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RE: IFRS Consultation Paper on Sustainability Reporting

Executive Summary

GRI welcomes the opportunity to provide input into this timely initiative by the IFRS Trustees. In this document, we set out GRI's views in respect of the ten specific questions that comprise the current consultation. In addition, we:

- clarify the term 'sustainability reporting' and its underlying concepts, as we believe that the term as used in the Consultation Paper does not reflect established practice;
- offer our views on the question of the audience for sustainability reporting and the investor relevance of sustainability information;
- explain our perspective on the relation of financial reporting as developed by the International Accounting Standards Board (IASB) and promoted by the IFRS Foundation with sustainability reporting as developed by the Global Sustainability Standards Board (GSSB) and promoted by GRI.

Sustainability reporting is an organization's practice of reporting publicly on its most significant economic, environmental and social impacts, and hence its contributions – positive or negative – toward the goal of sustainable development.

Sustainability reporting has a key role to play in the context of the global drive toward achievement of ambitious sustainability-related goals – to make the impacts of organizations' activities on the economy, environment and people transparent, and to enable dialogue and informed decision-making, thereby facilitating a just transition.



To this end, the GRI Sustainability Reporting Standards - **the most widely used sustainability reporting standards** globally – are **developed in line with international expectations** for responsible business conduct, as outlined in authoritative intergovernmental instruments such as the United Nations (UN) *Guiding Principles on Business and Human Rights* and the Paris Agreement on climate change.

However, for sustainability reporting to truly contribute to better decision-making, sustainability reporting should become mandatory. Currently it is by and large a voluntary practice. The lack of mandatory reporting affects the consistency, comparability, transparency and overall quality of disclosures, even in light of sincere best efforts that reporting organizations may make. The challenge ahead for sustainability reporting is to reach the same level of consistency that the IFRS has achieved for financial reporting in almost all jurisdictions around the world.

In addition, it is important to recognize that **financial reporting itself must be strengthened** to reflect the financial implications of sustainability issues on the reporting entity, to support its critical role in the context of the immense challenges facing global society. This further evolution of financial reporting is aligned with the objective of general-purpose financial reporting: to provide financial information useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the reporting entity. We strongly believe that the IFRS Foundation, within the scope of its current mission, governance and institutional mandate, is well-positioned to address this gap in financial reporting.

We believe that enhanced financial reporting **must exist alongside sustainability reporting**. We invite the IFRS Trustees to ensure that the interconnectivity between financial reporting and sustainability reporting is strengthened, allowing financial reporting to fully recognize the financial consequences of the risks and opportunities arising from the economic, environmental and social impacts of corporate activities.

In parallel to these efforts, GRI would welcome closer collaboration with the IFRS Foundation to establish a future corporate reporting regime in which **financial and sustainability reporting are mandated globally**, as two key perspectives interconnected by their respective underlying standard-setting mechanisms and managed with the same rigor. Under such a regime, financial reporting will leverage the information made available through sustainability reporting so as to fully reflect the financial implications of all impacts of corporate activities.



Introduction

Dear Mr. Liikanen,

GRI welcomes the timely initiative of the IFRS Trustees to consult on the IFRS Foundation's role in sustainability reporting.

We fully agree with the assessment of the IFRS Trustees that demand for reporting on sustainability is growing, and that a global solution has to reflect the needs of the companies preparing sustainability reports together with the information needs of their stakeholders, including investors, as well as the information needs of the jurisdictions they operate in.

GRI has promoted the practice of sustainability reporting since 1997. Sustainability reporting, as advanced by the GRI Standards, is an organization's practice of reporting publicly on its most significant economic, environmental, and social impacts, and hence its contributions – positive or negative – toward the goal of sustainable development.

The recently published 2020 KPMG Survey of Sustainability Reporting shows that a record number of companies, spanning a wide range of sectors and geographic regions, are disclosing their sustainability impacts.¹ The report found that almost all (96%) of the world's largest 250 companies (the G250) report on their sustainability performance. For the N100 – the 5,200 companies comprising the largest 100 firms in 52 countries – 80% do so. Across all companies surveyed, the GRI Standards are the most commonly used sustainability reporting framework demonstrating widespread global adoption. Around three-quarters (73%) of the G250 reporters and two-thirds (67%) of the N100 use GRI.

The GRI Standards are also the most widely referenced sustainability reporting standards by governments, financial market regulators and stock exchanges around the world. More than 160 policies in 67 countries and regions reference or require GRI for reporting, and 35 financial market regulators and 40 stock exchanges reference or require GRI.²

We advocate a future corporate reporting regime in which financial and sustainability reporting are mandated globally, as two key perspectives in their own right.

We strongly believe that sustainability reporting standard setting needs to be multi-stakeholder, in the public interest and firmly rooted in authoritative intergovernmental instruments.

We propose that in its future standard-setting activities with the International Accounting Standards Board (IASB), the IFRS consider the implications of sustainability issues for both the disclosure of financial risks and opportunities as well as for financial statements, and establish a formal collaboration

¹ KPMG, *The Time Has Come. The KPMG Survey of Sustainability Reporting 2020*, 2020.

² GRI, UNEP, University of Stellenbosch, *Carrots & Sticks*, <https://www.carrotsandsticks.net/>, accessed on 9 December 2020.



with its counterpart for sustainability reporting standard setting, currently represented by the Global Sustainability Standards Board (GSSB), to align terminology, definitions and disclosures where relevant.

Finally, there needs to be the same level of public interest oversight for sustainability reporting standard setting as currently exists for financial reporting standard setting, acknowledging that financial reporting and sustainability reporting are part of a comprehensive corporate reporting regime.

We believe it essential for the IFRS Foundation to explicitly recognize the broader concept of sustainability reporting as a practice that should co-exist next to financial reporting, and to acknowledge that evolving financial reporting to include the financial implications of sustainability issues on the reporting entity, is only a partial answer toward a comprehensive corporate reporting regime.

We believe that the transparency that leads companies to assume responsibility for the impacts of their activities is a vital aspect of a comprehensive future corporate reporting regime. This future corporate reporting regime needs to enable the evaluation of corporate business models and performance in the context of adherence to authoritative intergovernmental instruments such as the Paris Agreement as well as to societal expectations and planetary boundaries.

Under such a regime, financial reporting will be able to leverage the information made available through sustainability reporting so as to fully reflect the financial implications of all impacts of corporate activities.

We are convinced that the IFRS Foundation is well placed to lead this further evolution of financial reporting in line with the objective of general-purpose financial reporting as set out in the Conceptual Framework for Financial Reporting,³ which is to provide relevant information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

The IFRS Foundation is in a position to support the further evolution of the existing public interest oversight mechanism to become inclusive of sustainability reporting, thereby allowing even more jurisdictions that have mandated a global solution for financial reporting to do the same for sustainability reporting.

Before we present our detailed response to the consultation questions, we would like to briefly:

- clarify the term 'sustainability reporting' and its underlying concepts, as we believe that term as used in the Consultation Paper does not reflect established practice;
- offer our views on the question of the audience for sustainability reporting and the investor relevance of sustainability information; and
- explain our perspective on the relation of financial reporting as developed by the IASB and promoted by the IFRS Foundation with sustainability reporting as developed by the GSSB and promoted by GRI.

³ IFRS Foundation, *Conceptual Framework for Financial Reporting*, 2018.

Sustainability reporting

In 1987, the World Commission on Environment and Development set out an aspirational goal of sustainable development, describing it as ‘development which meets the needs of the present without compromising the ability of future generations to meet their own needs’.⁴

Sustainability reporting, as defined by the GRI Standards, is an organization’s practice of reporting publicly on its most significant economic, environmental, and social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development.

The GRI Standards are designed to enhance the global comparability, accessibility, and quality of information regarding these impacts, thereby fostering greater transparency and accountability of organizations.

The Standards can be used by any organization – large or small, private or public, regardless of sector, location, and reporting experience.

When using the GRI Standards, the organization prioritizes reporting on those topics that reflect its most significant impacts on the economy, environment, and people. In the GRI Standards, these are termed the organization’s material topics.

The information made available through sustainability reporting allows internal and external stakeholders to form opinions and to make informed assessments and decisions.

The GRI Standards currently cover disclosures on a wide range of economic, environmental and social topics related to sustainable development (currently 34 in total), ranging from climate change, diversity, and human rights to occupational health and safety, biodiversity, taxes, waste, and water. The disclosures enable organizations to give evidence of their impacts and performance, and describe their management approach, including forward-looking goals and targets for each material topic.

In addition, the GRI Standards have a conceptual framework and an extensive set of governance disclosures that provide contextual information about the organizational profile, strategy, responsible business conduct policies and practices, reporting approach, and stakeholder engagement.

The GRI Standards are also in the process of being augmented by an additional suite of standards, the Sector Standards. The Sector Standards will identify and describe a sector’s most significant impacts from a sustainable development perspective and will assist organizations in identifying their material topics. The sectors are defined as subdivisions of the economy that share similar impacts, using common denominations that can be recognized by all stakeholders (e.g., mining, banking). The Sector Standards will supersede GRI’s previous sector-specific guidance and provide more up-to-date, authoritative guidance for sector-specific sustainability reporting.

The GRI Standards are developed in full accordance with international expectations for responsible business conduct, as outlined in authoritative intergovernmental instruments such as the United Nations (UN) *International Bill of Human Rights* (1948-1966); the International Labour Organization (ILO)

⁴ World Commission on Environment and Development. *Our Common Future*., Oxford University Press, 1987, p. 43.



Declaration on Fundamental Principles and Rights at Work (1998), including the eight ILO core conventions; the Organisation for Economic Co-operation and Development (OECD) *Guidelines for Multinational Enterprises* (2011); the UN *Guiding Principles on Business and Human Rights* (2011); the UN resolution *Transforming our World: the 2030 Agenda for Sustainable Development* (2015); and the Paris Agreement (2015).

Sustainability reporting reflects the responsibilities arising from these instruments as well as societal expectations and concerns (e.g., diversity and inclusion, rising inequality, and related themes such as tax transparency) and planetary boundaries.

The GRI Standards enable organizations to report their impacts and performance:

- in the context of thresholds that draw on objective information and authoritative measures of sustainable development (e.g., scientific research or consensus on ecological limits, societal expectations);
- with reference to broader sustainable development conditions and goals, as reflected in recognized sector-specific, local, regional, or global instruments (e.g., reporting total greenhouse gas emissions [GHG] as well as reductions in GHG emissions with reference to the Paris Agreement);
- with reference to expectations of responsible business conduct set out in internationally recognized instruments with which organizations are expected to comply (e.g., OECD *Guidelines for Multinational Enterprises*, UN *Guiding Principles on Business and Human Rights*);
- in a way that communicates their impacts in appropriate local contexts (e.g., reporting total water use as well as water use relative to the sustainable thresholds and the social context of given watersheds).

Business model as well as wider economic and social transformations are inevitable in order to realize (among others) the ambitions for 2030 set out in the Sustainable Development Goals (SDGs), the European Green Deal, and a resilient net-zero economy by 2050 as set out in the Paris Agreement. Sustainability reporting provides transparency on the impacts of organizations' activities on the economy, environment and people, thereby enabling dialogue and informed decision-making, and facilitating a just transition.

Sustainability reporting audience: multi-stakeholder, including investors

Sustainability reporting is multi-stakeholder in both its standard-setting approach and intended audience. Sustainability reporting as promoted by GRI has been undertaken in the public interest and developed over the past 20 years through an international consensus-seeking process that includes business, labor unions, civil society, investment institutions, academics, assurance and service providers, and intergovernmental institutions.



Expertise on sustainable development topics resides with the affected stakeholders and topic experts in all constituencies. By involving all affected stakeholders systematically, sustainability reporting has become a comprehensive reporting practice that reflects the information needs of all stakeholders that desire to understand the impacts of organizations' activities on the economy, the environment and people in a holistic way. All stakeholders stand to benefit significantly from this approach, as it provides more complete and objective information on impacts and underlying performance.

Investors have always been acknowledged as a key audience for sustainability reporting and the standard-setting efforts of GRI.

The reasons for this are straightforward: investors have in common an interest in understanding the financial risks and opportunities resulting from the impacts of the activities of reporting organizations, and the related implications for the financial position, financial performance, and cash flows presented in the organizations' financial statements. The comprehensive set of information created by sustainability reporting forms a key input to the assessment of these financial implications. This specific connection between financial and sustainability reporting is discussed in more detail below.

It is important to note that in the context of sustainability reporting, investors are a diverse group with a wide range of interests in relation to sustainable development, and diverging risk tolerances and time horizons. These interests include, but extend beyond, financial risks and opportunities, as well as the financial position of the individual investment.

Faith-based, ethical and socially responsible investor movements were early supporters of sustainability reporting and the driving force behind the founding of GRI as an institution. In their quest to invest based on normative principles, they have demanded – alongside like-minded stakeholder groups – more transparency on the impacts and externalities of the activities of their investments.

Today, they are joined by impact investors and investors generally that seek to invest in companies that integrate sustainability factors into long-term business strategies, with implications for broader environmental and/or societal outcomes (e.g., contribution to the achievement of the SDGs) and a just transition to a more resilient, green and equitable economy.

Many asset owners and managers have started to publicly communicate their expectations in relation to the conduct and performance of their investments on a range of sustainable development topics, as well as their expectations regarding adherence to authoritative intergovernmental instruments.^{5 6 7 8} There is also a growing number of instances in which measures have been taken by asset owners to exclude

⁵ State Street Global Advisors SPDR, *Diversity Strategy, Goals & Disclosure: Our Expectations for Public Companies*, https://www.ssga.com/nl/en_gb/intermediary/etfs/insights/diversity-strategy-goals-disclosure-our-expectations-for-public-companies, accessed on 9 December 2020.

⁶ Norges Bank Investment Management, *Human Rights. Expectations Towards Companies*, https://www.nbim.no/contentassets/0ff34e35ba1a44c3b6c2039466ccbec7/humanrights_2020_web.pdf, accessed on 9 December 2020.

⁷ Investor Alliance for Human Rights, <https://investorsforhumanrights.org>, accessed on 9 December 2020.

⁸ PRI, <https://www.unpri.org/sustainability-issues/environmental-social-and-governance-issues/social-issues/human-rights-and-labour-standards>, accessed on 9 December 2020.



individual entities or even industries from their investment universe based on environmental and social criteria.⁹

At the same time, universal owners with medium- to long-term investment horizons increasingly realize that they are exposed to systemic risk and that they cannot succeed in failing societies and in an economic system that ignores planetary boundaries.¹⁰ This development has particular relevance given the fundamental change in recent years from active management to index investment strategies. The ultimate systemic risk faced by investors in the context of the climate crisis is the collective failure to achieve the goals of the Paris Agreement, with catastrophic consequences for humanity and, with that, the global economy.¹¹

Achieving the Paris Agreement will necessitate profound changes in the business models of most industries, and the just transition to a resilient and equitable net-zero economy by 2050 is becoming an imperative for universal owners. The full set of information needed to evaluate progress towards achieving the Paris Agreement is not included in financial reporting which focuses solely on the reporting entity.

Another example of a sustainable-development-related systemic risk that is gaining recognition among investors^{12 13 14} and is not captured in current financial or value creation reporting relates to corporate tax practices. With many countries depending on revenues from corporate taxes, and a continued trend in which jurisdictions compete with each other, along with multinational companies striving to minimize their tax payments, governments are being deprived of a crucial income source that enables them to provide all the necessary basic services – such as education and health care – required for societies to flourish, let alone the income needed to cover the short-term costs of transitioning to a sustainable economy.^{15 16 17} The GRI Tax Standard is the first global standard for comprehensive tax disclosure at

⁹ Norges Bank Investment Management, *Observation and exclusion of companies*, <https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies/>, accessed on 9 December 2020.

¹⁰ UNEP Financial Initiative, *Universal Ownership. Why environmental externalities matter to institutional investors*, https://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf, accessed on 9 December 2020.

¹¹ Bank of England, 'Open Letter on Climate-Related Financial Risks', *Bank of England News*. 17 April 2019. <https://www.bankofengland.co.uk/news/2019/april/open-letter-on-climate-related-financial-risks>, accessed on 9 December 2020.

¹² Norges Bank Investment Management, *Tax and Transparency. Expectations towards companies*, <https://www.nbim.no/contentassets/48b3ea4218e44caab5f2a1f56992f67e/expectations-document---tax-and-transparency---norges-bank-investment-management.pdf>, accessed on 9 December 2020.

¹³ GRI, *Full set of public feedback for GRI 207: Tax 2019 - Public Comment Period 13 December 2018 - 15 March 2019*, <https://www.globalreporting.org/media/yz4ewstf/gri-tax-standard-public-comments.xlsx>, accessed on 9 December 2020.

¹⁴ UN PRI, <https://www.unpri.org/governance-issues/why-and-how-to-engage-on-corporate-tax-responsibility/585.article> accessed on 9 December 2020.

¹⁵ UN Tax Committee. Department of Economic and Social Affairs, *Base Erosion and Profit Shifting*, <https://www.un.org/development/desa/financing/what-we-do/ECOSOC/tax-committee/thematic-areas/base-erosion-and-profit-shifting>, accessed on 9 December 2020.

¹⁶ Tax Justice Network, *The State of Tax Justice 2020*, <https://www.taxjustice.net/reports/the-state-of-tax-justice-2020/> accessed on 9 December 2020.

¹⁷ Chris Brooks, Chris Godfrey, Carola Hillenbrand & Kevin Money, 2016, 'Do investors care about corporate taxes?', *Journal of Corporate Finance*, p. 218-248, <https://doi.org/10.1016/j.jcorpfin.2016.01.013>, accessed on 9 December 2020.



the country-by-country level. It supports public reporting of a company's business activities and payments within tax jurisdictions, as well as their approach to tax strategy and governance.

There are many more systemic risks that directly relate to negative externalities arising from economic activities. With the Convention on Biological Diversity in the final stages of negotiation, the systemic risk of biodiversity loss will undoubtedly receive even more attention from investors in the near term.¹⁸

Additionally, it is evident that the concept of fiduciary duties for investors is evolving.^{19 20} Significant policy initiatives point to the rising importance of sustainability considerations for fiduciaries.^{21 22 23} The European Union's efforts in the area of sustainable finance and the promotion of the double materiality concept are indicative of these trends.

These proof points for the crucial role of sustainability reporting in making highly relevant information for investors available are not meant to detract from the importance of information covered in financial reporting, which is focused on financial risks and opportunities related to the impacts of organizations' activities and implications for organization's financial positions or valuations.

However, they indicate a wider set of information that is not covered by financial reporting, even when it is augmented to explicitly include the financial implications of sustainability issues that are highly relevant for investors and other stakeholders. Financial implications for the reporting entity that fall in the current scope of financial reporting are in many cases insufficient or non-existent for many of the (global) commons issues, such as climate change, biodiversity, water, and human rights, and are inadequate for evaluating adherence to authoritative intergovernmental instruments, as they constitute expectations that are non-negotiable based solely on financial considerations.

Interconnection between sustainability reporting and financial reporting

The disclosure of information on the impacts of an organization's activities is highly relevant in its own right as a public interest activity. It is independent of the consideration of financial implications (e.g., diversity and inclusion are legitimate expectations, whether or not they lead to financial benefits). As outlined above, by pursuing this public interest objective, sustainability reporting plays a key role in serving the information needs of investors beyond traditional financial reporting.

¹⁸ Task Force on Nature-Related Financial Disclosures, <https://tnfd.info/>, accessed on 9 December 2020.

¹⁹ PRI, A legal framework for impact, <https://www.unpri.org/policy/a-legal-framework-for-impact>, accessed on 9 December 2020.

²⁰ ShareAction, *The Change We Need. Model legislation to promote responsible long-term investment by institutional investors*, <https://shareaction.org/wp-content/uploads/2020/10/Responsible-Investment-Bill-briefing.pdf>, accessed on 9 December 2020.

²¹ International Corporate Governance Network (ICGN), *ICGN Guidance on Investor Fiduciary Duties*, http://icgn.flpbks.com/icgn-fiduciary_duties/files/exffile/DownloadURL.pdf, accessed on 9 December 2020.

²² European Commission, *Guidelines on Reporting climate-related information*, 2019.

²³ European Union, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, 2019.



Sustainability reporting provides crucial input to financial reporting. It is widely recognized that it is not possible to understand many of the financial risks and opportunities that an organization is exposed to without a comprehensive understanding of the underlying impacts of its activities.

Sustainability reporting has been developed in the past 20 years under the assumption that all topics that are material in sustainability reporting, if not financially material at the time of reporting, will eventually translate into financially material issues depending on time frame and context. Investor understanding of the impacts of an organization’s activities is therefore a prerequisite for identifying the related financially material risks and opportunities and impacts on financial statements. The fact that 78% of the world’s largest companies by revenue disclose sustainability information in their annual reports is strong evidence of this dynamic.²⁴

It is this intersection of financial reporting and sustainability reporting that requires attention in order to understand the relationship between the two perspectives in corporate reporting.

We believe that sustainability reporting constitutes a key source of information relevant to understanding the long-term implications to financial statements, as depicted in Figure 1. Information made available through sustainability reporting forms an input to additional corporate reporting for identifying financial risks and opportunities related to the impacts of the reporting entity’s activities and their effect on financial valuation, and in turn for making associated financial materiality judgements about what to recognize in financial statements.

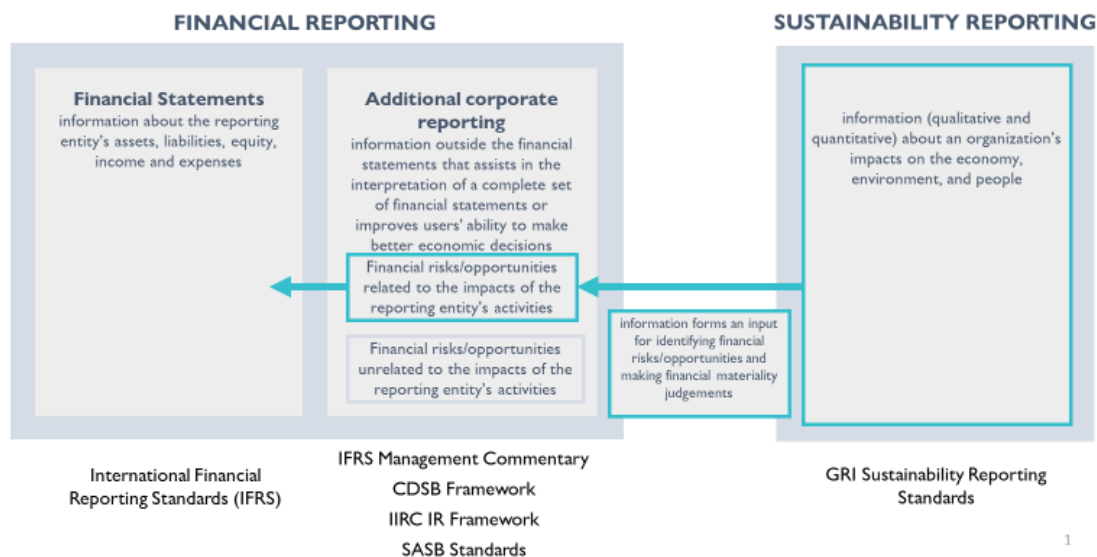


Figure 1: Interconnection between financial and sustainability reporting

In the context of climate change, the European Commission has highlighted this relationship as part of the double materiality perspective of the Non-Financial Reporting Directive and the Sustainable Finance

²⁴ KPMG, *The Time Has Come. The KPMG Survey of Sustainability Reporting 2020*, 2020.



workstream.²⁵ Without a comprehensive understanding of the impacts of the reporting entity's activities – emissions, for example, in the case of climate change – it is not possible to assess associated financial transition risks and opportunities and effects on the financial statements and financial valuation of the entity.

Detailed response to consultation questions

Question 1: Is there a need for a global set of internationally recognized 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?

(b) If not, what approach should be adopted?

There is a clearly articulated and growing demand for financial reporting to address the financial implications of sustainability issues. A gap exists in the market in terms of globally accepted guidance and potentially also standards that assist companies in disclosing financial risks and opportunities as well as impacts on financial statements and financial valuation.

The impacts of the reporting entity's activities can have financial implications for that entity, such as GHG emissions as a result of a carbon tax. Sustainability reporting can help to inform this aspect of financial reporting.

It is important to note that this gap also includes the financial implications that may arise that are unrelated to impacts of the reporting entity's activities, e.g., physical risks from climate change. These are often covered by value-reporting frameworks and standards promulgated by organizations such as the Climate Disclosure Standards Board (CDSB), International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB) and Task Force on Climate-Related Financial Disclosures (TCFD).

At the same time, there is also a clearly articulated and growing demand for information on the impacts of corporate activities. GRI has achieved high global adoption rates for this type of reporting, in a largely voluntary setting²⁶ and the challenge ahead is to reach the same level of consistent use that the IFRS has achieved across nearly all jurisdictions around the world.²⁷

As explained above, both demands need to be met to accomplish a comprehensive global corporate reporting regime. We believe that the IFRS Foundation with its current mission, governance and mandate is well positioned to address the gap that exists related to disclosing the financial implications of sustainability issues, and recommend that the IFRS focus its standard-setting efforts on this area.

²⁵ European Commission, *Guidelines on Reporting climate-related information*, 2019.

²⁶ KPMG, *The Time Has Come. The KPMG Survey of Sustainability Reporting 2020*, 2020.

²⁷ IFRS Foundation, *Who Uses IFRS Standards?*, <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#profiles>, accessed on 9 December 2020.

We strongly encourage the IFRS Foundation to advance sustainability-related financial reporting and in doing so achieve the much-needed consolidation of value-creation-focused reporting efforts.

In parallel to these efforts, GRI would welcome closer collaboration with the IFRS Foundation to establish a future corporate reporting regime in which financial and sustainability reporting are mandated globally, as two key perspectives interconnected by their respective underlying standard-setting mechanisms and managed with the same rigor. Under such a regime, financial reporting will leverage the information made available through sustainability reporting so as to fully reflect the financial implications of all impacts of corporate activities.

We invite the IFRS Trustees to ensure that the link between financial reporting and sustainability reporting is strengthened, allowing financial reporting to fully recognize financial risks and opportunities related to economic, environmental and social impacts of corporate activities.

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?

Given our recommendation to focus the standard-setting efforts of the IFRS foundation on sustainability-related financial reporting, we believe it will be key for the IFRS to assess whether the creation of a new standards board is warranted. It would need to be evaluated whether the mandate of the new board is sufficiently distinct from the mandate of the IASB.

Irrespective of whether the IFRS Foundation decides to create an additional standards board, it will be important that the standard-setting efforts of the IFRS focused on financial implications of sustainability issues are closely coordinated with the existing standard-setting efforts on sustainability reporting. There are various avenues that could be explored in this regard, ranging from joint standard-setting efforts to institutionalizing an observer role and (reciprocal) board membership.

Question 3: Do you have any comments 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)?

We have the following comments on the requirements of success listed in paragraph 31.

Regarding (c) and (d):

Assuming the IFRS Foundation focuses its efforts on the sustainability-related financial implications for the reporting entity, it will need to consider changes to its governance and its requirements for technical expertise in order to include competencies in sustainable development and sustainability reporting.

The focus on financial implications will involve judgements around the valuation of sustainability issues, which is an inherently complex challenge that requires the expertise of the affected stakeholders and topic experts.

By involving all affected stakeholders systematically, sustainability reporting has become a comprehensive reporting practice that reflects the information needs of all stakeholders that aim to understand the impacts of corporate activities on the economy, the environment and people in a holistic way. Similarly, financial reporting that reflects sustainability-related financial impacts on the reporting entity will need to draw on the expertise of stakeholders beyond investors, the corporate sector, accountants and the auditing profession.

In order to facilitate access to these competencies, we advise the IFRS Foundation to (a) adjust expectations for technical expertise at all levels of the institution; (b) consider revising the constituency representation in its governance to include a wider set of stakeholders that can ensure representation, competencies and legitimacy; and (c) review the due process to facilitate participation of affected stakeholders and topic experts.

Regarding (f) and (g):

By staying focused on sustainability-related financial implications for the reporting entity, the IFRS can work within its current mission and optimally leverage its current structure and culture to create effective financial reporting standards.

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?

By focusing its standard-setting efforts on sustainability-related financial reporting, the IFRS Foundation will be well positioned to aid the adoption and consistent application of the resulting guidance and standards.

We invite the IFRS Trustees to consider how the IFRS Foundation can use its relationships with stakeholders to manifest the comprehensive corporate reporting regime that is required to address market demands for sustainability-related financial reporting and sustainability reporting. In this light, we believe it essential for the IFRS Foundation to explicitly recognize the broader concept of sustainability reporting as a practice that should co-exist next to financial reporting, and to acknowledge that evolving financial reporting to include the financial implications of sustainability issues on the reporting entity, is only a partial answer toward a comprehensive reporting regime.

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

We welcome the IFRS Trustees' commitment to build upon and work with existing initiatives. As explained above, we believe that in the first instance the IFRS Foundation should be focused on the clearly articulated demand for financial reporting to reflect the financial and valuation implications of sustainability issues.

Many of the existing initiatives have focused their activities on augmenting corporate disclosure to include the risks and opportunities that arise from sustainability issues. This includes those that have

recently come together in a very welcome effort to clarify the reporting landscape, under the Value Reporting Foundation, SASB and IIRC.

As articulated in the Statement of Intent issued by CDP, CDSB, IIRC, SASB and GRI,²⁸ we encourage the IFRS Foundation to consider how it can build on the relevant aspects of this important body of work and experience to ensure the IFRS Standards properly reflect financial implications of sustainability issues on the reporting entity.

In doing so, the IFRS Foundation would be able to address a clearly articulated demand and, at the same time, make a major contribution to consolidating the corporate reporting landscape in which several frameworks and standards exist, and which has given rise to concerns about complexity, increasing cost of compliance, and limited effectiveness.

By bringing about this much-needed consolidation, the IFRS Foundation can help to accelerate the evolution towards a future corporate reporting regime in which financial reporting and sustainability reporting co-exist as interconnected practices in their own right.

GRI stands ready to work with the IFRS Foundation to facilitate this transition and strengthen the dialogue on joint standard-setting efforts. The interconnection between financial reporting and sustainability reporting described here deserves particular attention in the future standard-setting activities of the IFRS. It is essential to limit the burden on reporting entities while enhancing the effectiveness of disclosure. To optimally serve this dual purpose, financial reporting and sustainability reporting standard setters will have to safeguard the process by which disclosures are designed so as to illuminate the impacts of reporting entities' activities while also informing financial reporting and in particular investors.

Building on the work of IASB Board member Nick Anderson²⁹ and the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board's (AUASB)³⁰ initial collaboration, priority should be given to how financial reporting can draw on relevant information from sustainability reporting. Further guidance needs to be developed in this area. The ongoing IASB project on Management Commentary presents an immediate opportunity for this.³¹

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?

²⁸ Impact Management Project, Statement of intent to work together towards comprehensive corporate reporting, <https://impactmanagementproject.com/structured-network/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/>, accessed on 9 December 2020.

²⁹ IFRS Foundation, Nick Anderson—IFRS Standards and climate-related disclosures, <https://www.ifrs.org/news-and-events/2019/11/nick-anderson-ifrs-standards-and-climate-related-disclosures/>, accessed on 9 December 2020.

³⁰ Australian Accounting Standards Board, Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2, https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_Finished.pdf, accessed on 9 December 2020.

³¹ IFRS Foundation, Management Commentary, <https://www.ifrs.org/projects/work-plan/management-commentary/>, accessed on 9 December 2020.



At GRI, we strongly believe in the vision of a single, coherent global set of sustainability reporting standards aligned with authoritative intergovernmental instruments. Such an approach reduces the burden for reporting entities, most of which operate in complex global value chains and numerous markets. In addition, such an approach ensures that all stakeholders around the world can base their decisions on consistent and comparable information. GRI stands ready to engage closely with the IFRS Foundation to progress the interconnectivity of financial reporting alongside broader sustainability reporting.

The European Union, with its stated objective to create a solution for sustainability reporting that is accepted beyond Europe, is also a logical partner for the IFRS Foundation when it comes to strengthening the financial reporting standards to reflect the financial implications of sustainability issues on the reporting entity.

A successful solution needs to cater to the expectations of stakeholders globally as well as to the needs of globally operating companies. As a global organization, the IFRS Foundation can play a key role in working with the European Union to develop a governance model that balances the global needs for sustainability and financial standards with those of the European Union, or any interested jurisdiction for that matter. A successful solution needs to cater to the expectations of stakeholders globally as well as to the needs of globally operating companies.

Questions 7 and 8: 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? Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

While GRI has been a strong advocate over the past 20 years of making climate disclosure commonplace, and while we fully agree with establishing the Paris Agreement as the reference point for such activity, we note that the demand for disclosure that illuminate financial risks and opportunities resulting from sustainability issues is much broader than the issue of climate.

We believe the IFRS Foundation should focus its standard-setting efforts on how financial implications of sustainability issues can be recognized in financial reporting in accordance with the IFRS Standards. A broader focus on sustainability-related financial disclosure from the onset, rather than initially focusing on climate-related financial disclosure, will reflect the reality that companies are faced with today: that all sustainability topics that rise to the level of importance in sustainability reporting, if not financially material at the time of reporting, will eventually translate into financially material issues, depending on time frame and context. For financial reporting to be truly reflective of financially material sustainability-related information, the IFRS Foundation needs to be much more ambitious to meet market expectations.

We see future work for the IFRS Foundation on sustainability-related financial disclosure in the context of a wider discussion that covers all financial risks and opportunities deriving from the impacts of an organization's activities and other sustainability issues and conditions, e.g. geopolitical context, technological risks. Financial reporting will increasingly need to draw on multiple sources to provide an



understanding of the long-term development of financial statements and long-term business value creation.

We believe that this will necessitate an initial evaluation of the extent to which generic guidance or standards can be provided for considering sets of information related to different sustainability issues. For example, the structure of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations around governance, strategy, risk management, and metrics and targets lends itself to discussion of many, if not most, sustainability issues from a financial perspective.

Additionally, it will need to be evaluated whether issue-specific guidance and standards are needed, and in doing so, the link with sustainability reporting will need to be considered. In the example of climate-risks-related disclosure, Scope 1, Scope 2 and Scope 3 GHG emissions disclosures should be drawn from sustainability reporting in order to reduce duplication of efforts and reporting burden.³² Financial reporting standards would reference the disclosures included in sustainability reporting standards, and focus their disclosures on the financial risks and opportunities deriving from, e.g., an organization's GHG emissions and the implications to the company's future prospects.

Even if the IFRS Foundation continues to focus initially on climate-related financial disclosure, many environmental and social sustainability issues would need to be considered to make financial reporting comprehensive and truly reflective of the financial implications of climate change. The profound impacts on business models in order to achieve a resilient, net-zero economy by 2050 necessitate discussions that extend well beyond GHG emissions and even with this narrow scope the IFRS will have to address the question of whether its current governance and due process are appropriate.

We see tremendous opportunity for the IFRS to evolve financial reporting under its current mandate to include the financial implications of sustainability issues, and in doing so to make a key contribution to achieving adherence with authoritative intergovernmental instruments, social expectations and planetary boundaries.

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

We agree with the initial focus outlined in paragraph 50. As described above, we believe the IFRS Foundation is well positioned to further its existing mandate that focuses on financial implications for the reporting entity by also acknowledging financial implications of sustainability issues. However, we note that this will, almost by definition, not include all sustainability information relevant to investors and other market participants as laid out above in the discussion of the investor relevance of sustainability reporting. Therefore, financial reporting needs to be complemented and informed by sustainability reporting, which focuses on the impacts of an organization's activities on the economy, the environment and people.

³² Corporate Reporting Dialogue, *Driving Alignment in Climate-related reporting*, 2019

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?

GRI strongly supports the need for sustainability information to be auditable, and we have recommended external assurance for many years as one of the key measures to enhance quality and consistency of reported information. Under the GRI Standards, companies are required to report their approach to external assurance.

We believe that sustainability-related financial reporting information should be subject to the same rigor as established financial reporting information. For sustainability reporting information to be a useful input into financial reporting, it should be subject to external assurance.

To ensure auditability, GRI's standard-setting efforts have consistently invited and considered feedback to ensure that the GRI Standards constitute suitable criteria for external assurance. We have seen significant uptake in the levels of assurance of sustainability information over recent years, but the practice needs to evolve further in rigor, breadth and depth in order to address the expectations of stakeholders and leverage its potential in making a significant contribution to the provision of consistent, comparable, high-quality information. In this context, we welcome the efforts of the American Institute of Certified Public Accountants (AICPA) and more recently the International Auditing and Assurance Standards Board (IAASB) with its Extended External Reporting (EER) Assurance project. We encourage the IFRS to further develop its working relationships with the IAASB and other relevant parties involved in external assurance with a focus on sustainability information. As explained above, sustainability information will increasingly become a critical input to financial reporting. The objective must be to set standards for the assurance providers that are fully reflective of the particularities of sustainability information, and where relevant build on the practice that has been developed for financial reporting. This development of standards needs to be accelerated and the IFRS, through its existing relationships with key stakeholders in the area, can play a pivotal role.

Companies can use a variety of approaches to seek external assurance, such as using professional assurance providers or other external groups or persons. Regardless of the approach used, the expectation should be for external assurance to be conducted by competent groups or persons who follow professional standards for assurance ('assurance providers') and apply systematic, documented, and evidence-based processes. Overall, for external assurance of sustainability information, assurance providers should:

- be independent from the organization and therefore able to reach and publish an objective and impartial opinion or conclusions about the report;
- be demonstrably competent in both the subject matter and assurance practices;
- apply quality control procedures to the assurance engagement;
- conduct the engagement in a manner that is systematic, documented, evidence-based, and characterized by defined procedures;



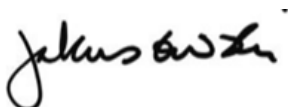
- assess whether the report provides a reasonable and balanced presentation of performance – considering the veracity of data in the report as well as the overall selection of content;
- assess the extent to which the report preparer has applied the GRI Standards in the course of reaching its conclusions;
- issue a written report that is publicly available and includes an opinion or set of conclusions, a description of the responsibilities of the report preparer and the assurance provider, and a summary of the work performed that explains the nature of the assurance conveyed by the assurance report.

Concluding remarks

We wish to conclude by reiterating our support for this Consultation and our strong belief that the IFRS Foundation already has the ability to have a positive impact on the widespread uptake and quality of reporting on the financial impacts of sustainability issues. This initiative comes at a critically important moment. The GRI stands ready to engage closely with the IFRS Foundation to progress the interconnectivity of financial reporting alongside broader sustainability reporting.

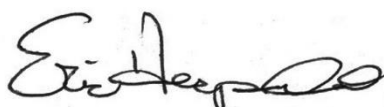
If you have any questions concerning our comments, please don't hesitate to contact us.

Yours sincerely,



Judy Kuszewski

Chair of the GSSB



Eric Hespeneide

Chairman of the GRI Board of Directors