defined through stakeholder engagement and research on the part of The Five and other experts. Once constituted, the SSB could announce its research agenda or identify a short-list of priority topics that would follow a climate-first agenda. If the new board exclusively and permanently limits the scope of its standards to climate, we believe there is a risk that it may add another set of standards to the existing alphabet soup of standard-setters, rather than fulfill the investor-focused and global potential of one consolidated solution.

   A climate-only approach will not provide a sufficiently robust global platform to support/accommodate jurisdiction-specific sustainability reporting initiatives such as the EU, where policy and legislative momentum appears to embrace the broad range of sustainability

[16] Executive Vice President Dombrovskis speech January 28, 2020: "The best and most widely accepted elements of what exists today will be our [EU] starting point."

issues. Further, initiatives like the WEF/IBC Stakeholder Capitalism metrics demonstrate the need for a reporting system that can help companies align with the UN's Sustainable Development Goals.

We note that some stakeholders, including adopters of an Integrated Reporting approach, call for an even wider-scope remit for the new SSB—encompassing "non-financial" information including intangibles and other contributors to long-term value creation beyond sustainability (or ESG) factors. For the time being, IFAC's view remains that the new SSB should focus on sustainability/ESG factors, rather than a *narrow* climate focus or a *broad* non-financial information focus, subject to evolving stakeholder expectations as the SSB's standard-setting work proceeds.

This said, as noted in answer to question 5 above, we encourage the SSB to move with speed. A focused approach that leverages existing sustainability work is a key component of why we recommend the Building Blocks approach. With a view to practical expediency—and given the importance of climate change to society as a whole—if the IFRS Foundation pursues a "climate-first" (not only) approach, IFAC will support this strategy. Significant work has been dedicated to climate-related sustainability reporting—both in terms of metrics, disclosures, principles and frameworks—and significant harmonization has been achieved among various initiatives (e.g., under the Corporate Reporting Dialogue's Better Alignment project, around market support for the work of the TCFD, and expected further collaborative efforts by The Five).[17] A climate-first approach should, therefore, afford the SBB a first, strong foothold on the global sustainability stage—securing its leading role and legitimacy. Further, given social and political support for climate action, we envision that this initial focus might boost financial support for the new SSB.

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

Consistent with our response to question 7, IFAC believes that the scope of the standards set by the new board should cover a range of sustainability topics, including broader environmental factors. In this context, addressing environmental risks other than those strictly pertaining to climate is a matter of *when* they are to be addressed by the board, and *not if* they will be addressed. Further, some stakeholder feedback has highlighted the interconnected nature of climate-related topics—having impact on environmental conditions more broadly (e.g., water scarcity), on society (e.g., the disproportionality of climate-related impacts on poor populations), and on economic risks associated with a transition away from carbon-based energy sources. This may make it difficult in practice to "isolate" climate from broader environmental concerns, and environmental concerns from broader sustainability.

[17] Corporate Reporting Dialogue, Driving Alignment in Climate-related Reporting.

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

   Yes.

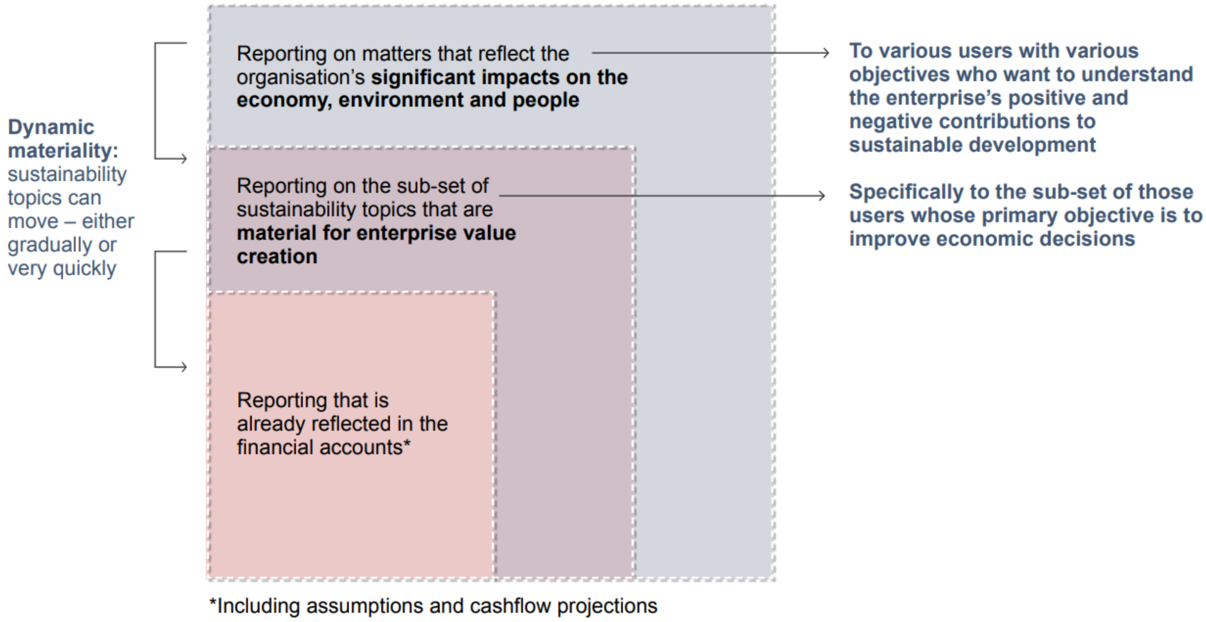
   We agree with stakeholder sentiment that supports focusing on the importance of gaining legitimacy and acceptance with investors and market-focused public authorities such as IOSCO. This focused approach is consistent with the work of the IASB, will help the new SSB to move in a timely manner, and will attract the broadest global support from regulators, investors, and other stakeholders. We therefore support the gradualist approach proposed in the Consultation. If investors and public authorities do not accept and respect the initial work of the SSB, the initiative will fail in its ambition to provide a global solution.

   However, a global system for sustainability reporting must also provide high-quality information for broader stakeholders and address material sustainable development and company impacts on economy, environment, and people. If the new sustainability reporting system does not address issues of "multi-stakeholder" concern, then the risk of jurisdiction-specific action and regulatory divergence and fragmentation is increased.

   To emphasize what we propose in question 5, the Building Blocks approach provides an architecture for reconciling differing materiality preferences and acknowledges that the materiality of sustainability topics to a company and its stakeholders may evolve over time (i.e., "dynamic materiality" as explained by The Five in their Statement of Intent – see figure below). We acknowledge that some aspects of multi-stakeholder focused reporting requirements can also inform investor decisions. Part of the mandate of the SSB should be to determine the best standards that address investor interests—be they metrics or disclosures from SASB, GRI, or other initiatives. The SSB must determine, based on due process and analysis, which standards best serve the needs of investors and what, if any, incremental modifications or clarifications may be needed, accepting that differences in fiduciary practices may exist between jurisdictions. For example, institutional investors in some jurisdictions may follow policies based on maximizing financial investment returns—including the consideration of sustainability factors into their analysis—while others may incorporate specific societal values/norms into their investment philosophy.

   IFAC agrees that the SSB can consider how to broaden its scope as it proceeds with its work. Broader stakeholder standards may ultimately be incorporated or endorsed into SSB standards (i.e., some initially, perhaps more over time). Some jurisdictions already practice broader, multi-stakeholder sustainability reporting—for example, if the stock exchange in a country requires, as part of its listing requirements, sustainability disclosures that address sustainable development and impact related information. In contrast, jurisdictions where Integrated Reporting is practiced or encouraged are focused on the investor perspective and are, therefore, more familiar with information that addresses enterprise value creation.

Figure 1. Dynamic materiality[11]



Dynamic Materiality. Source [Statement of intent to work together towards comprehensive corporate reporting]

10. 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?

Yes.

As IFAC stated in its Point of View in November 2019, we believe that assurance is critical to confidence in corporate reporting and delivering relevant, reliable, and comparable information. Existing assurance requirements under ISAE 3000, in combination with the IAASB's initiative on Extended External Reporting, address the assurance of sustainability information and can improve user confidence, enhance access to capital, bring rigor to the development of company systems and processes, and promote comparability.[18] A robust, high-quality set of sustainability reporting standards will provide a better foundation for any future assurance standards or methodologies, as well as bring greater clarity and focus on the roles and duties of management and directors who are integral to any assurance engagement.

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

- **SMEs:** The IFRS Foundation should consider options for facilitating the proportionate inclusion of small and medium-sized entities (SMEs) within the global sustainability reporting system. IFAC notes the critical role of SMEs in the global economy—

[18] See International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, as well as. IAASB Consultation on Extended External Reporting (EER) Assurance.

representing over 90% of the business population, 60-70% of employment and 55% of GDP in developed economies.[19] As such, SMEs can have a significant environmental impact, as well as social responsibilities. However, SMEs can have limited resources and imposing sustainability reporting requirements for all SMEs would likely create considerable burden. Finally, while the users of SME information are generally different than for larger enterprises, SMEs may have information requirements from their banks/capital providers, customers, or suppliers, and the value of sustainability-related information to SMEs' management should also not be overlooked.

In considering how SMEs should factor into the global sustainability reporting system, the IFRS Foundation should consider options such as including adequate SME representation on the Board, and/or developing standards that can be tailored to SMEs (recognizing that implementing jurisdictions will determine the scope of applicability of IFRS Standards, or "local GAAP," for financial reporting as well as any new sustainability requirements).

- **Smaller and Developing Economies:** Just as SMEs raise different considerations than large multi-national enterprises, smaller and less-developed economies present different issues than larger, developed economies. Based on the experiences of jurisdictions who adopted IFRS Standards for financial reporting, the IFRS Foundation may consider the merits of developing a "transition" package of standards for less-developed economies to implement, with a view to moving to the full set over time. This could facilitate wider adoption of the SSB's standards.

- **Digital Ready:** The past decades have seen a significant evolution in how corporate reporting information is communicated, disseminated, consumed and analyzed—largely driven by technology. It is important that any new sustainability standards be developed with a view to seamlessly integrating with current and future technologies. We encourage the IFRS Foundation to engage with users, preparers, and technology providers to best take advantage of the opportunities presented by technology to increase the value and usability of sustainability information. The efficiencies of reporting information, in particular multi-stakeholder-focused information, is enhanced if leveraging common data set platforms.

- **Data and Information Services:** In addition to considering the assurability of the sustainability standards it develops, the new board should be mindful of the role that reporting requirements can play with respect to providers of sustainability/ESG ratings, rankings, or indices, so that these information service providers can fully embrace and incorporate the development of global, consistent reporting requirements into their work.

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[19] World Trade Report 2016: Levelling the trading field for SMEs, World Trade Organization, 2016.