To: IFRS Foundation

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Re: IFRS Foundation Consultation Paper on Sustainability Reporting

28 November, 2020

As a Professor of Accounting with over 25 years of experience in researching social, environmental and sustainability reporting, and joint Editor of a leading journal *Accounting Forum*, I provide the following comments on the IFRS Foundation Consultation paper on Sustainability Reporting.

Key concerns:

- The proposal does not include findings of evidence-based sustainability reporting research, and relies on informal feedback from a limited sub-set of stakeholders. While I appreciate that this is a consultation paper, it claims to have 'assessed the current situation' (Part 1) but does not present a neutral view; this means than anyone reading the consultation paper could be led to believe there is no alternative view, which is not the case.
- By focussing on this limited sub-set of stakeholders, the proposal will be unlikely to achieve a stated goal of IFRS Foundation Trustees to reduce the number and complexity of frameworks/standards.
- A focus on the *financial* materiality of sustainable development issues is not in the long-term interests of investors, companies, society and governments that have committed to the UN SDGs;
- As a result of the issues listed above, I do not believe this proposal, as it currently stands, is in the public interest as it is unlikely to lead to improvement in progress towards sustainable development.

As a signatory to the *Open Letter to the Chair of the IFRS Foundation Trustees*[1], I strongly believe that major policy decisions should be based on scholarly research. While standard setters may decide to formulate policies without considering any academic evidence, it seems fair to say that social and environmental accounting research, for better or worse, could provide insights about the complexity of the issue of setting sustainability accounting standards and for whom those standards are relevant. What is at stake when it comes to sustainability accounting is not just limited to the efficient functioning of capital markets, it is a lot more, so our collective efforts must focus on the bigger picture.

[1] Open Letter to the Chair of the IFRS Foundation Trustees

An indicative bibliography of relevant research papers that could provide such insight and evidence can be found in a *European Accounting Association* Blog[2] written by Dr Matias Laine and Professor Giovanna Michelon which discusses the consultation paper. Their bibliography is reproduced, with a few additional papers added, at the end of this document.

In addition, I question whether the traditional investor focus adopted in financial reporting standards is the most appropriate for reporting on sustainability. Clearly investors are an important stakeholder, but I do not believe that investors should be considered the *primary* users of sustainability reporting thus reducing reporting relevant to others. Existing GRI standards cover information needs of investors, while also including indicators relevant to other stakeholders, so I do not see the need for development of another, separate, set.

To achieve the Sustainable Development Goals, societies need collaboration. We need investors and companies, but more fundamentally we need a cultural shift to move away from reporting that only relates to risks and opportunities that may have financial implications for companies in the short-term. Instead, we need information that puts the sustainability and planetary boundaries at the core, and thereby steers the decisions of investors and organisations towards tackling the socially and ecologically most material and pressing sustainability questions. Only this approach is truly in the public interest.

My responses to the questions posed in the consultation paper are as follows:

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

This is a somewhat leading first question, suggesting a global set of internationally recognised sustainability reporting standards does not exist. In fact, we already have one – the GRI standards are globally recognised and extensively used by companies. In fact, GRI is used by 84% of G250 companies (KPMG, 2020)[3] The consultation paper does not convincingly provide a case for the need for another body or a new set of standards. No evidence is provided regarding "the increasing interconnectedness between financial reporting and sustainability reporting" (para 27) nor of benefits from it. Thus, measuring this longer-term impact in financial terms is problematic (see my comments below regarding materiality and stakeholders (Q9 and Q11)).

The Consultation Paper has not been informed by independent analysis of the desirable features of a sustainability standard setting body or independent assessment of the relative merits of the various standard setting bodies in existence. Such an analysis should be conducted before proceeding.

One of the intentions of the Consultation Paper is to reduce complexity. It does so by focusing only on investors' needs, by initially considering only climate risk (which may be a 'financial risk'; but is also a risk that threatens the existence of our planet), and by limiting the focus only to (short term) financially

[2] *Some reflections on the Consultation Paper on Sustainability Reporting published by the IFRS Foundation*, by Matias Laine and Giovanna Michelon. European Accounting Association Accounting Resources Centre Blog.

[3] https://home.kpmg/au/en/home/insights/2020/11/sustainability-reporting-survey-2020.html

material issues on the reporting entity – but what about the relevant effects that reporting entities have on the environment and society, communities and ecosystems? Despite what has been argued in some limited academic literature (e.g. Barker & Eccles, 2018[4]) I believe that broader reporting is equally of relevance to investors if we consider the longer-term, and more clearly meets the public interest test.

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?

I am not convinced that the appropriate approach is an SSB under IFRS. It *could* be appropriate, but to answer this question:

First, one must consider the purpose of sustainability reporting; my view is that its only purpose must be to promote sustainable practices by organisations and progress towards sustainable development.

Second, research is required into whether 'consistency and comparability' need to be given such priority given the length of time this would take (consider how long harmonization of IFRS took). According to the consultation paper, this view was come to after 'informal' consultation with a very limited set of stakeholders.

More consideration, clarification of purpose and research is required. A partnership with existing bodies such as GRI would be more appropriate (see answers to Questions 4-7).

Question 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)?

This question assumes the answer to question 1 is yes, but this has not been established.

The UNDP's SDG Impact Standards[5] fill a gap that is consistent with the findings of research by accounting academics that the transition to sustainable development requires changes in management approach, approaches to developing strategy and targets and governance oversight (see, for example, Adams 2017a,b)[6]. The UNDP's SDG Impact Standards for Enterprises is open for consultation until 31st December and is relevant to companies and their investors.

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[4] https://www.sbs.ox.ac.uk/sites/default/files/2018-10/Green%20Paper_0.pdf

[5] UNDP SDG Impact Standards [link here]

[6] Adams, C. A., (2017a) Conceptualising the contemporary corporate value creation process, *Accounting Auditing and Accountability Journal* 30(4) 906-931.

Adams C. A. (2017b). *The Sustainable Development Goals, integrated thinking and the integrated report*, IIRC and ICAS. ISBN 978-1-909883-41-3 [link here]

Questions 4 - 7.

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?

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

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

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?

IFRS could use its existing relationships in a positive way, but only if it did so in conjunction with existing standard setters such as GRI.

As a major, influential body, IFRS could use its influence for real public interest, through supporting existing standards to gain mandatory status. Although not a regulator, IFRS Foundation could partner with GRI to provide the required support for mandatory status of GRI reporting to be obtained. GRI already has a materiality definition, statements of management approach, strategy and metrics so there is no reason to reinvent the wheel.

However, I would suggest that first, existing IFRS standards should be reviewed to examine impacts on climate change issues.

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

The TCFD[7] recommendations already consider climate-related risks and the IFRS Foundation could use its relationships to make them mandatory. The focus should not just be on risk. Organisations should disclose their management approach to identifying opportunities, how they are incorporated into strategy to create value for organisations and society and governance oversight of that process as required in the SDGD Recommendations[8].

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

The approach suggested to materiality is extremely narrow. The consultation paper notes "some stakeholders are interested in developing standards referring to the principle of 'double materiality', under which the impact of the reporting entity on the wider environment would also be reported (see,

[7] TCFD (2017) Recommendations of the Task Force on Climate-related Financial Disclosures [link here]

[8] Adams, C. A., Druckman, P. B., Picot, R. C., (2020) *Sustainable Development Goal Disclosure (SDGD) Recommendations*, published by ACCA, Chartered Accountants ANZ, ICAS, IFAC, IIRC and WBA. ISBN: 978-1-909883-62-8 [link here]

for example, the EU guidelines on non-financial reporting).36 In this case, the disclosures are typically about issues that are material to multiple stakeholders' understanding of a company's effect on its environment. A multi-stakeholder approach is, for example, adopted by the GRI". However, it goes on to say: "If established, the SSB would initially focus its efforts on the sustainability information most relevant to investors and other market participants". This narrow focus on financial stakeholders is a key flaw in the paper; and undermines the 'public interest' requirement as noted above.

The Fundamental Concepts of the SDGD Recommendations, with a definition of materiality that is informed by the IIRC's International IR Framework and the GRI Standards but with an additional focus on sustainable development and impact on achievement of the SDGs, is a more appropriate starting point and aligns the work of the GRI, IIRC[9] and TCFD.

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?

I again refer to the SDGC recommendations. Assurance providers need to find ways of assuring such information. Research has shown that assurance scopes are limited due to cost and assurance provider conservatism. It is not appropriate to limit disclosure requirements to what assurance providers are prepared to include in scope.

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

The approach suggested in the consultation paper from the IFRS could result in a backwards step from existing sustainability reporting practice, and in particular will promote a loss of stakeholder focus. The paper states that "The IFRS Foundation's mission is to develop IFRS Standards that seek to bring transparency, accountability and efficiency to financial markets around the world. The work serves the public interest by fostering trust, growth and long-term financial stability in the global economy." Limiting it to "the investor and preparer communities, central banks, regulators, public policy makers, auditing firms and other service providers" means that non-financial stakeholders are ignored, and 'transparency' and 'accountability' will not be the outcome. Rather, it benefits a sub-set of limited stakeholders so is not in the public interest.

IFRS must be cognizant of the broader impact of moving into this space. It is too easy for companies to legitimise themselves through claims they adhere to mandatory requirements, which is problematic when those requirements represent a dilution of current 'best practice', albeit voluntary, reporting.

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[9] IIRC International <IR> Framework, IIRC [link here]

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IIRC International <IR> Framework, IIRC [link here]

KPMG Survey of Sustainability Reporting 2020, The time has come [link here]

Open Letter to the Chair of the IFRS Foundation Trustees [link here]

SDGD Recommendations [link here]

Some reflections on the Consultation Paper on Sustainability Reporting published by the IFRS Foundation, by Matias Laine and Giovanna Michelon. European Accounting Association Accounting Resources Centre Blog [link here]

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Yours sincerely,

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