Association
of International
Certified Professional
Accountants®

Dear *IFRS Foundation*, 14 Dec. 2020

The Association of International Certified Professional Accountants, the unified voice of AICPA and CIMA, welcomes the opportunity to comment on the *IFRS Foundation Consultation Paper on Sustainability Reporting* published in September 2020. As the leading global body of accounting and finance professionals, our purpose is to drive a dynamic accounting profession that works every day to build trust, create opportunity and grow prosperity worldwide. Our membership is actively involved in the reporting of financial and non-financial information globally, and in performing engagements to provide the audit and assurance of that information.

The Association fully supports creation of a Sustainability Standards Board (SSB) under the oversight of the IFRS Foundation.

Research shows that 80% of a company's value now lies beyond the balance sheet and that company value often comes from intangibles such as brand, employee purpose and technological know-how. This means organisations need to think more widely about their purpose, about how they add value and about how rapidly this value can be diminished. Executives now need a broader base of non-financial information to make effective decisions and manage their performance. Similarly, investors and other stakeholders urgently need a broader base of information for their investment and credit decision-making arsenal.

We believe that the *IFRS Foundation* is right to propose the expeditious development of a process for setting global, internationally recognized non-financial reporting standards. This initiative is the best way of ensuring consistency and comparability and that reliable information is provided to investors globally. Moreover, we believe the *IFRS Foundation* is best positioned to play a central role in setting these standards and that it should expand its standard-setting activities into this area.

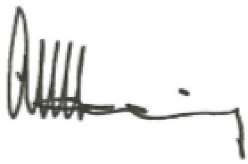
It is therefore fundamental that the *IFRS Foundation* leverage existing resources as much as possible to support this initiative. The strengths of major reporting initiatives including the Sustainability Accounting Standards Board (SASB), International Integrated Reporting Council (IIRC), the Climate Disclosures Standards Board (CDSB), the Global Reporting Initiative (GRI) and the work of the Task-Force on Climate-Related Financial Disclosures (TCFD) must be fully utilized and all stakeholders brought together. Each stakeholder must also fully understand what they bring to the table to avoid duplication - the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting issued by the CDP, CDSB, GRI, IIRC and SASB, is an important step in the right direction. One message that we hear often from companies and accounting firms is that proliferation of new standards by different bodies should be discouraged.

A primary objective of corporate reporting is that the value creation story should be articulated through the company's business model and embrace all stakeholders, and this should be reflected in the approach to developing new standards. That said, we support the “Building Blocks" approach as outlined in the recent International Federation of Accountants (IFAC) paper on corporate reporting[i]. Under this approach, the initial remit of the proposed SSB should be material non-financial information that is relevant to enterprise value creation and capital markets; reporting requirements that would address broader stakeholder considerations would follow; supplemental jurisdictional requirements would be incorporated over time.

Accordingly, we note that this initiative should have a strong investor focus. Non-financial reporting already has high level support from the investment community as outlined in this article from Blackrock[ii] and this open letter by a coalition of global investment organizations[iii]. This support must be maintained. As sustainability information is becoming increasingly important to investors and other sustainability report users, we believe that it is essential that this information be accurate and reliable enough to meet the needs of these decision makers and we agree with the consultation that “the objective is for companies to disclose information that has been externally assured”. Finally, while we appreciate the pragmatic need to have the initial focus on climate disclosures, we think it is essential that the mandate of the proposed SSB should encompass a comprehensive array of sustainability issues. This is key to maintaining a broad base of support, as well as precluding further proliferation of standards and the imposition of unique regulatory requirements.

With these broad principles in mind we have responded to the detailed questions in **Annex One.**

Sincerely,



Andrew Harding

Chief Executive

Management Accounting

<u>Annex One</u>

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?

Yes, in our view there is a need for a global set of internationally recognised sustainability reporting standards. The current proliferation of mandatory and voluntary standards and frameworks is confusing and creates additional regulatory burden. It also leads to the production of incomparable metrics across the globe. Organisations, investors and other stakeholders are keen to see these standards developed independently and set in one place.

A set of global internationally recognised standards would serve the public interest, providing consistency and comparability in reporting, and lead to transparency in the market, allowing capital allocation to be optimized.

The preparation of reports by companies should be subject to a global set of standards that fosters consideration of business supply chains, customer, employer, and social needs, along with investment decisions and addresses global risks such as climate change. Ultimately, this approach should lead to the development of more and better run sustainable and profitable businesses. This outcome is in the public interest.

As noted in the consultation paper, the IFRS Foundation has existing expertise overseeing standard-setting as well as due process procedures focused on transparency, broad consultation and accountability. IFRS is recognized in 144 jurisdictions around the world and has strong and collaborative relationships with governments, regulators and national standard setters. The IFRS Foundation's governance structure includes global representation and public interest oversight through its Monitoring Board. These factors combined mean that the IFRS Foundation is ideally positioned to play a role in setting these standards and we believe it should expand its standard-setting activities into this area to help achieve global consistency and reduce complexity in 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 Association supports the *IFRS Foundation* agenda and are keen to see its remit expanded into sustainability, not least because of the success and experience that the Foundation has had with financial reporting since the IASB was established in 2001. The model proposed in the Consultation is sound and we very much support the intention of the new structure to *'develop a structure and culture that seeks to build effective synergies with existing financial reporting'*.

The culture of the organisation is particularly key to success. Synergies mean that the Foundation could monitor the impact of one set of standards on the others. We note that critical to this aspiration is that the remit of the IFRS Trustees would need to broaden and be redefined to reflect a new and broader function. This would necessarily mean attracting members to the monitoring board with a skillset that whilst grounded in financial reporting disciplines also encompasses wider sustainability perspectives.

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)?

We agree that the following requirements, identified by the Trustees, are essential for success:

> (a) achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets;
> (b) working with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting;
> (c) ensuring the adequacy of the governance structure;
> (d) achieving appropriate technical expertise for the Trustees, SSB members and staff;
> (e) achieving the level of separate funding required and the capacity to obtain financial support;
> (f) developing a structure and culture that seeks to build effective synergies with financial reporting; and
> (g) ensuring the current mission and resources of the IFRS Foundation are not compromised.

Regarding item (e), we would suggest that of paramount importance is that the new body is adequately and appropriately funded. The funding should be independent and seen to be independent of any one organisation, country or company but at the same time must have the confidence of both the accountancy and investment sectors.

We would suggest that whichever model is adopted should have as broad and stable funding base as possible and should seek to anchor all regions of the world within the body.

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?

We believe that in order to make this a consistent global approach it is essential that the *IFRS Foundation* uses its influence and relationships, especially but not exclusively in Europe and North America to bring together global consensus and application. These geographic areas together account for over two thirds of global capital markets and we feel that the IFRS should be particularly mindful of the importance in brokering a consensus here on non-financial reporting. The EU is already advanced in terms of potentially mandating these standards. However, SASB has developed measures which are embedded within the investment and financial reporting community and have a potentially more robust practical application. The *IFRS Foundation* should seek to work with both initiatives to ensure that any non-financial standards are consistent with and not additional to the work of these two bodies.

Question 5

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

The Statement of Intent to Work Together Towards Comprehensive Corporate Reporting ("Statement of Intent") issued by the CDP, CDSB, GRI, IIRC and SASB provides, among other things, a joint vision of how their frameworks and standards could complement financial generally accepted accounting principles (financial GAAP) and serve as a natural starting point for progress towards a more coherent, comprehensive corporate reporting system. It further highlights a joint commitment to drive toward this goal, through an ongoing programme of deeper collaboration between themselves, and a stated willingness to engage closely with other interested stakeholders. To that end, the SASB and the IIRC announced on 25th November 2020 their intention to merge their organizations as a step towards this goal of a comprehensive global reporting system. An important starting point will be to actively engage and work with these existing framework and standard setters (including the TCFD) to determine the best way to build upon their work to achieve global consistency.

Both Accountancy Europe and IFAC have called for the creation of a sustainability standards board in recent months and we would support the Foundation building on their work, to which we have contributed. In particular, both organizations highlight the need for a conceptual framework that would encompass the inter-connectedness between financial and non-financial reporting, in addition to the conceptual framework for sustainability reporting that is discussed in *paragraph 45* of the Consultation.

Additionally, the International Organization of Securities Commissions (IOSCO)[iv] created its Sustainable Finance Task Force in response to observed issues arising from multiple and diverse sustainability standards, and significant gaps in climate reporting, including among TCFD signatories. In a recent meeting the IOSCO Board discussed "the purpose of a consistent and comprehensive framework that builds on the current global initiatives on corporate disclosures by the alliance of international sustainable finance standard setters" and authorized the Task Force to engage with the IFRS Foundation on the consultation paper. The parties to the Statement of Intent, noted above, also issued an open letter to the Chair of the IOSCO Sustainable Finance Task Force, encouraging involvement, and expressing the intent to collaborate.

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?

Environmental and social issues continue to be a significant challenge around the globe, and no country is on track to achieve the UN Sustainable Development Goals by the agreed date of 2030. This is precipitating an increase in regulation and policies to address these issues in many jurisdictions. Fortunately, as noted above, there is already significant collaboration underway towards the development of global reporting standards. In order to build upon and work with the existing jurisdictional initiatives, we would encourage the IFRS Foundation to leverage these organizations, and the accounting bodies from around the world to advocate in their jurisdictions for the adoption of standards as developed by the proposed SSB.

The *IFRS Foundation* should aim for the standards to be adopted by as many jurisdictions as possible globally. To be successful, adoption in Europe and the United States is particularly important.

This will only be possible if efforts are combined into global standards and as many regulatory jurisdictions as possible recognise the IASB as the standards provider. IOSCO members must feel that they have equal oversight and input into the *IFRS Foundation* governance structure as outlined above.
The *IFRS Foundation* should encourage all jurisdictions to support its consistent global application of its standards and use its influence to ensure that major jurisdictions do not develop further gold-plated standards of their own but focus on a robust governance process and industry buy-in.

Collaboration with IOSCO will also be important as they provide guidance to the regional jurisdictions around the world, encouraging them to mandate the adoption of SSB established standards rather than the development of further standards of their own. Key to this will be the establishment of a broad enough scope by the *IFRS Foundation* for the SSB to preclude further proliferation of standards by regulatory bodies rather than a global standard setting body.

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 SSB should be given the mandate to address all sustainability topics relevant to enterprise value creation at the outset. Its long-term strategic ambition should be to cover all material non-financial disclosures relevant to sustainability and enterprise value creation.

Pragmatically speaking however, there is currently a widespread sense of urgency about climate change and the work of the “Group of 5” which we understand is developing a “prototype climate standard” that integrates content from the “Group of 5” with TCFD may well be operationally a good place to start. However, while climate change is important, the issues of public health and the company workforce for example have come to the fore recently and do need to be addressed forthwith.

Question 8

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

We think the SSB approach to developing standards for sustainability reporting should be similar to the approach adopted by the Climate Disclosure Standards Board (CDSB). The CDSB initially defined climate risks, then expanded its remit to incorporate a range of biodiversity and other ecosystem impacts. In any case, to be effective the standard setting process and the standards themselves should be agile.

Question 9

Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?
Materiality is a key concept in reporting and is imperative in ensuring that only decision relevant information is covered as well as ensuring that reports are kept concise. We agree that the initial

focus of the SSB should be on sustainability information most relevant to investors and other market participants, but also believe that the SSB should consider a broader definition of materiality than is currently used in financial reporting.

These concepts have been developed by the IIRC in their work on an Integrated Reporting Framework[v] and should act as a starting point in the SSB's work. The SASB definition is also worthy of consideration, incorporating the broad-based short, medium and long-term value creation concept of the IIRC, as well as the "omitting, misstating, or obscuring" language of IAS 1.

The *IFRS Foundation* should ensure that Non-Financial information (NFI) remains material to enterprise value creation and decision making at all times and should work with these bodies to further define a common, investor focused definition that encompasses these developments. In the long term, any reported information should be material either to the organisation's sustainability or to its wider ecosystem.

Question 10

Should the sustainability information to be disclosed be auditable or subject to external assurance?
If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?

Yes. We agree with the Consultation that "the objective is for companies to disclose information that has been externally assured". As sustainability information is becoming increasingly important to investors and other sustainability report users, we agree that it is essential that this information be accurate and reliable enough to meet the needs of these decision makers. In a survey of over 1,500 portfolio managers and research analysts, 69% indicated that they believe it is important that ESG disclosures be subject to independent assurance[vi]. According to a 2019 McKinsey Sustainability Reporting Survey, 97% of investors surveyed indicated that sustainability reports should be subject to some form of assurance engagement.

Company reporting needs to be high quality for investors and other stakeholders to rely upon for their decisions. Independent auditors, in their public interest role, play a part in the flow of reliable information for decision making. Third-party assurance from an audit firm can enhance the reliability of ESG information reported by companies, in a manner similar to the process that occurs with audits of financial statements. The audit profession is well positioned to perform assurance engagements over NFI given their existing knowledge of financial statements, their experience incorporating necessary specialists and their ability to understand the financial impact of ESG matters. The audit profession performs assurance engagements over NFI in accordance with existing professional standards which include, attestation and quality control standards and code of professional conduct.

In order to be assurable, the standards used to report sustainability information must have the characteristics of suitable criteria including, being objective, measurable, complete and relevant.

Question 11

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

Investors and other stakeholders increasingly rely on digital information to access relevant information that they need. Structured data allows for the information to be more easily searched, consumed and analyzed over the internet. We would highlight the importance of using XBRL to enhance the utility and quality of NFI.

This could produce many benefits, including cost saving for users of sustainability reports, greater speed, reliability and accuracy of data handling, improved analysis, and better quality of information and decision-making. Users need a cost-effective manner to consume non-financial information similar to how they consume financial information. Issuers, investors, regulators and authorities around the world have gained the benefits of easier reporting, accessibility and analysis through use of electronic financial reports, those same benefits could be achieved for sustainability reporting.

As part of the effort, it is important that the SSB establish processes to develop and maintain an XBRL taxonomy for the sustainability standards similar to how the IFRS taxonomy is maintained for financial reporting standards. XBRL International[vii]and XBRL US[viii] have published materials and resources for development of XBRL taxonomies and supporting material that produce consistent, good quality XBRL data that is easy to use, accessible, and consistent. Additionally, SASB has begun the process of developing a SASB XBRL taxonomy[ix] that will facilitate digital reporting of the SASB standards.

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[i] https://www.ifac.org/what-we-do/speak-out-global-voice/points-view/enhancing-corporate-reporting
[ii]https://www.ipe.com/news/esg-roundup-blackrock-backs-ifrs-standards-board-proposal/10048703.article
[iii] https://www.unpri.org/accounting-for-climate-change/public-letter-investment-groupings/6432.article
[iv] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf
[v] https://integratedreporting.org/wp-content/uploads/2013/03/IR-Background-Paper-Materiality.pdf
[vi] https://www.cfainstitute.org/-/media/documents/survey/esg-survey-report-2017.ashx
[vii] https://www.xbrl.org/guidance/
[viii] https://xbrl.us/xbrl-reference/tam/
[ix] https://www.sasb.org/structured-reporting-xbrl/