September 2020

IFRS® Foundation

# Consultation Paper on Sustainability Reporting

Comments to be received by 31 December 2020

IFRS Foundation

**Consultation Paper on Sustainability Reporting**

September 2020

*Consultation Paper on Sustainability Reporting* is published by the IFRS Foundation Trustees for comment only. Comments need to be received by 31 December 2020 and should be submitted by email to commentletters@ifrs.org or on the 'Open for comment' page at www.ifrs.org/projects/open-for-comment/.

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# IFRS Foundation *Consultation Paper on Sustainability Reporting*

## Preamble and Invitation to Comment

1 A Task Force, set up at the initiative of the Trustees of the IFRS Foundation (Trustees) in October 2019, has prepared this document for public consultation to identify the demand from stakeholders in the area of sustainability reporting and understand what the Foundation could do in response to that demand.[1]

2 This initiative must be understood in the context of IFRS Foundation's five-year review of its strategy, which started in January 2019. For further details of the work of the Trustee Task Force see Annex A.

3 The Trustees[2] invite detailed comments from stakeholders on the matters set out in this paper. The Trustees are providing a consultation period of no less than 90 days, consistent with previous invitations to comment on the IFRS Foundation's strategic reviews. The deadline for comments to be received is 31 December 2020. The Trustees will analyse all comments received and base their conclusions about the Foundation's potential role on these comments. The Trustees appreciate stakeholders taking the time to respond to the questions outlined on page 15–16 of this document.

## Part 1: Assessment of the current situation

### Growing and urgent demand

4 The Trustee Task Force has informally engaged with a cross section of stakeholders involved in sustainability reporting (including the investor and preparer communities, central banks, regulators,[3] public policy makers, auditing firms and other service providers). Through that *informal* engagement it became clear that sustainability reporting is continuing to increase in importance for those stakeholders. Notwithstanding differences in scope and motivation, all stakeholders share a common message: there is an urgent need to improve the consistency and comparability in sustainability reporting. A set of comparable and consistent standards will allow businesses to build public trust through greater transparency of their sustainability initiatives, which will be helpful to investors and an even broader audience in a context in which society is demanding initiatives to combat climate change.

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1 The Trustees are responsible for the governance and oversight of the IFRS Foundation and the International Accounting Standards Board. The Trustees are not involved in any technical matters relating to IFRS Standards. The Trustees are accountable to the Monitoring Board, a body of publicly accountable market authorities.

2 Note that this Consultation Paper and its contents have been approved by the IFRS Foundation Trustees for publication.

3 The Monitoring Board was kept informed of the preparation of the consultation paper but did not provide formal comments on this paper, nor approved it prior to its publication. Throughout the consultation period and the subsequent consideration by the Trustees of the public responses, the Monitoring Board expects to take the following steps:

- Establish a dedicated working group to prepare for the Monitoring Board's engagement with the Trustees;
- During the consultation period, the working group will assemble the Monitoring Board's questions and input for consideration by the Trustees; and
- After public input is received from the consultation paper, the Monitoring Board members will actively engage with the Trustees before the Trustees determine what additional steps, if any, should be taken.

5 **Investors**—Large institutional investors demand better disclosure of climate risks and sustainability indicators. These investors use sustainability reporting to inform their decisions and want comparable and verifiable information. Investors are, together with preparers, the driving force behind the increasing number of calls for clear, consistent and comparable sustainability information. Asset managers and institutional investors are currently facing an increasing set of expectations from their customers, clients and beneficiaries, while contending with underdeveloped data and analytics on investable assets and significant cost pressures. The investor community has already taken steps to help to ensure that the world's largest corporate greenhouse gas emitters act on climate change.[4]

6 **The corporate sector**—Increasing numbers of companies are committed to developing their sustainability reporting. Such commitment is driven by regulation, consumer behaviour, investor demand and the recognition of the impact that managing sustainability risks can have on long-term value creation. A broad consensus holds that the current practice of sustainability disclosure is inefficient and sometimes ineffective due to a lack of commonly accepted standards and the inability to compare the information reported or provide assurance. Companies also lack clarity about how they should report on the impact of climate-change transitions. Concerns are also emerging over increasing regional and domestic regulatory requirements and their impact on global competitiveness. The corporate sector also has established many initiatives on sustainability reporting.[5]

7 **Central banks**—Central banks are increasingly focused on climate-related risks and sustainability more broadly as important drivers of their financial stability work. Prudential regulators are starting to incorporate climate analyses into stress tests, and regulatory stress testing of banks and insurers increasingly includes estimates of climate-change impacts. This area is evolving quickly because of the intensifying demand to understand the impact of climate change on companies. The Network of Central Banks and Supervisors for Greening the Financial System (NGFS)[6] has been established to help strengthen the global response required to meet the goals of the Paris agreement[7] and to enhance the role of the financial system in managing risks and mobilising capital for green and low-carbon investments in environmentally sustainable development.[8]

8 **Market regulators**—Regulators' involvement in sustainability reporting is influenced by their governments' public policy positions. Consequently, regulators' views of sustainability reporting are more prominent in some regions, such as Europe or China, where securities and banking regulators are key leaders of policy initiatives. However, the International Organization of Security Commissions (IOSCO) is currently considering how its members could be involved in sustainability reporting.[9]

4 For example, see Climate Action 100+.

5 For example, see the Partnership for Carbon Accounting Financials (PCAF), World Business Council for Sustainable Development (WBCFSD).

6 https://www.ngfs.net/en.

7 United Nations, *Paris Agreement*, 2015.

8 See, for example, Network for Greening the Financial System, Technical document: Guide to climate scenario analysis for central banks and supervisors, June 2020 and Network for Greening the Financial System, Technical document: A sustainable and responsible investment guide for central banks' portfolio management, October 2019.

9 IOSCO, Sustainable Finance and the Role of Securities Regulators and IOSCO: Final Report, April 2020.

9 **Public policy makers**—In response to public policy initiatives[10,11] to tackle climate change, companies will need to adapt their business models to become compatible with net zero carbon-emission targets that major jurisdictions have set in line with financial markets that are evolving to a net-zero world. Policy makers also expect that, in their reporting, companies may have to consider global public policy initiatives[12] relating to climate change.

10 **Auditing firms and other service providers**—Auditing firms and data and index providers develop and assess reporting frameworks. Auditing firms could play a major role in providing assurance if sustainability reporting were to be standardised and the information provided required such assurance.

## A supply side in transition

11 Many organisations currently provide sustainability reporting frameworks, standards and metrics.[13] Some of their work overlaps, but ultimately each standard- or framework-setter is seeking to produce specific products for its own stakeholders. Some organisations focus on non-financial standard-setting, some focus on creating a framework for non-financial information, and some focus on frameworks for climate-related disclosures.

12 These organisations' target audiences for standards also vary—the primary audience could be investors or wider society. Differences in focus and audience lead to differences in the way the organisations approach materiality, with some organisations focusing on the impact of risks on a company and other organisations focusing on a company's impact on the environment (see discussion on materiality). In response to this, there has been an effort made by some organisations to coordinate in order to build a shared vision on which a coherent corporate-reporting system can be based (see paragraph 34).

13 Some countries and regions are taking initiatives that complement the private sector initiatives we have discussed. The European Union is highly engaged in sustainability reporting and has proposed its own approach (see discussion on providing a global platform).

14 Diverse approaches and objectives pose the threat of increasing fragmentation globally. The potential of fragmentation and the growing demands from stakeholders demonstrate the need for a global framework to provide greater comparability and reduce the complexity of approaches and objectives.

## The need for consistency in reporting and comparable information

15 Outreach with stakeholders and research by the Task Force has revealed that a wide range of voluntary frameworks and standards are in use and that preparers are faced with opting to report using multiple standards, metrics or frameworks with limited effectiveness and impact, a high risk of complexity and an ever-increasing cost.

10 See legally binding initiatives in Denmark, France, New Zealand, Sweden and the United Kingdom.

11 See discussion below on the initiatives of the European Union and providing a global platform.

12 The Paris Agreement has been ratified by 189 parties. The agreement has two main objectives: *Long-term temperature goal (Art. 2)* – 'The Paris Agreement, in seeking to strengthen the global response to climate change, reaffirms the goal of limiting global temperature increase to well below 2 degrees Celsius, while pursuing efforts to limit the increase to 1.5 degree'; and *Global peaking and 'climate neutrality' (Art. 4)* – 'To achieve this temperature goal, Parties aim to reach global peaking of greenhouse gas emissions (GHGs) as soon as possible, recognizing peaking will take longer for developing country Parties, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of GHGs in the second half of the century.'

13 Annex C provides an overview of organisations involved in sustainability reporting.

16 Demand for better disclosure of sustainability information is urgent. Many stakeholders acknowledged that delays to global coherence, most pressingly on climate-related disclosures, will increase the threat of fragmentation and consequently cause difficulties in engaging capital markets to smooth the transition to a low-carbon economy. Many jurisdictions have committed to target dates to achieve net-zero emissions and reporting standards could play a vital role in assisting with these targets.

## What can the IFRS Foundation contribute?

17 There have been several recent calls for the IFRS Foundation to become involved in reducing the level of complexity and achieving greater consistency in sustainability reporting.[14] Such calls suggest that the IFRS Foundation's track record and expertise in standard-setting, and its relationships with global regulators and governments around the world, could be useful for setting sustainability reporting standards.

18 The IFRS Foundation's mission is to develop IFRS Standards that seek to bring transparency, accountability and efficiency to financial markets around the world. The work serves the public interest by fostering trust, growth and long-term financial stability in the global economy. The IFRS Foundation has existing standard-setting expertise and due process procedures focused on transparency, broad consultation and accountability that, as some have suggested, could be deployed to reduce complexity and achieve greater consistency in global sustainability reporting.

19 The IFRS Foundation maintains strong and collaborative international relationships with governments, regulators and national standard-setters to deliver its mission. The Foundation works closely with such stakeholders in connection with the Foundation's standard-setting, implementation support and maintenance activities. In many instances those relationships are formalised through memorandums of understanding.[15] Such established relationships assist in the consistent use of IFRS Standards for all or most domestic publicly accountable entities (listed companies and financial institutions) in 144 jurisdictions around the world.[16]

20 The IFRS Foundation's standard-setting body, the International Accounting Standards Board (IASB), is also a member of the Corporate Reporting Dialogue (CRD),[17] which strives to strengthen cooperation, coordination and alignment among standard-setters and framework developers that have significant international influence in corporate reporting. The CRD also involves some standard-setters that focus on sustainability reporting.

21 The Foundation's current relationships could help to achieve further global consistency and reduce complexity in sustainability reporting, as some stakeholders suggest. Such work would require the support of, and a close institutional relationship with governments, regulators and national standard-setters.

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14 Accountancy Europe, *Follow up paper: interconnected standard-setting for corporate reporting*, June 2020; Eumedion, Feedback statement on Eumedion's Green paper '*Towards a global standard setter for non-financial reporting*', July 2020; and International Federation of Accountants, *Enhancing Corporate Reporting: The Way Forward*, September 2020.

15 IFRS Foundation, *Cooperation agreements*, accessed 21 September 2020.

16 IFRS Foundation, *Who uses IFRS Standards?*, accessed 21 September 2020.

17 Corporate Reporting Dialogue, *Participants*, accessed 21 September 2020.

## Part 2: High-level options for the IFRS Foundation

22 The Trustees considered different options for how the IFRS Foundation could approach sustainability reporting while understanding the growing calls for the urgent need for further consistency in reporting and comparable information. The Trustees' consideration on the strategic direction of the Foundation in this area ultimately focused on 'change or no change', and the following options were considered:

(a) **Maintain the status quo**—the Trustees considered that maintaining the Foundation's current structure would not enable it to significantly reduce the complexity and improve comparability in sustainability reporting. Such an approach would carry the lowest risk of failure for the Foundation, but would provide the least benefit to the Foundation's stakeholders and other parties interested in achieving global comparability and a reduction of complexity in global sustainability reporting. Such an approach would not respond to several stakeholders' calls for the Foundation to take a leading role in global sustainability reporting.

(b) **Facilitate existing initiatives**—the Trustees considered that the Foundation could attempt to facilitate and harmonise existing initiatives, which could assist in reducing complexity. But this approach also carries an equal risk of causing fragmentation and adding to the complexity—by adding another voice to the discussion, rather than creating a global framework for consistent standard-setting.

(c) **Create a Sustainability Standards Board and become a standard-setter working with existing initiatives and building upon their work**—subject to consultation to understand whether demand is sufficient to create such a standard-setting body (see the section, Requirements for Success), this option is considered the best of those discussed to assist in reducing complexity and achieving comparability in sustainability reporting. The IFRS Foundation action could lead to an approach that seeks to harmonise and streamline sustainability reporting, which could benefit stakeholders of the IFRS Foundation and benefit sustainability reporting.

## Part 3: A new Sustainability Standards Board

23 To achieve coherence and comparability, the approach recommended by the Task Force and supported by the Trustees would be to create a new Sustainability Standards Board (SSB) under the governance structure of the IFRS Foundation to develop global sustainability standards. The Trustees' approval of such an initiative is conditional on the satisfaction of the requirements for success (see paragraph 31).

24 The objective of the SSB would be to develop and maintain a global set of sustainability-reporting standards initially focused on climate-related risks. Such standard-setting would make use of existing sustainability frameworks and standards (for more information on the proposals for building upon existing initiatives and a 'climate-first approach' see paragraphs 41–43).

25 The proposed establishment of the SSB within the institutional and governance structure of the IFRS Foundation could achieve the objectives of developing a framework for sustainability reporting which is coherent with and connected to financial reporting and the IASB's own mission to serve investors and other primary users of financial statements.

26 The SSB could leverage and adapt the standard-setting process, due process procedures and network of the IFRS Foundation. The SSB could promote the consistent use and application of the new sustainability-reporting standards and contribute to international collaboration, cooperation and coordination among sustainability-reporting bodies, governments, regulators and other stakeholders to achieve further convergence.

27 The SSB would operate alongside the IASB, and the two boards would benefit from the increasing interconnectedness between financial reporting and sustainability reporting. Some have argued that using the knowledge base of the accountancy profession is a vital component in developing high-quality and consistent measurement and disclosure requirements in sustainability reporting.[18]

28 Stakeholders could also benefit if a single organisation developed requirements in financial reporting and sustainability reporting. Notably, such a standard-setter could help to significantly reduce complexity: the IASB and its staff could collaborate with the SSB; their expertise could be used to develop research synergies. The boards would need formal and informal mechanisms for communication and dialogue to develop these links and create synergies.

## Proposed governance structure of the SSB

29 The IFRS Foundation's three-tier governance structure[19] could be effectively used for the creation of an SSB. This structure consists of an independent standard-setting board of experts governed and overseen by a global set of Trustees who, in turn, are accountable to a monitoring board of public authorities, the IFRS Foundation Monitoring Board. The Monitoring Board provides a formal link between the Trustees and public authorities to enhance the public accountability of the IFRS Foundation.

30 Structured in three tiers, the SSB would operate alongside the IASB and would be subject to the governance and oversight of the Trustees and the Monitoring Board. It is expected that if the SSB is established, Trustees will be selected who will provide a balance of professional backgrounds and experience and have an interest in developing and promoting transparency in sustainability reporting globally as well as in promoting consistent and comparable financial reporting.

## Requirements for success

31 The Trustees have provisionally chosen to further develop the SSB option, on the condition that it would meet the following requirements for success. The Trustees consider these requirements 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;

18 Accountancy Europe, *Interconnected Standard Setting for corporate Reporting*, December 2019.

19 IFRS Foundation, *Our structure*, accessed 21 September 2020.

(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.

# Part 4: Relationships with other institutions and initiatives

## Working with established organisations

32 The Foundation is arguably well positioned to develop an appropriate institutional and governance framework to develop consistently applied global sustainability-reporting standards. However, some stakeholders are concerned that introducing the IFRS Foundation as a standard-setter in this area could put at risk the current momentum created by other frameworks and standard-setting bodies.

33 In 2015, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD), and the IASB as a member of the FSB has participated in the oversight of the TCFD's work through its regular reports to the FSB. Nearly 800 public- and private-sector organisations, including global financial firms responsible for assets in excess of $118 trillion, have endorsed the TCFD and its work.[20] The IFRS Foundation continues to be involved in the FSB's work, as set out in its 2020 work programme,[21] to oversee the TCFD's implementation monitoring report and its further guidance on climate-related scenario analyses. However, the TCFD is a private-sector task force without any mandate or ability to set international standards and has not been established on a permanent footing.

34 Recently, a statement issued by the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB) and the Climate Disclosure Project (CDP) set out a proposal for collaboration to form the 'building blocks' of a set of metrics on global non-financial reporting. In that statement, the organisations reported that they would welcome the prospect of working with the IFRS Foundation.[22,23] This statement has been followed by the issuance of a joint paper,[24] which outlines a collective commitment to drive toward the goals of creating a coherent and comprehensive corporate-reporting system through an ongoing program of deeper collaboration.

35 It is important for an SSB to build upon the established work of the aforementioned organisations and accumulated knowledge in this area. If the demand exists for the IFRS Foundation to become further involved in the remit of sustainability reporting, the IFRS Foundation can build on its own work. The Foundation has established expertise in standard-setting and the established organisations in sustainability reporting could provide their knowledge to benefit the new SSB.

20 Task Force on Climate-related Financial Disclosures, *Task Force on Climate-related Financial Disclosures: Status Report*, June 2019.

21 Financial Stability Board, *FSB work programme for 2020*, accessed 21 September 2020.

22 Accountancy Europe, *Follow up paper on interconnected standard-setting*, June 2020.

23 The IFRS Foundation does have established relationships with these named organisations through the International Accounting Standards Board's membership of the CRD.

24 *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting: Summary of alignment discussions among leading sustainability and integrated reporting organisations CDP, CDSB, GRI, IIRC and SASB*, September 2020.

36 The SSB would also need to build expertise and acquire the adequate human capital for its task. If this consultation were to find sufficient demand for the IFRS Foundation to add sustainability reporting to its remit and the key requirements for success were to be met, the Trustees would decide how best to engage with existing organisations involved in sustainability reporting. This engagement would focus on the most appropriate approach to achieving the goals of global consistency and reduced complexity, for example, by consolidating existing initiatives.

## Providing a global platform

37 The Task Force's research and informal consultation has indicated that demand is growing for international coordination of an agreed set of sustainability-reporting standards. International standardisation assists in providing a level playing field for companies that prepare reports and international comparability for investors.

38 Regional and jurisdictional public policy initiatives, most notably by the European Union, have worked to:

(a) establish the International Platform on Sustainable Finance (IPSF);[25]

(b) review the Non-Financial Reporting Directive during 2020;[26]

(c) start preparatory work on non-financial reporting standards, as the European Commission requested the European Financial Reporting Advisory Group (EFRAG) to do this as quickly as possible;[27] and

(d) develop a Taxonomy for sustainable activities.[28]

39 A process of 'bottom up' cooperation among regional initiatives or existing standard-setters alone would not be sufficient to realise the goal of establishing even a basic set of standards. To develop such standards, a global initiative would be needed, and it would be vital for that global initiative to cooperate with regional initiatives to achieve global consistency and comparability.

40 Stakeholders' views are welcomed on whether and how the IFRS Foundation could work with effective regional and national initiatives to achieve a global comparability and consistency for global stakeholders.

25 European Commission, *International platform on sustainable finance*, accessed 21 September 2020.

26 European Commission, *Public consultation: Non-financial reporting by large companies (updated rules)*, February 2020.

27 European Commission, *Speech by Executive Vice-President Valdis Dombrovskis at the IFRS Foundation conference 'Financial reporting: remaining relevant in a changing environment'*, accessed 21 September 2020.

28 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

# Part 5: Scope—if an SSB were to be established by the IFRS Foundation

## A 'climate-first' approach

41 The Task Force's research and informal consultation indicates that developing global sustainability-reporting standards for climate-related information is the most pressing concern. Climate risk is a financial risk of growing importance to investors and prudential regulators, mostly because of public policy initiatives by major jurisdictions globally. Given the immediacy of these initiatives, it is proposed that any initial work to be undertaken by the SSB focuses on climate-related information. Companies are already considering how their business operations will be affected by a transition to a low-carbon global economy, which will increasingly directly affect companies' financial reporting.[29,30] What is meant by 'climate-related information' is open to interpretation. That information could focus specifically on climate change and greenhouse gas emissions,[31] or take into consideration wider environmental factors[32] and the associated financial risks.

42 The SSB could prioritise climate-related risk because of its urgency but could also consult on other environmental priorities. In certain jurisdictions a broader approach is already underway, and a focus solely on climate-related disclosures could misalign with public policies (for example jurisdictional regulations relating to the disclosure of information on pollution).[33] The SSB could also broaden its work over time to focus on other priorities beyond a specifically climate or environmental focus (for example into social and other related matters) as demands change. This work would be subject to the IFRS Foundation's existing due process requirements.

43 During the Task Force's informal consultation, many stakeholders have argued that, at a later stage, the SSB might adopt a broader scope of sustainability reporting that includes the interrelationship between environmental, social and governance factors. For example, the mandate for the current World Economic Forum International Business Council[34] initiative also refers to the principles of governance, planet, people and prosperity, and proposes a flexible structure that would initially focus on climate but would be able to enlarge its scope in due course.

29 Climate Financial Risk Forum, *Climate financial risk forum guide: Summary*, June 2020.

30 IFRS Foundation, 'Climate-related and other emerging risks disclosures: Assessing financial statement materiality', *In Brief*, November 2019.

31 As defined by United Nations, *Kyoto Protocol to the United Nations Framework Convention on Climate Change*, December 1997.

32 World Economic Forum International Business Council, *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation*, January 2020.

33 Alex L. Wang, 'Explaining Environmental Information Disclosure in China', *Ecology Law Quarterly*, vol. 44, 2018, p. 865.

34 World Economic Forum International Business Council, *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation*, January 2020.

## Approach to materiality

### Objective of sustainability reporting

44 When considering the concept of materiality, it is important to determine the objectives of sustainability reporting, what information is needed to achieve those objectives and which stakeholders will use the information reported by companies. Qualitative characteristics of useful sustainability information also need to be developed, drawing upon principles set out in existing frameworks such as the TCFD, the SASB, the International <IR> Framework and the Sustainable Development Goals Disclosure recommendations (SDGD).[35]

45 The IASB has developed a conceptual framework that sets out the underlying concepts for financial reporting and guides the development of IFRS Standards. The *Conceptual Framework for Financial Reporting* helps to ensure that the Standards are consistent and that similar transactions are treated in the same way, so as to provide useful information for investors, lenders and other creditors. The *Conceptual Framework* incorporates qualitative characteristics of financial reporting that could inform the qualitative characteristics useful in sustainability reporting. The SSB could develop a conceptual framework of its own to guide its work on consistent and comparable sustainability reporting.

### Considering value creation in the context of single and double materiality

46 The current mission of the IFRS Foundation is to deliver robust, reliable and transparent information as input for the decisions of the primary users of general-purpose financial statements. IFRS Standards are based on the concept of financial materiality, which implies focusing on information which − if omitted − could influence the decisions of investors or other users of the financial statements who are interested in the performance and long-term health of the reporting entity:

> Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements which provide financial information about a specific reporting entity. —IAS 1 *Presentation of Financial Statements*.

47 Given the IFRS Foundation's current mandate and approach, some stakeholders have indicated that if the Foundation were to create an SSB it should focus on producing information about the effects of relevant events (for example, climate change) on the reporting entity, as this would support the decisions of investors and other market participants (the prime audience for financial reporting).

48 On the other hand, some stakeholders are interested in developing standards referring to the principle of 'double materiality', under which the impact of the reporting entity on the wider environment would also be reported (see, for example, the EU guidelines on non-financial reporting).[36] In this case, the disclosures are typically about issues that are material to multiple stakeholders' understanding of a company's effect on its environment. A multi-stakeholder approach is, for example, adopted by the GRI.

35 Adams, C. A., with P. B. Druckman and R. C. Picot, *Sustainable Development Goals Disclosure* (SDGD) Recommendations, January 2020.

36 European Commission, *Guidelines on reporting climate-related information*, 2019, p. 7.

49 Moreover, it must be recognized that disclosures that focus on a company's impact on the environment are becoming increasingly important to the investor audience (see the TCFD's recommended disclosure on GHG Emissions), because there is a connection between a company's impact on the environment and the risks and opportunities for that company.[37] Such disclosures are increasingly important for investors to understand a company's long-term value creation as well as its impact on the climate.

### Proposed approach for the SSB on materiality

50 For the SSB to commence with a double-materiality approach would substantially increase the complexity of the task and could potentially impact or delay the adoption of the standards. Therefore, a gradualist approach is recommended. If established, the SSB would initially focus its efforts on the sustainability information most relevant to investors and other market participants. Such information would more closely connect with the current focus of the IASB.

51 The SSB could consider how to broaden its scope as it proceeds with its work, while working with other initiatives, to provide a more comprehensive assessment of the risks and opportunities for a reporting entity. This comprehensive assessment would be particularly important if more jurisdictions embrace the double-materiality concept to minimize the risks of global and jurisdictional fragmentation of standards.

## Achieving assurance

52 To achieve globally consistent sustainability reporting practices, sustainability information reported by companies will ultimately need to be subject to external assurance. However, there are conceptual and practical challenges to achieving such assurance, including the need for a consistent global framework and the difficulties of setting out qualitative sustainability-related disclosure requirements.[38] These challenges are aligned with the conceptual challenges relating to materiality.

53 It may take some time for key stakeholders to develop common sustainability disclosures, but the objective is for companies to disclose information that has been externally assured. As the discipline of sustainability reporting matures, disclosures may vary, and some may require the use of developing methodology, such as the use of scenario analysis and stress testing. Such testing will affect the level of assurance of that information that can be provided. However, it would be desirable that the assurance framework for sustainability information will ultimately be similar to that for financial statements.

54 The IFRS Foundation has expertise in creating financial reporting standards with regard to auditing challenges and to help achieve this, has developed working relationships with the International Auditing and Assurance Standards Board (IAASB) and the audit profession.

37 Task Force on Climate-related Financial Disclosures, *Status Report*, June 2019, p. 2.

38 P. De Cambourg, President of the Autorité des Normes Comptables, *Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe*, May 2019, p. 161.

# Questions for consultation

## 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?

## 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?

## 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)?

## 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?

## Question 5

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

## 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?

## 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?

## Question 8

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

## Question 9

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

## 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?

## Question 11

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

# Annex A – Process

A1 The Trustees of the IFRS Foundation (the Trustees) started to assess future strategy in January 2019 in the context of the IFRS Foundation's five-yearly review of structure and effectiveness. One key element of that consideration was the growing interest among stakeholders in wider corporate reporting. As the Trustees' consideration advanced it was clear that sustainability reporting[39] was particularly prominent within that context.

A2 The Trustees agreed in October 2019 that developments in sustainability reporting would be a key element of assessments of the Foundation's future strategy, and set up a Task Force to undertake further research and analysis. The Trustees were made aware of the growing demand for further consistency in reporting and for comparable information through interactions with stakeholders and a growing body of research on the subject.[40]

A3 Since then, the Task Force has engaged with a cross section of stakeholders involved in sustainability reporting (including the investor and preparer communities, central banks, regulators, public policy makers, auditing firms and other service providers). Through that *informal* engagement it became clear that sustainability reporting is rapidly growing in importance, and that the multitude of organisations involved has led to added complexity. The Task Force's initial findings were presented to the Trustees in February 2020, and the Trustees mandated the Task Force to explore with stakeholders involved in global financial market governance whether and to what extent the IFRS Foundation could have a role in the remit of global sustainability reporting.

A4 The Trustees agreed in June 2020 that the IFRS Foundation should develop a consultation paper on whether it should expand its standard-setting activities into this area. The Trustees noted that their motivation to consult publicly was to fully understand the type of demand from stakeholders in the area of sustainability reporting and what the Foundation could do in response to that demand.

A5 The Trustees also agreed to establish a group of independent external experts to inform the development of this Consultation Paper. The IFRS Foundation Advisory Group on Sustainability Reporting (AGSR) was established in July 2020 and included Peter Praet (Chair), Eloy Lindeijer, Howard Davies, Ma Jun, Mary Schapiro, Patrick de Cambourg and Rudolf Bless. The AGSR provided advice on the consultation paper.[41] The Trustees approved the exposure of this Consultation Paper on 17 September 2020.

39 For the purpose of this paper the term 'sustainability reporting' is used as a catch-all phase referring to information related to all environmental, social and governance (ESG) matters.

40 Barker R. and R. G. Eccles, *Should FASB and IASB be responsible for setting standards for nonfinancial information?* a Green Paper of the University of Oxford Saïd Business School, October 2018; P. De Cambourg, President of the Autorité des Normes Comptables, *Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe*, May 2019; and Bank for international settlements (BIS), *The green swan: Central banking and financial stability in the age of climate change*, January 2020.

41 Note that this Consultation Paper and its contents are approved by the IFRS Foundation Trustees. The views expressed in this paper are those of the IFRS Foundation Trustees and do not necessarily reflect the advice or the views held by the AGSR or its individual members. The AGSR saw an earlier draft of this paper and did not see its final version.

# Annex B – Research considered by the Trustees


### *Investors*

Eumedion, *Feedback statement on Eumedion's Green paper 'Towards a global standard setter for non-financial reporting'*, July 2020.

Larry Fink, Chairman and CEO of Blackrock, *A Fundamental Reshaping of Finance*, January 2020.

R. Kumar, N. Wallace and C. Funk of State Street Global Investors, 'Into the Mainstream: ESG at the Tipping Point', in *Harvard Law School Forum on Corporate Governance*, 13 January 2020.

### *Corporate Sector*

World Economic Forum International Business Council, *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation*, January 2020.

### *Central Banks*

Bank for international settlements (BIS), *The green swan - Central banking and financial stability in the age of climate change*, January 2020.

Network for Greening the Financial System, Technical document: *Guide to climate scenario analysis for central banks and supervisors*, June 2020.

Network for Greening the Financial System, Technical document: *A sustainable and responsible investment guide for central banks' portfolio management*, October 2019.

### *Market Regulators*

IOSCO, *Sustainable Finance and the Role of Securities Regulators and IOSCO: Final Report*, April 2020.

Climate Financial Risk Forum, *Climate financial risk forum guide: Summary*, June 2020.

### *Public Policy*

Alex L. Wang, 'Explaining Environmental Information Disclosure in China', *Ecology Law Quarterly*, vol. 44, 2018, p. 865.

European Commission, *Public consultation: Non-financial reporting by large companies (updated rules)*, February 2020.

Speech by Executive Vice-President Valdis Dombrovskis at the IFRS Foundation conference 'Financial reporting: remaining relevant in a changing environment', February 2020.

European Union, Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, Guidelines on reporting climate-related information, European Union, 2019.

### *Global Governance*

Task Force on Climate-related Financial Disclosures, *Task Force on Climate-related Financial Disclosures: Status Report*, June 2019.

United Nations, *Kyoto Protocol to the United Nations Framework Convention on Climate Change*, December 1997.

United Nations, *Paris Agreement*, 2015.

### *Thought leadership*

Accountancy Europe, *Interconnected Standard Setting for corporate Reporting*, December 2019.

Accountancy Europe, *Follow up paper on interconnected standard-setting*, June 2020.

Adams, C. A., with P. B., Druckman and R. C. Picot, *Sustainable Development Goals Disclosure (SDGD) Recommendations*, January 2020.

Barker R. and R. G. Eccles, *Should FASB and IASB be responsible for setting standards for nonfinancial information?*, a Green Paper of the University of Oxford Saïd Business School, October 2018.

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International Federation of Accountants, *Enhancing Corporate Reporting: The Way Forward*, September 2020.

### *IFRS Foundation*

IFRS, 'IFRS Standards and climate-related disclosures', *In Brief*, November 2019.

IFRS Foundation, *Cooperation agreements*, accessed 21 September 2020.

IFRS Foundation, *The use of IFRS Standards around the world*, accessed 21 September 2020.

IFRS Foundation, *Our Structure*, accessed 21 September 2020.

# Annex C – Connected organisations involved in sustainability reporting

Each organisation listed below contains a link to the 'about' section on their website

*Connected through the IASB's membership of the Financial Stability Board*

The Financial Stability Board's Task Force on Climate-related Financial Disclosures

*Fellow members of the Corporate Reporting Dialogue*

CDP

Climate Disclosure Standards Board

Global Reporting Initiative

International Integrated Reporting Council

Sustainability Accounting Standards Board

 

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