

16 December 2020

IFRS Foundation
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Via email commentletters@ifrs.org

Dear Trustees,

Submission on the Consultation Paper on Sustainability Reporting

CPA Australia and Chartered Accountant Australia and New Zealand (together 'the Major Accounting Bodies') welcome the opportunity to respond to the IFRS Foundation Consultation Paper on Sustainability Reporting ('the Paper'). Together, we represent over 280,000 professional accountants in Australia, New Zealand and around the world.

The Paper covers issues and proposals that are of great importance to the Major Accounting Bodies in respect of our members' responsibility to act in the public interest. Appendix A provides our responses to the specific questions raised in the Paper.

Key points:

- We consider there is an urgent need for a single set of globally accepted sustainability reporting standards that are integrated, consistent and of a comparable quality to financial reporting standards. A single set of high-quality sustainability reporting standards will bring significant benefits to the global economy, society at large and serve the public interest.
- We support the IFRS Foundation playing a central role in the development of these standards. The IFRS Foundation's involvement could help achieve globally accepted sustainability reporting standards that facilitate consistency, comparability and value in the information ultimately communicated to stakeholders.
- However, we consider it critical that the development of a Sustainability Standards Board (SSB) does not add to the existing complex and fragmented reporting landscape. The IFRS Foundation should instead seek to build on existing momentum and consolidate existing initiatives to reduce confusion and avoid duplication of effort.
- There is increasing recognition that the value of organisations is communicated through both financial and non-financial information. We consider it important that the IFRS Foundation uses its unique position to connect financial and non-financial information, with an overarching conceptual framework for corporate reporting.
- The IFRS Foundation will need to ensure it has the necessary expertise and skillset required for the broader role. The IFRS Foundation's final proposal should result in the establishment of an SSB with an appropriate structure and culture to build effective synergies with existing financial reporting standards.

- Successful and timely development of sustainability standards will depend on the ability to leverage the existing body of work and the long-standing relationships between the existing standard setters and framework developers– both at international and domestic levels. Achieving globally accepted standards and harmonisation in a timely manner is a matter of public interest.
- We support the climate first approach but consider that this should form the first step of a broader roadmap (which could include the development of an overarching conceptual framework for corporate reporting) that covers the full range of environmental, social, and governance (ESG) criteria that are material to enterprise value creation. By leveraging the existing resources and expertise, particularly the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, the IFRS Foundation will be able to accelerate standard development to meet demand whilst at the same time limiting complexity and duplication.
- It is important to establish a stable funding model to sustain high-quality, global standards development. The funding model should not be dependent upon any one stakeholder group, but rather sourced from a broad range of stakeholders to ensure it does not result in any real or perceived threat to the SSB's independence.
- In our view, it is fundamental that, to the extent feasible, independent assurance can be provided over reported sustainability information. It will therefore be important that sustainability reporting standards contain suitable auditable criteria to allow for reasonably consistent evaluation of the underlying subject matter wherever possible.

If you require further information or elaboration on the views expressed in this submission please contact at CPA Australia, Dr John Purcell at john.purcell@cpaustralia.com.au or at CA ANZ Karen McWilliams at Karen.McWilliams@charteredaccountantsanz.com.

Yours sincerely

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APPENDIX A

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?**

We consider there exists an urgent need for a single set of globally accepted sustainability reporting standards that are integrated, consistent and of a comparable quality to financial reporting standards. A single set of high-quality sustainability reporting standards will bring significant benefits to the global economy, society at large and serve the public interest.

We note that this consultation is the culmination of many months, if not years, of activity in this space and marks a crucial step on the path towards the harmonisation of sustainability reporting frameworks. We consider it critical that the development of a Sustainability Standards Board (SSB) does not add to the existing complex and fragmented reporting landscape nor risks undermining or detracting from the acknowledged further purposes served by established sustainability frameworks and standards. The IFRS Foundation should instead seek to build on the existing momentum for harmonisation and consolidate existing initiatives to reduce confusion and avoid duplication of effort.

Achieving harmonisation requires the direct influence and participation of a well-positioned international organisation. We support the IFRS Foundation playing a central role in the development of these standards. The IFRS Foundation has proven standard-setting expertise and due process procedures and experience with developing standards which are auditable; as well as a robust and well-established governance structure. The IFRS Foundation's involvement could help achieve globally accepted sustainability reporting standards that facilitate consistency, comparability and value in the information ultimately communicated to stakeholders. To this end, the IFRS Foundation's final proposal should result in the establishment of an SSB with an appropriate structure and culture to build effective synergies with existing financial reporting standards. Leveraging these synergies will allow the IFRS Foundation to monitor the impact of non-financial reporting standards on financial reporting standards and vice-versa.

If the IFRS Foundation does not play a role, there is a risk of a fragmented and regionalised approach with multiple organisations attempting to fill this gap in response to localised demand. For example, this is illustrated by recent developments such as the announcement by New Zealand's Government to mandate climate-related financial disclosures for some organisations. However, given the momentum in this space and the need for some jurisdictions to move quickly on these matters, the IFRS Foundation will need to progress standard development on a timely basis. Achieving global standards and harmonisation in a timely manner is a matter of public interest.

Internationally recognised reporting frameworks already exist which include direct reference to (or entirely focus on) sustainability matters – such as the Global Reporting Initiative (GRI), the International <IR> Framework, and the Task Force on Climate-Related Financial Disclosures (TCFD). Given the current significant body work, by leveraging these existing resources and expertise, the IFRS Foundation will be able to accelerate standard development to meet demand whilst at the same time limiting complexity and duplication. Reporting entities and report users are also familiar with existing frameworks, which will aid adoption.

The IFRS Foundation will no doubt be aware of the announcement in September by the 'Group of Five' (CDP, CDSB, GRI, IIRC and SASB) that they would work together towards comprehensive corporate reporting, along with the subsequent announced intention of the IIRC and SASB to merge and form the Value Reporting Foundation. These developments illustrate the current pace and dynamics of changes which should form a key reference point for the IFRS Foundation's sustainability reporting endeavours, in terms of both collaboration and determining areas of focus.

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 governance structure of the IFRS Foundation is well-established and robust, incorporating global representation and due process oversight. This provides an important foundation for the development of authoritative sustainability reporting standards. However, to ensure it is fit for purpose for this broader role, the IFRS Foundation will need to ensure it has the necessary expertise and skillset required for the broader role.

There is increasing recognition that the value of organisations is communicated through both financial and non-financial information. We consider it important that the IFRS Foundation uses its unique position to connect financial and non-financial information, with an overarching conceptual framework for corporate reporting.

As noted above, we consider it critical that the SSB does not become an additional framework developer or standard setter. Therefore, the SSB will need to work closely with existing initiatives in order to harmonise and avoid duplication, whilst also developing authoritative standards that are integrated, consistent and of a comparable quality to financial reporting.

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 are broadly comfortable with the listed requirements for success. Further to the points raised earlier in this submission, we make the additional comments below for consideration.

We note that successful and timely development of sustainability reporting standards relies on an ability to build on the existing body of work and the long-standing relationships between the various standard setters – both at international and domestic levels.

Successful development also requires an appropriate level of technical skills (both within the IFRS Foundation and the SSB). Namely, sustainability subject matter expertise with sound knowledge of the relevant sustainability areas, existing frameworks and reporting and user demands.

By leveraging the existing resources and expertise, particularly the TCFD recommendations, the IFRS Foundation will be able to accelerate standard development to meet demand whilst at the same time limiting complexity and duplication.

It is important to establish a stable funding model to sustain high-quality, global sustainability reporting standards development. The funding model should not be dependent upon any one stakeholder group, but rather sourced from a broad range of stakeholders to ensure it does not result in any real or perceived threat to the SSB's independence. We also consider it important for funding to be separate from the IASB funding.

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, the IFRS Foundation's established relationships with governments and policymakers around the world will be central to the successful adoption and consistent application of SSB standards globally. Successful development of standards in this area also relies on the long-standing relationships between the various standard setters –both as a way to build on existing work, but also to source the necessary technical capability (for standard setting and understanding the availability of sustainability-related information).

We consider that the current definition of stakeholders, as per the Paper, should be widened. For example, the Paper does not currently include non-governmental organisations (NGOs) as stakeholders to be considered, for example, in relation to the Science Based Targets Initiative.

Further, entities reporting sustainability-related information should be engaged in the development process to ensure that the information required by the standards is capable of being disclosed (or, at least, could be disclosed in the future once an organisation has the necessary internal capabilities).

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

As a starting point, please see our comments under questions 1 and 3.

As noted above, the IFRS Foundation's role in this process arises from its ability to apply its proven standard-setting expertise and due process procedures and leverage the existing body of work to develop consistent and authoritative sustainability reporting standards. Overall success will depend on consultation with, and support from, existing organisations and initiatives. To this end, seeking harmonisation early on should underpin the IFRS Foundation's efforts in this area.

There is increasing recognition that the value of organisations is communicated through both financial and 'non-financial' information. The IFRS Foundation should play a role in connecting financial and non-financial information, with an overarching conceptual framework for corporate reporting. Such a conceptual framework can build on existing frameworks (such as the <IR> Framework) but the involvement of the IFRS Foundation will be critical for subsequent harmonisation and convergence of standards.

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?

We consider it important that the IFRS Foundation work towards achieving a global approach; although in working towards this, room should be made to allow for additional region-specific or sector-specific disclosure requirements. The balance between principle-based generality and technical specificity in the development of any SSB standards will have implications for regulatory approaches amongst corporate regulators. This 'stepping' between global universality of standards and jurisdictional application could, we urge, be aided through parallel developments on conceptual frameworks.

Many jurisdictions already have non-financial reporting frameworks (such as management commentary or industry specific standards) and it will be important to undergo a deeper initial assessment and consultation on what already exists, and how it would best harmonise with a globally positioned SSB.

However, given the current momentum and need for some jurisdictions to move more quickly with standard development, the IFRS Foundation will need to work closely with such jurisdictions during their development process. For example, we note that the New Zealand Government and standard setter (the External Reporting Board) are already working to develop standards in this area.

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?

Given the current focus and urgency with respect to climate change, a climate focused approach is a logical first step. However, we reiterate previous comments made (particularly under questions 1, 3 and 5) regarding the importance of building upon and working with existing initiatives, particularly the TCFD recommendations, to ensure that standards developed are fit for purpose but also align with wider frameworks. Reporting entities and report users are also familiar with existing recommended disclosures, which will aid adoption.

We have heard concerns regarding the potential for the IFRS Foundation's involvement to slow down the current momentum and, therefore, we reiterate our earlier comments regarding accelerated standards development being in the public interest.

We also note the importance of connecting any new climate reporting standards with recent guidance on the treatment of climate-related risks within the existing International Financial Reporting Standards.

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

If the IFRS Foundation is to establish an SSB, by its very definition the scope should be wider than just climate-related risks or broader environmental factors. In our opinion, an SSB should develop a roadmap for the full range of environmental, social, and governance (ESG) criteria that are material to enterprise value creation.

As noted above, we support a climate first approach but consider that this should form the first step of the broader roadmap. The broader roadmap will need to retain the proven due process procedures whilst taking an agile and responsive approach to the rapidly developing nature of sustainability issues.

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

The location of disclosures made under the sustainability reporting standards, and therefore the audience of the report, is central to any determination of materiality. Sustainability reporting has typically been disclosed in separate reports, however, the TCFD recommended that the climate-related financial disclosures be included within the 'financial filings.' Investors and providers of financial capital are typically the primary audience of the 'financial filings' or annual/strategic report, but some jurisdictions may have a broader primary audience or clearly defined secondary audience.

We also consider it important for the sustainability reporting standards to be applicable to a wide range of reporting entities, including listed companies, private and public sector, not for profits and small-medium sized entities (SMEs).

As mentioned earlier, a conceptual framework which connects financial and non-financial information will be important. Therefore, we do not consider the use of the definition of materiality from the financial reporting conceptual framework to necessarily be the appropriate approach for the SSB.

The Paper notes, in relation to approaches to materiality, that the SSB could develop its own conceptual framework to guide its work on consistent and comparable sustainability reporting. We urge also that close attention be given to consistency between sustainability and financial information, and that this is a matter best addressed through a robust conceptual framework. Within this, it remains vital to articulate the logic and limitations of financial reporting in addressing emerging risks and economic phenomenon, noting that these contexts are not static, as processes of externality unitisation and monetisation progress.

However, we note that the current demand for a single set of high-quality, consistent and internationally recognised sustainability reporting standards has ultimately been driven by investors and providers of financial capital. As such, and given the need for accelerated standards development, we would support an initial focus on investors and providers of financial capital as the primary audience for sustainability reporting standards. Integrating financial and sustainability information together enables the presentation of concepts such as value creation or broader risk management in a way that investors are able to make useful decisions.

Finally, when considering materiality, we suggest that the concept of dynamic materiality may be relevant to the IFRS Foundation. Dynamic materiality reflects that the significance of issues to certain stakeholders and their decision making may change over time, for example, the importance of climate-related risks to investors. Therefore, we encourage flexibility to enable the standards to be applied to a wider stakeholder group through alternative communication channels.

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?

In our view, it is fundamental that, to the extent feasible, independent assurance can be provided over reported sustainability information. It will therefore be important that sustainability reporting standards contain suitable auditable criteria to allow for consistent evaluation of the underlying subject matter wherever possible. The capacity for independent external audit is critical to the discharge by those charged with governance, of duties related to the accuracy and reliability of disclosures, and particularly in these emerging areas, consistency between financial, sustainability-related and narrative information.

We consider the information disclosed should be auditable to the extent possible, but recognise that the wide variety of indicators may mean different levels of assurance may be applicable.

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

We note that the IFRS Foundation is currently exploring the role of technology for financial reporting and we encourage extending this consideration to non-financial reporting. It is important that any new sustainability standards be developed with a view to seamlessly integrating with current and future technologies.

Similarly, we encourage the IFRS Foundation to consider the connection between the Paper (and more broadly, financial and non-financial reporting) and the ongoing Management Commentary Project.