December 23, 2020

INSTITUTE OF
INTERNATIONAL
FINANCE

Mr. Erkki Liikanen
Chair, Trustees of the 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 Institute of International Finance (IIF), via its Sustainable Finance Working Group and its Senior Accounting Group, welcomes the opportunity to comment on the IFRS Foundation Consultation Paper on Sustainability Reporting (hereafter referred to as the 'Consultation Paper'). The IIF and its member firms commend the Trustees of the IFRS Foundation for exploring its possible role in sustainability reporting.

The IIF has publicly communicated the position that an internationally recognized and uniform framework for the reporting of sustainability-related information, including environmental, social, and governance factors such as climate-related and other environmental risks and opportunities, is urgently needed.[1] While the proliferation of multiple voluntary reporting frameworks has stimulated innovation in disclosure practices, it has also resulted in a diverse array of standards, frameworks, and indicators.

The widespread recognition of urgent sustainability challenges (such as climate change) as core strategic concerns for corporates and financial institutions creates a pressing imperative for consolidation. We therefore fully support the IFRS Foundation's initiative in this field and, more specifically, **we endorse the IFRS Foundation's plan to create a 'Sustainability Standards Board' (SSB) as a global standard setter for sustainability reporting**. However, we do have a number of comments pertaining to the establishment of the SSB, as described in the Consultation Paper. In

[1] See, for instance, the IIF Position Paper "Building a Global ESG Disclosure Framework: A Path Forward" (June 2020).

the Annex to this letter, we have provided more details and additional answers to the specific questions posed in the Consultation Paper.

We understand that the IFRS Foundation's plan is to start with a limited scope focusing on climate-related information and financial materiality. However, we think that a broader scope will be key for the effort of establishing an SSB to achieve the greatest possible impact. This will ensure alignment with existing market practices, evolving supervisory expectations, and private-sector initiatives. It will also provide a path to address issues arising from the intersection of sustainability reporting and financial accounting.

We strongly believe that existing initiatives in the ESG disclosure space, and the principles, frameworks, and standards that have helped advance the ESG disclosure agenda, should form the basis for the development of a common international standard. There is a plethora of initiatives in this field and we believe it will be important to build upon well-established ESG disclosure frameworks including the Task Force on Climate-related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Global Reporting Initiative (GRI).

Collaboration between voluntary standard setters to work towards harmonization of existing frameworks is a welcome development, and is of relevance to the objectives of the IFRS Foundation in this endeavor. For instance, the World Economic Forum's (WEF) International Business Council (IBC), in conjunction with the Big Four accounting firms, announced in September 2020 a set of universal sustainability metrics to encourage greater cooperation and alignment.[2] In November 2020, the SASB and the International Integrated Reporting Council (IIRC) announced their intention to merge into the Value Reporting Foundation. In September 2020, both the IIRC and the SASB—alongside the CDP, the Climate Disclosure Standards Board (CDSB), and the GRI—issued a statement of intent to work together towards a comprehensive corporate reporting system.[3] We would recommend that the IFRS Foundation engage closely with these entities where appropriate.

Furthermore, it will be very important to work with national, regional, and international authorities which have established, or are in the process of developing legislative, regulatory, and prudential frameworks for disclosure of sustainability-related information. It would be useful for the IFRS Foundation to consider the work and outputs of such initiatives and identify options that can help reduce risks of fragmentation emerging from different approaches taken by official sector authorities.

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[2] WEF White Paper "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation" (September 2020)

[3] CDP, CDSB, GRI, IIRC, SASB "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting" (September 2020). The Statement was referenced by the International Organization of Securities Commissions (IOSCO) in an October letter.

We are grateful for the opportunity to provide feedback on the Consultation Paper proposals. Close ongoing dialogue between policymakers and the global industry will be important to ensure that a harmonized framework is reflected in regulatory and policy instruments, supervisory expectations, as well as by firms in their planning processes. The IIF can play a key role in facilitating engagement between regulators, standard setters, existing frameworks, and the financial industry to achieve this objective.

We hope that you will find our comments useful and constructive. The IIF remains committed to active participation on the development of sustainability reporting and looks forward to engaging further with you on this topic. If you have any questions, please feel free to contact the undersigned at sgibbs@iif.com or aportilla@iif.com.

Yours sincerely,

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Institute of International Finance (IIF)

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ANNEX: Detailed responses to questions in the Consultation Paper

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

- The proliferation of various reporting frameworks has resulted in a divergent set of standards, frameworks, and indicators for similar types of ESG information, thus creating a pressing imperative for consolidation as well as international cooperation amongst jurisdictions.
- The IIF has argued that there is a need for an internationally recognized and uniform framework for sustainability reporting which relies as much as possible on existing frameworks and initiatives. This would contribute to achieving comparability and reducing fragmentation. In a June 2020 Position Paper[4], the IIF encouraged global authorities and standard-setting bodies, including the IFRS Foundation, to work within their mandates to align and consolidate ESG disclosure frameworks for financial institutions and other corporates.
- Given the standard-setting expertise of the IFRS Foundation, we think it is particularly well-placed to consolidate and promulgate standards that will achieve the desired results. Our member firms particularly value the transparency in the IFRS Foundation's due process procedures, and its excellent track record and expertise.
- **We therefore welcome the IFRS Foundation's initiative to get involved and to expand its standard-setting activities into the area of sustainability reporting.**

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 creation of a Sustainability Standards Board (SSB) is a reasonable approach to achieve further consistency and global comparability in sustainability reporting.
- It would be appropriate for the SSB to operate under a parallel structure to the International Accounting Standards Board (IASB), recognizing that the two Boards would have different scopes and need different resources and expertise.
- However, given possible issues and possible synergies arising from the intersection of sustainability reporting and financial accounting, it will be essential to put in place mechanisms

[4] IIF Position Paper "Building a Global ESG Disclosure Framework: A Path Forward" (June 2020)

to ensure a close communication between the two Boards, for instance by nominating selected members to be part of both Boards and by having frequent interaction between the respective Secretariat staff.

- It would also be highly valuable to have representation from a diversity of geographic membership and various stakeholders on the SSB.

<u>Question 3</u>

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)?

<u>Timing:</u>

- Timing will be a critical requirement for success. There are already several well-established international initiatives on ESG disclosure up and running and various jurisdictions have already started to work in this field individually or collectively (notably via the new International Platform on Sustainable Finance gathering 15 different jurisdictions that represent 50% of the world population and the global GDP).
- While we acknowledge that this will be a multi-year journey and that it will take time to build the required resources, **sustainable finance and other sustainability initiatives are a fast-moving area and rapid progress is needed on reporting**. Given the urgency of the global climate agenda, faster progress is required for non-financial reporting than was needed for harmonizing financial accounting standards—including the almost global adoption of International Financial Reporting Standards (IFRS).
- Based on challenges encountered in efforts to converge IFRS and the United States Generally Accepted Accounting Principles (US GAAP) in the financial reporting space, we believe the best time to act on this is now before various constituencies and geographies go down the path of developing local standards. The work should at the same time build upon the work being undertaken by certain jurisdictions.

<u>Design:</u>

- The IFRS Foundation should initiate its work by performing a scoping exercise to properly analyze and evaluate current sustainability frameworks. This will enable the IFRS Foundation to identify current gaps, overlaps, and synergies and further understand where and how it can contribute.
- The standards should encompass both quantitative as well as qualitative metrics. In addition, for some sustainability topics, quantification methods would have to be developed and may require some effort to achieve standardization.

- The approach for developing sustainability reporting standards may in certain aspects have to differ from the IASB's approach to developing IFRS; for example, **sustainability reporting standards should on the one hand be written for all sectors and may on the other hand require sector-specific additions, similar to how the SASB has approached sustainability reporting. In different industries, different ESG factors are likely to be material**.

Resources:

- Being properly resourced from the outset will be critical to the success of the IFRS Foundation's initiative. The SSB needs to be staffed by those with relevant expertise to focus on the right topics. While it is valuable to recognize the connection to the financial accounting standards, it is important to note that different skill sets are needed for sustainability reporting.
- It would be helpful for the IFRS Foundation to coordinate with existing initiatives that have already developed expertise and experience in this area.
- Nonetheless, we believe the IFRS Foundation is the appropriate body to establish the SSB because of its expertise and its experience in setting clear and useful standards.

Support:

- The support and participation of global, regional, national, and local initiatives will be crucial for the IFRS Foundation's work. We think the proper mechanism to engage with them would be through consultations or requests for feedback—or even allow for their direct membership to the SSB, if possible. This is why a parallel structure and approach to the IASB will be helpful.
- It would bolster the IFRS Foundation's objective to get top-down support from the G20. This would be a strong signal that the IFRS Foundation will be the home for further action on sustainability reporting.
- It would be valuable to get the support of existing initiatives in this space, including the CDP, the CDSB, the GRI, the IIRC, the SASB, the TCFD, the WEF, the European Financial Reporting Advisory Group (EFRAG) Non-Financial Reporting Lab, the Corporate Reporting Dialogue, and Accountancy Europe.
- It would also be helpful to get the support of legislative authorities and regulators in specific jurisdictions. The interaction between the SSB and legislative/jurisdictional approaches requires careful consideration. In Europe, for instance, sustainability reporting is part of the Management Report in accordance with the Non-Financial Reporting Directive (NFRD), which is different to IFRS referring to Financial Statements. An appropriate endorsement mechanism may need to be established.

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, we believe it would be helpful if the IFRS Foundation used its relationships with global regulators, governments, academia/scientists, NGOs, trade associations, and private sector preparers around the world to further this endeavor.
- It will also be critical to include expertise from both investors and the industry in the development of standards.

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

- In recent years, voluntary sustainability reporting initiatives have played an important role. At the same time, statutory and regulatory approaches to ESG disclosures have been evolving rapidly and deepening in scope. We recommend that any sustainability framework put forward by the IFRS Foundation should build on existing initiatives.
- Specifically, early partnership with CDP, CDSB, GRI, IIRC, and SASB, which issued a statement of intent to work together in September 2020[5], TCFD, WEF, the EFRAG Non-Financial Reporting Lab, the Corporate Reporting Dialogue, Accountancy Europe as well as the FASB or other standard setters would be a powerful impetus towards global conformity.
- The TCFD, for instance, has proven to be a workable and widely accepted framework to report on climate-related risks and opportunities and should serve as the basis for any climate-related components of a broader sustainability disclosure standard.
- Also, it will be helpful to cooperate with initiatives that are already working on harmonizing existing frameworks. For instance, the WEF's International Business Council (IBC) and the Big Four accountancy firms announced in September 2020 a set of universal sustainability metrics to encourage cooperation and alignment.[6]
- **The IFRS Foundation should build on the established work and accumulated knowledge of organizations already operating in the sustainability reporting space. We thus believe that the principles, frameworks, and standards already developed should form the basis for a common international sustainability standard.**

[5] CDP, CDSB, GRI, IIRC, SASB "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting" (September 2020)
[6] WEF White Paper "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation" (September 2020)

- The IFRS Foundation could act as a unifying force bringing existing ESG frameworks under the umbrella of an SSB. This should be accomplished by setting forth a clear set of standards that would need to be adhered to in order for a preparer to be able to describe their reporting as being in conformity with the standards—as is the case for IFRS.

<u>Question 6</u>
How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?

- At present jurisdictions across the world move at different speeds: Several jurisdictions have put forward specific expectations pertaining to disclosure of non-financial information and ESG factors. A growing number of jurisdictions, regulators, and supervisors are referencing voluntary frameworks and standards within ESG disclosure requirements. Other regulators went even further and mandated the use of existing frameworks (such as the GRI and the TCFD). Some jurisdictions have mandated a choice between recognized frameworks.
- For example, the NFRD in Europe requires large listed companies and large financial institutions to disclose a Non-Financial Statement in which they may rely on recognized national or international frameworks, such as the GRI. The EFRAG has a specific mandate to develop an ESG disclosure framework, analyze the interconnections between financial and non-financial information, clarify and mitigate potential inconsistencies across EU disclosure regulations, and provide recommendations on how the concept of double materiality could be applied and operationalized in the EU (see our comments to Question 9).
- **It will be crucial that the work of the IFRS Foundation is not in conflict with these existing (jurisdictional) frameworks and that there is a way for global adoption.** The key is to achieve consensus among regulators as to the set of standards that will best achieve the objectives, and this may or may not be strictly in accordance with today's views.
- Close international dialogue among policymakers and the industry will be required to ensure that a harmonized and pragmatic framework is reflected in regulatory and policy instruments, and by firms in their planning processes. This will be of particular importance for firms operating in jurisdictions that are already working on regional standards, such as the EU. The IIF can play a key role in facilitating engagement among constituencies.

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?

- The IIF understands that the IFRS Foundation prefers to start with a narrower scope—initially focusing on climate-related disclosures—to gain traction and momentum. However, **we think that a broader scope—covering non-climate-related developments in this area as well (e.g. on biodiversity or social factors)—will be key for the effort of establishing an SSB to achieve the greatest possible impact. This will ensure alignment with existing market practices, evolving supervisory expectations, and new private-sector initiatives. It will also provide a path to address issues arising from the intersection of sustainability reporting and financial accounting.**
- If the SSB limits its scope to climate information, there is a risk that other initiatives will try to fill the void, as many stakeholders already expect corporates, including financial institutions, to disclose more than just climate issues. If this were to occur, this would contribute to unwelcome fragmentation.

Question 8

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

- As already mentioned in response to Question 7, the IFRS Foundation should not lose sight of the other developments in this area (e.g. on biodiversity or social factors) if it wants to successfully act as a standard setter for sustainability reporting. This will also help alignment with the broader efforts already under way in certain jurisdictions such as the EU.
- We would also recommend that the SSB does not try to invent its own definition of climate-related risks but rather leverages existing definitions. The TCFD should serve as the basis for any climate-related components of a broader sustainability disclosure standard.
- We would also hope that future SSB standards would provide a framework for disclosing opportunities as well as risks, similar to the approach of the TCFD.

Question 9

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

- Within existing sustainability disclosure frameworks there are different approaches to the concept of materiality, with some focusing on financial materiality (e.g. SASB) and others on stakeholder materiality (e.g. GRI).
- There are also important jurisdiction-specific considerations. Some jurisdictions have already committed to a 'double materiality' approach (e.g. in the EU), and differences in fiduciary practices may exist between jurisdictions. Different approaches across jurisdictions can create a risk of fragmentation in disclosures.
- We think the term 'double materiality' needs to be further specified with objective and quantifiable criteria for each of the two dimensions. The impact of the reporting entity on the wider environment is critical from the perspective of reaching the Paris Agreement objective but also poses challenges because different stakeholders have different information needs.
- Further, there is arguably not a clear line between the different approaches to materiality. For example, even if the guiding materiality disclosure principle is an 'outside in' approach focused on financial materiality, there is still an understanding that a firm's non-financial decisions can feed back through to their financial position if they have a significant external impact through channels such as reputational and conduct risk.
- In their September Joint Statement, CDP, CDSB, GRI, IIRC, and SASB recognize a difference between sustainability disclosure and financial reporting since "there is a variety of other users and therefore objectives of sustainability information." The nature of sustainability topics and relevance to different stakeholders can change—sometimes rapidly—, which they refer to as 'dynamic materiality.'[7]
- **It is essential for the IFRS Foundation to recognize these different speeds, find a common baseline while at the same time allowing jurisdictions to apply a broader scope in case they already moved beyond the core set of standards. A form of sequencing could allow different jurisdictions to evolve at their own pace while still referencing the same core set of standards. This would pave the way for harmonization and avoid further fragmentation.**

[7] CDP, CDSB, GRI, IIRC, SASB "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting" (September 2020)

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?

- Various existing disclosure frameworks already contain certain expectations around verification and assurance, which many firms satisfy today. However, in many jurisdictions there is currently no requirement to externally assure such information.
- The IIF agrees that in an aligned sustainability reporting framework it will be important to specify common expectations for the external assurance of disclosures. However, it is important to note that this is a comparably new, currently more qualitative, forward-looking, and evolving area.
- **We would therefore recommend a phased approach that starts with 'limited assurance' and gradually explores moving into the direction of 'reasonable assurance'**—based on relevance and cost-benefit considerations for respective indicators.
- For the 'reasonable assurance' approach it might make sense to focus on reasonable assurance to be applied to key non-financial performance indicators, i.e. those relevant for internal steering. This would ensure that cost-benefit aspects are appropriately considered.
- Assurance and verification should become easier if there is general alignment around a common framework and common metrics, which should increase transparency and familiarity in a way that increases overall confidence in firms' disclosures.
- Close cooperation with auditors/external assurers, e.g. the International Auditing and Assurance Standards Board (IAASB), should be established to further develop the assurance approach.

Question 11

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

Reporting format:

- Senior accountants from our member firms are concerned from a financial reporting perspective that excessive emphasis on one risk factor—i.e. climate risks—might impact financial reporting.
- There are areas where sustainability objectives may be at odds with current financial reporting standards. For example, financial instruments that include certain sustainability-linked returns may not be assessed as meeting the Solely Payments of Principal and Interest (SPPI) rules in IFRS 9. A joint effort should be made to determine whether potentially conflicting goals

between financial reporting standards and sustainability reporting standards can be harmonized or otherwise made compatible.

- In this regard, IIF members raised the question of how sustainability reporting would be expected to be integrated or interlinked with financial reporting.

Global alignment:

- The IFRS Foundation is particularly qualified to get active in sustainability reporting because of the wide application of its standards around the world as well as its expertise in standard setting and due process. However, it will also be important to engage with accounting bodies in non-IFRS jurisdictions, particularly the United States, to promote alignment of approaches to sustainability reporting and ensure comparability between IFRS and non-IFRS jurisdictions.

Timing:

- It would be helpful if the IFRS Foundation could publish a timeline for their plans, e.g. when the SSB would be founded, when it plans to consult on a first draft set of standards, and a timeframe for seeking integration with existing recommendations, guidelines or requirements across countries that will apply the future sustainability standard.
- We and our global members look forward to engaging further with the IFRS Foundation on these important issues.