

## IFRS Consultation Response

As a Professor of Accounting with over 20 years of experience in sustainability accounting and reporting research, a joint editor of the journal *Accounting Forum* and a member of the sustainability management advisory committee of the Chartered Accountants of Australia and New Zealand (CAANZ)<sup>1</sup>, I am responding to the IFRS consultation paper on sustainability reporting. I was also a signatory to the open letter to the chair of IFRS Foundation Trustees from accounting professors (<https://drcaroladams.net/open-letter-to-the-chair-of-the-ifrs-foundation-trustees-from-professors-of-accounting/>)<sup>2</sup>. I will not be addressing the questions posed in the consultation document as I believe that there are major deficiencies in the proposal to have a global standard on sustainability reporting administered by IFRS. These issues need to be addressed before we can have dialogue on standards. The need for mandatory standards for sustainability reporting is welcomed but it is important to get this process right.

A key concern is the extensive emphasis on financial materiality. Restricting everything to financial materiality places the emphasis on metrics that emphasize value creation rather than sustainability and ignores the internal processes that are needed to effectively address sustainability challenges. Sustainability goes beyond value creation and focuses on the long-term perspective and this cannot be addressed solely in financial terms. In fact, it has been the short-term narrow focus on financial issues that has caused a lot of the sustainability problems that we are currently encountering.

Academic research has suggested that standard setting processes are often captured by powerful groups such as large accountancy firms and large corporations. It is therefore a concern that a similar process is being initiated for sustainability reporting. The capture of the sustainability agenda by these groups will be detrimental to the global goal of addressing our sustainability challenges such as the United Nations Sustainable Development Goals. It is therefore problematic to have a financial standard setting body promulgate standards for sustainability. Certainly, there is a need for further expertise on these matters and a need to go beyond financial matters.

Sustainability issues impact a range of stakeholders and by simply focusing on investor groups and those with financial interests will lead to a neglect of a broad range of stakeholders. Sustainability reporting is meant to provide accountability over sustainability, and this has to go beyond providing an account; accountability also involves holding one to account and this is not possible when other stakeholders are simply ignored. We need the marginalised voices to be heard and an all-inclusive approach towards accountability for sustainability, not merely the needs of the powerful groups that have caused these problems in the first place.

It is also unclear from the IFRS consultation document as to how the proliferation of standards for sustainability will reduce as a result of a standard on sustainability reporting. There is no specific plan to describe how this will occur. While some bodies have merged, there is still an abundance of standards out there and these will not magically disappear as a result of the IFRS proposed standard. In effect,

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<sup>1</sup> Please note that the views expressed here are mine and do not necessarily represent the perspectives of CAANZ.

<sup>2</sup> See also research supporting these comments at : <https://drcaroladams.net/research-supporting-ifrs-submission-from-professors-of-accounting-researching-sustainability-accounting-and-reporting/>

dissatisfaction with the proposed standard as a result of the above issues could result in further standards and guidelines being developed.

In conclusion, I will like to reiterate that a financial based response to sustainability is not an ideal solution and we need to consider the essence of sustainability and its impact on a range of stakeholders if we are serious about being accountable for sustainability matters. Let us aim for engagement with multiple stakeholders rather than be susceptible to regulatory capture by powerful interests. Sustainability rather than financial materiality should dictate our response to providing accountability to the greatest challenge of our generation and future generations.

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