

IFRS in Focus

Ground-breaking proposal from IFRS Foundation points to global standards for sustainability reporting

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IFRS Foundation Consultation Paper

The IFRS Foundation (IFRSF) Trustees have released a *Consultation Paper on Sustainability Reporting*, in which it outlines how the organisation might establish a Sustainability Standards Board (SSB) and provide for its governance and oversight under the IFRSF's existing arrangements.

Following outreach and the work of the Trustees' Task Force, the Trustees concluded that 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.'

The Trustees recognise that diverse approaches to and objectives of sustainability standards and frameworks 'pose the threat of increasing fragmentation globally.' A global framework is needed to prevent this fragmentation, provide greater comparability, and reduce the complexity of approaches and objectives. There have been growing calls from capital market participants, regulators and other stakeholders for transparent measurement and disclosure of information about sustainability performance, which is increasingly considered to be a fundamental part of effective business management.

The Sustainability Standards Board and IFRSF Governance

The Trustees propose establishing the SSB within the existing institutional and governance structure of the IFRSF. The SSB would develop a framework for sustainability reporting which is coherent with and connected to financial reporting, complementing IFRS Standards. The approach would be consistent with the IASB's mission to serve investors and other primary users of financial statements.

The existing standard-setting process, and due process procedures of the IFRS Foundation could be adapted to the needs of the SSB, providing rigorous oversight and transparency. This, in turn, should lead to consistent use and application of the sustainability reporting standards, contributing to international collaboration, cooperation and coordination among sustainability-reporting bodies, governments, regulators and other stakeholders to achieve further convergence.

Start with a solution for sustainability standards relevant to enterprise value creation

The consultation recognises the wide universe of sustainability information, covering both companies' impacts on sustainable development and the sub-set of information relevant to an understanding of enterprise value creation. It also emphasises that information on a company's impact on the environment is becoming increasingly important to the investor audience, because there is a connection between a company's impact on the environment and the risks and opportunities for that company.

The Trustees propose starting with standards on the sustainability information most relevant to investors and other market participants. They recognise that adopting a wider approach immediately would increase the complexity of standard-setting and potentially impact or delay the adoption of the standards. The proposed approach would more closely connect with the current mission and focus of the IASB.

For more information please see the following websites:

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Working collaboratively with existing sustainability standard- and framework-setters

The IFRSF envisages that the proposed SSB would build upon the existing work of leading global sustainability reporting organisations, their standards and frameworks, and their accumulated knowledge and experience. The IFRSF would be able to leverage its highly-regarded expertise in standard-setting alongside the knowledge of the established organisations in sustainability reporting.

In support of this, the Trustees reference the [Joint Statement](#) of Intent by the leading international sustainability standard-setters and frameworks. The statement sets out a vision to achieve a coherent and comprehensive corporate-reporting system and commits to collaboration with the IFRSF and other stakeholders to create the 'building blocks' of the global standard-setting architecture for comprehensive corporate reporting.

Global standards and the wider ecosystem

Leading organisations have already given support to such a move. The International Federation of Accountants (IFAC) has called on the IFRSF to establish a global sustainability standard-setter in a [vision](#) published earlier this month. It is also consistent with the feedback made by respondents to Accountancy Europe's paper, '[Interconnected Standard-Setting for Corporate Reporting](#)', as set out in a follow-up paper released in July 2020.

In a further development, the authors of the Joint Statement have issued an [Open Letter](#) to Eric Thedéen, Chair of IOSCO's Sustainable Finance Task Force. They said: 'IOSCO can play a leading and critical role in accelerating the system change by facilitating cooperation among the necessary elements of this global architecture for consistent reporting of sustainability information that is relevant for enterprise value creation, as part of a comprehensive system of corporate reporting. This role would fit with IOSCO's focus on information that is relevant for investors and other primary users of financial statements, as is the focus of the IASB'.

Achieving a set of global sustainability standards is essential to bringing about a wider system change that would include corporate governance, enhanced internal controls, and assurance over sustainability reporting. In addition, the building block approach advocated by IFAC and in the Joint Statement, and implicit in the Consultation Paper, would meet the need for globally consistent sustainability disclosures for capital markets, while allowing sufficient flexibility for local policy priorities. It would also foster collaboration, acceptability and adoption across a broad range of markets, and allow for voluntary or mandatory adoption in line with jurisdictional policy objectives.

The Trustees' *Consultation Paper on Sustainability Reporting* is open for comment until 31 December 2020.

Further information

If you have any questions about the Consultation Paper, please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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