24 December 2020

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

Re: Consultation Paper on Sustainability Reporting

Dear IFRS Trustees,

The Stakeholder Reporting Committee (SRC) is a committee of the European Accounting Association (EAA) whose mission is to actively participate in the debate about how organisations can, and should, inform their wide range of stakeholders about their activities, including their impact on society. It focuses on the non-financial or sustainability reporting. It focuses on non-financial or sustainability reporting. Further, given that non-financial information is increasingly attracting the interest of policy makers and standard setters, our committee also aims to create awareness of the policy issues amongst our membership, and to collaborate with policy makers and standard setters with a view to allowing the academic community's research expertise to have an impact on emerging policies and standards.

Following from this mandate, we are pleased to respond to the *Consultation Paper (CP) on Sustainability Reporting* issued at the end of September 2020. We are aware of the multiple standard-setting initiatives in the area of sustainability, integrated and/or non-financial reporting (hereafter, "SR/NFR"), with some of them adopting a more international focus than others. In our opinion, it is in the interest of reporting entities and their stakeholders to have a common set of standards to guide this reporting. We also believe that the involvement of academics in the process, including due consideration of, and reference to, our decades of research in this area, is essential to ensuring the legitimacy of the standards.

There is a strong and urgent need for a common and global language on SR/NFR: *i)* to facilitate and guide preparers' provision of this now much requested information, while avoiding "cherry-picking" (i.e., presenting information related to only those activities on which the firm performs well) or "green-washing"; *ii)* to enable investors *and other stakeholders* to make informed decisions, where the latter implies, amongst other things, having access to reliable information that is *comparable* across entities; and *iii)* to make assurance practices more effective, as a single standard would facilitate them.

The IFRS Foundation is potentially well-positioned to facilitate the achievement of these objectives because it has a track record of developing financial reporting standards (i.e., IFRS) and in obtaining legitimacy by gaining the confidence of governments and regulators around the world to adopt and enforce these standards. In addition, it would be desirable to have a relatively high level of interconnectivity between corporate financial reporting and non-financial/sustainability reporting standards. The housing of both sets of standards under the IFRS Foundation's umbrella would facilitate the collaboration that is necessary to achieve the desired level of standard interconnectivity.

While acknowledging the IFRS Foundation's potential to contribute to the establishment of a set of global SR/NFR standards, we nevertheless also have significant concerns regarding the IFRS Foundation's venturing into this already crowded sphere of activity. We also have *significant concerns* on some proposals of the CP. We elaborate on all these issues in our responses to the questions that follow.

Question 1: Is there a need for a global set of internationally recognised sustainability reporting standards?

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

We believe that there is a strong need for greater comparability in corporate SR/NFR, and that the emergence of a single internationally recognized, commonly adopted, and enforced set of standards would further the attainment of this goal.

An independent standard setter must be credible and accountable to the stakeholders that it intends to serve. This requires robust governance and oversight, including a due process that responds effectively to a broad set of stakeholders' interests while maintaining independence from lobbyists. IFRS developed under the umbrella of the IFRS Foundation incorporate the perspectives of stakeholders from many countries, and the IFRS Foundation has experience with the political and administrative processes that are required to develop very widely adopted, international standards, *albeit only in the realm of financial reporting*. We consider that the IFRS Foundation potentially has a role to play in the SR/NFR area, although this is subject to the caveats expressed in our responses below.

In brief they refer to the financial materiality and investor-only approach, which are particularly relevant at the moment since there are regulations already in place that go beyond that perspective. In particular the requirements in the NFR Directive in force at the European Union might make the IFRS Foundation approach insufficient, and so question the adoption of the SSB standards in the EU.

Question 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?

The establishment of a SR/NFR standards board under the governance of the IFRS Foundation is *one possible* approach to achieving the desired improvement towards more consistent and comparable SR/NFR reporting that could eventually be mandated at the jurisdictional level, as well as subject to attestation.

However, we question whether the proposed standard setting body should be referred to as a "sustainability" standards board. Although we are aware that the term "sustainability" itself is subject to vastly different interpretations in the standard setting and corporate reporting realm (i.e., related to the inclusion versus exclusion of externalities in what is measured and reported upon, which cuts to the very heart of corporate reporting concerns in this realm; in a broader sense, *business* sustainability vs. *planetary* sustainability), we point out that sustainability has the UN SDGs as the most relevant reference points, and consequently a holistic approach to sustainability is needed to fully capture that interpretation. Accordingly, the new standard setter is much less likely to get buy-in from the broadest set of constituents if it were to adopt such a label. Moreover, broader guidance related to non-financial reporting related to intangibles is also required, and it would be expected that the IFRS Foundation could take the lead on this as part of the same project. Thus, a rubric such as "Non-Financial Reporting Standards Board" or perhaps "Extended External Reporting" (EER), which is used in the assurance context, will cover better the purpose of the new body, would be less controversial, and convey the potential for broader scope than the proposed "SSB".

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

No comment.

Question 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?

Yes, the IFRS Foundation has been gaining global acceptance of its *financial* reporting standards, IFRS, and the same level of global adoption *and regulatory enforcement* of a single set of SR/NFR standards would also be desirable. Importantly, however, national and/or regional regulations in relation to SR/NFR are already in place (e.g., the European Union's NFR Directive), and therefore the SSB is more likely to realize its goal of having global support from regulators and other stakeholders in the SR/NFR world (i.e., as expressed in paragraph 31 (a)) if the SSB works with these stakeholders in order to develop standards that would ensure compliance with important regulations that are already in place. For example, if the SSB were to develop standards that, if followed, would be insufficient to enable EU companies to be in compliance with the NFR Directive, then the SSB standards are unlikely to be those most widely adopted in Europe. In such a case, some other common set of standards will still be needed in order for EU companies to both be compliant with the Directive, and to achieve the important broader goal of comparable and consistent reporting. Any such insensitivity to existing binding regulations that affect a significant proportion of would-be SSB standard adopters would greatly weaken the possibility of the SSB standards emerging as the new common set of global reporting standards. Implicitly, then, the SSB would need to consider *a broader set of stakeholders* in the development of its standards than those that are currently envisioned by the proposal (i.e., the standards would need to premised upon something broader than financial materiality).

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

Recognizing that the IFRS Foundation does not have SR/NFR expertise per se, we consider it to be essential that the Foundation begin their work by relying upon the ground of existing standards and frameworks of the CDP, CDSB, GRI, IIRC and SASB. Given the commitment of these organizations to work together towards a common set of universally adopted standards, together with the sense of urgency that everyone feels to accomplish this goal, it would be highly advisable that the Foundation enlists the expertise of these existing organizations with a view towards expediting the process of issuing a single common set of agreed upon standards. For example, board members of The Four could become trustees of the IFRS Foundation or be included on the SSB.

Question 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?

The IFRS Foundation should collaborate closely and quickly with the relevant EU institutions to benefit from the current momentum in relation to SR/NFR standard setting, to avoid duplication, and to maximize the potential that the SSB's standards become rapidly and widely adopted (see also the caveats noted in our response to Question 4 above).

Question 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?

We understand that it would be pragmatic to prioritize climate-related disclosures, partly due to the relatively high level of agreement in the area (i.e., that firms should follow the TCFD recommendations), and also due to the urgent planetary need to address these issues. Nevertheless, other environmental—and especially social—issues are also at the forefront of many stakeholders' minds. The implicit assumption that stakeholders speak with one voice about the desired results of sustainability reports is not true (paragraph 28 CP). Their expectations are diverse and sometimes conflicting. In addition, the provision of non-financial information related to the intangibles that drive wealth creation in the modern economy should not be ignored in the process. Thus, we feel strongly that the provision of, and commitment to, a clear and detailed timeline concerning the development of standards related to *other* aspects of ESG (i.e., *beyond* climate risk) and NFR measurement and disclosure issues should be immediately forthcoming.

Question 8: Should an SSB have a focused definition of climate-related risk or consider broader environmental factors?

In line with what we underlined in our answer to Question 7, we stress the need for the SSB to take a much broader perspective on social and environmental issues.

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

While we understand that the IFRS Foundation's prior expertise relates to financial materiality, and that adopting such a threshold would be the most expeditious place to start, we disagree with the proposed approach for several reasons. First, *shareholders are not the only stakeholders whose needs should be considered* in the development of standards that, by their very nature, are intended to capture broader concerns that do not directly or immediately feed into the bottom line. Second, as noted in our response to Question 4, important legislation that affects many would-be SSB standard adopters and follows a broader perspective on the materiality issue is already in place. The SSB's proposed narrower definition would lead to standards that do not satisfy the needs of these constituents, leading to a lower likelihood of broad acceptance and adoption (i.e., SSB would therefore simply be contributing to the current "alphabet soup" problem).

We are aware that this orientation may be less expeditious than a mere focus on investors and financial materiality, and that it would alter the IFRS Foundation's current stated mission of developing standards "that seek to bring transparency, accountability and efficiency to financial markets around the world" (paragraph 18 CP). The development of a globally accepted set of SR/NFR standards requires a commitment to "bring transparency and accountability *to all stakeholders* about the firms' actions," which is clearly a broader mission than that currently being pursued by the IFRS Foundation. If the IFRS Foundation is to wade into the SR/NFR realm, we consider it imperative that they accept the greater mission that standard setting in this area implies.

It is our view that the proposal to follow a gradualist approach (paragraphs 50-51 CP) — that is, to start with an investor-only perspective and then move to a more comprehensive one— will increase complexity instead of reducing it, and make early standards not fit for purpose. A holistic approach aligned with international conventions, such as UN SDGs, Paris Agreement on Climate Change and Conventions on Conservation of Biodiversity would be more relevant, more insightful and more impactful for dealing with sustainability issues.

To summarize, we think that focusing on financial materiality is not appropriate and is likely to lead to mistaken impressions concerning the importance of many ESG-related issues to the very stakeholders to whom these standards should be relevant and informative. Dynamic materiality thresholds are essential to the establishment of a credible and practically useful set of SR/NFR standards, particularly in light of existing regulations that already go beyond financial materiality thresholds (e.g., the EU NFR Directive).

Question 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, we think SR/NFR standards should be written in such a way that the SR/NFR information can be audited/assured. Although we understand that external assurance entails some difficulties, we do not think that they mainly derive from the qualitative nature of sustainability-related disclosure requirements (paragraph 52 CP).

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

We would like to point out that by focusing exclusively on sustainability reporting, the provision of non-financial information related to the most important channels through which corporate entities create value in the modern economy – i.e., through intangible assets and intellectual capital - has been entirely ignored. We consider this to be a significant oversight, and we encourage the IFRS Foundation to broaden their mandate for the proposed new standard setting body (i.e., a Non-Financial Reporting Standards Board, as explained in our response to Question 7).

Sincerely,

Begoña Giner
SRC Chair
On behalf of the Stakeholder Reporting Committee

European Accounting Association
(http://www.eaa-online.org/r/SRC)