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30 November 2020

Mr Erkki Liikanen, *Chair*
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr Liikanen

IFRS Foundation Trustees' Consultation Paper on Sustainability Reporting

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Foundation's *Consultation Paper on Sustainability Reporting.* Deloitte welcomes the consultation. There has been a groundswell of calls from capital market participants, regulators and other stakeholders in support of transparent measurement and disclosure of information about sustainability performance. Investors and other stakeholders want to understand how the risks and opportunities faced by business translate into long-term value creation and profitability and how, in turn, these relate to shorter-term financial performance. Such information should be connected to financial information and prepared to the same quality and rigour.

We have reached a pivotal moment that could lead to a globally harmonised system for reporting of sustainability factors in the mainstream. We urgently need to address the standard-setting ecosystem and develop solutions that can deliver a global set of internationally-recognised sustainability reporting standards.

We support standard-setting at a global level because global issues need global solutions. Businesses have global supply and value chains, face global risks and have global investors. Most importantly, issues such as climate change and achieving the UN Sustainable Development Goals require a global approach. Consequently, Deloitte supports the IFRS Foundation's proposal to establish a global sustainability standard-setter alongside the International Accounting Standards Board and under the governance and oversight of the IFRS Foundation. We encourage the IFRS Foundation to leverage its comprehensive network of relationships with standard-setters, regulators, treaty-based organisations, user and preparer organisations, civil society, and the accounting profession to achieve this ambition.

Business and capital markets in the 21st Century need to serve the public interest by addressing the interplay between business behaviour and the long-term health and sustainability of society and the planet. Prospects for profitable growth are now inextricably linked to the ability of a company to operate sustainably and serve its full set of stakeholders. Investors therefore require high-quality, transparent, relevant and comparable sustainability information, connected to financial information, in order to make properly informed economic decisions.

The standards should build on the best of what we have. This Consultation Paper was issued shortly after the *Joint Statement* published by the five leading sustainability framework- and standard-setters (CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI) the International

Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB)). That Statement set out a vision of how elements in those frameworks and standards could complement financial generally accepted accounting principles (including IFRS Standards) and serve as a natural starting point for progress towards a more coherent, comprehensive corporate reporting system. The five organisations also made a joint commitment to drive toward this goal, through an ongoing programme of engagement with interested stakeholders, including the IFRS Foundation and the International Organization of Securities Commissions (IOSCO). We agree with the statement the five organisations made in their Open Letter to IOSCO that their "standards and frameworks can act as a starting point for the technical content, while the IFRS Foundation could provide an appropriate governance architecture to achieve global acceptance" of the standards by capital market participants.

We believe that the IFRS Foundation should begin with sustainability reporting standards for climate-related information for the reasons stated in the Consultation Paper. We think that climate change is an urgent existential issue that is material to all companies in all sectors and across all jurisdictions. High-quality consistent and comparable information is vital to investors and other capital market participants managing the transition to a low-carbon economy. However, climate change affects and is related to a broad range of economic, social and governance topics, including impacts on water, oceans, biodiversity, land use and loss, migration, and social topics such as nutrition, communities and livelihoods, equality, and inclusion. How companies and boards respond to these factors also affects their reputation, ability to attract financial capital, and ability to attract customers and employees. Environmental, social and governance issues are interconnected and whilst a climate-related reporting standard is urgently needed, and should be the first priority, the SSB should proceed without delay to other sustainability topics. As noted earlier, there is a valuable body of work already available that could be used as the basis for subsequent sustainability reporting standards, including the work of the five leading international sustainability standard-setting organisations.

The IFRS Foundation's proposal would lead to a significant step towards a comprehensive corporate reporting system that builds on the well-established efforts of the existing sustainability standards and frameworks to create a standard-setting solution for reporting focused on long-term value creation, connected to financial information. This will also go a significant way to meeting the information needs of other stakeholders. Further blocks can be added to address the wider impacts of companies on the economy, environment and people, and to reflect regional and local public policy priorities, e.g., those of the EU Green Deal. This approach, based on building blocks, has been suggested by the five leading sustainability standard-setters in their Joint Statement, and endorsed by the International Federation of Accountants.

IFAC's *Enhancing Corporate Reporting: The Way Forward*, demonstrates how a 'building block approach' can both achieve a core set of global sustainability standards and respond to the local or regional public policy objectives.

We also acknowledge and support the trend towards responsible business and an understanding of value creation in the context of multiple stakeholders. The U.S. Business Roundtable Statement on the Purpose of the Corporation, and developments in corporate governance around the world are manifestations of how the social contract between business and society is being redefined. Consequently, directing capital to long-term sustainable business is a high and urgent priority not only for efficiency of capital markets but also for the success of the public-private collaboration that is needed in order for us to address the global challenges of inequality, loss of biodiversity and climate change (among others). The corporate reporting system can contribute to this by providing high-quality information that is timely, consistent, comparable,

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and verifiable. The IFRS Foundation's proposal presents a unique opportunity to do this quickly and efficiently.

Timely action is needed to avoid fragmentation, duplications or parallel reporting requirements on topics that are common across the system. In the absence of a single set of global sustainability reporting standards, some regions are moving ahead by themselves. This could result in multiple reporting frameworks and reporting standards existing for an extended (or indefinite) period, combined with the development of additional sets of reporting standards through various voluntary initiatives. The primary objective needs instead to be a reduction in, and consolidation of, the plethora of different frameworks and standards that currently exist.

The scale of the challenges and the increasing momentum from all stakeholders for a global solution for sustainability reporting standards make the undeniable case for immediate action. The actions proposed in the Consultation Paper should be taken without delay.

Our detailed comments on the Consultation Paper's proposals are in the Appendix.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely,

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Appendix

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, there is a need for a global set of internationally-recognised sustainability reporting standards. The IFRS Foundation has a vital role to play in creating the necessary standard-setting, governance and oversight architecture.

Capital market participants require consistent, comparable and decision-useful information across jurisdictions in order to respond to climate-related financial risks and opportunities and direct capital to sustainable enterprise. Today, value creation already includes broader civil society and policy objectives, because they are directly relevant to the long-term success and resilience of a business. Prospects for profitable growth are now inextricably linked to the ability of a company to operate sustainably and serve its full set of stakeholders. Investors therefore require high-quality, transparent, relevant and comparable sustainability information, connected to financial information, in order to make properly informed economic decisions. Connected reporting that links sustainability factors and financial information will highlight how the risks and opportunities faced by business translate into long-term value creation and profitability and how this relates to shorter-term financial performance.

International financial reporting standards (IFRS) provide global investors with mandatory, rigorous and comparable financial accounting information. This is currently not the case for sustainability information, which remains voluntary, of mixed quality and lacking in comparability. Given the urgency and importance of climate-related risks and their effects on reporting entities, we urge the IFRS Foundation to act without delay.

We support standard-setting at a global level because global issues need global solutions. Businesses have global value chains, face global risks, and access capital from global investors. Most importantly, issues such as climate change and achieving the UN Sustainable Development Goals require a global approach

We concur with the Open Letter to IOSCO of 30 September 2020 (the ‘Open Letter’) issued by the leading international sustainability standard-setting organisations[1], that “the IFRS Foundation could provide an appropriate governance architecture to achieve global acceptance. Integration with the IFRS Foundation’s governance and oversight could deliver internationally-accepted institutional arrangements for sustainability disclosures relevant for the capital markets, ensuring robust governance, rigorous due process and independent standard-setting, within the context of accountability to public authorities who foster outcomes that are in the public interest.” [2]

[1] CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB)

[2] Open Letter to Erik Thedéen, 30 September 2020

The Foundation's public interest focus and institutional arrangements make it uniquely positioned to promote connected reporting and deliver global sustainability standards at a much lower marginal cost to global capital market participants.

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?

Yes, establishing a sustainability standards board (SSB) under the governance and oversight of the IFRS Foundation is an appropriate approach to achieve further consistency and global comparability in sustainability reporting.

Deloitte supports a formal, private sector independent standard-setting process for sustainability reporting standards. That process should be market-driven and ensure transparency, including wide stakeholder participation, and the rigorous due process that is necessary for high-quality standards. SSB members should have professional competence and recent relevant professional experience in sustainability-related disciplines. There should be oversight by public authorities to provide legitimacy (see also our response to Q4, below), enabling jurisdictions that wish to accompany this process by legislation to incorporate the standards in the reporting system in their jurisdiction and/ or regulatory enforcement. For jurisdictions that wish to take a mandatory approach, the global standards can be adopted through their usual legislative and regulatory processes (e.g., endorsement mechanisms) as they currently do for financial reporting. Having global standards developed through a formal private sector independent standard-setting process as described above also provides certainty to companies who wish to report on sustainability matters on a voluntary basis, to enable consistent and comparable reporting, and respond to stakeholder expectations.

The Trustees' proposal fits within the IFRS Foundation's core competence, to help "investors, other participants in the world's capital markets and other users of financial information make economic decisions"[3] by bringing "transparency, accountability and efficiency to financial markets around the world."[4] It is also consistent with the increasing investor and regulator view of sustainability as relevant to investment decisions. For example, IOSCO has noted that "ESG matters, though sometimes characterized as non-financial, may have a material short-term and long-term impact on the business operations of the issuers as well as on risks and returns for investors and their investment and voting decisions." [5]

Furthermore, the proposal is responsive to requests from the International Federation of Accountants (IFAC)[6], the International Monetary Fund[7] [8], Institute of International Finance[9], the Asia Securities Industry and Financial Markets Association[10], Accountancy Europe[11], the American Institute of Certified Public

[3] IFRSF Constitution, 2(a)
[4] *Conceptual Framework for Financial Reporting* SP1.5
[5] IOSCO, *Statement on Disclosure of ESG Matters by Issuers*, 18 January 2019
[6] IFAC, *Enhancing Corporate Reporting: The Way Forward*, September 2020
[7] IMF, *Global Financial Stability Report*, 2019, Chapter 6, October 2019
[8] IMF, Remarks by Kristalina Georgieva, 16 October 2020
[9] IIF, *Building a Global ESG Disclosure Framework: A Path Forward*, 10 June 2020
[10] ASIFMA, Sustainable Finance in Asia Pacific – Regulatory state of play, March 2020
[11] Accountancy Europe, *Follow-up Paper: Interconnected Standard-Setting for Corporate Reporting* (June 2020)

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Accountants[12], the U.S. Center for Audit Quality, the CFA Institute[13], the Council of Institutional Investors[14], and Eumedion[15] (among others), all of which have called for a global solution for sustainability standards. These have included calls expressly for a standard-setter under the governance structure of the IFRS Foundation. This is also a position that Deloitte has expressed for a number of years in comment letters to the IFRS Foundation[16].

In addition, we note that the signatories to the Open Letter have stated a willingness to work closely with the IFRS Foundation and IOSCO to achieve "the comprehensive reporting system the world so urgently needs." In their Joint Statement of Intent (the 'Joint Statement') released in September 2020 they demonstrate "how the combination of [their] standards and frameworks can help address the current confusion and facilitate high-quality, consistent, comparable and verifiable disclosures that illuminate significant impacts on sustainable development, but also delineate the sub-set of that information that is relevant for enterprise value creation."[17]

The Task Force on Climate-related Financial Disclosures (TCFD)'s *Recommendations* have been particularly influential in providing a framework for companies' disclosures related to climate specifically, and there is a significant body of supporting material available to assist with implementation.[18]

The recent World Economic Forum International Business Council's report *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation* demonstrated that businesses are ready to report on sustainability issues. This was positioned as a step "towards a system-wide solution that results in greater quality and comparability of reporting on material factors influencing companies' sustainable value creation and contribution to progress toward the SDGs."[19]

Collectively, these efforts and resources would enable the IFRS Foundation (and the SSB) to develop a standard on climate with urgency, and provide a head start for the development of standards on other sustainability topics (see also our response to Q7).

[12] AICPA, 'Consistency sought in sustainability, corporate reporting through global effort'. *Journal of Accountancy* 11 September 2020
[13] CFA Institute, letter to Accountancy Europe (10 June 2020)
[14] CII, Statement on Corporate Disclosure of Sustainability Performance, 22 September 2020
[15] Eumedion, Position Paper *Towards a global, investor focused standard setter for corporate non-financial reporting,* (6 July 2020)
[16] See our responses to the IFRSF Trustees of 9 October 2012; 30 November 2015; and 15 September 2016
[17] CDP, CDSB, GRI, IIRC, SASB: *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*, September 2020
[18] See, for example, the TCFD Knowledge Hub (www.tcfdhub.org), the UN Principles for Responsible Investment (www.unpri.org), and the World Council on Business Development (www.wbcsd.org)
[19] WEF-IBC, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, 22 September 2020

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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)?

The Trustees' "requirements for success" are appropriate, and address the fundamental issues that need to be resolved if the proposed SSB and its pronouncements are to enjoy the status of global standards, such as IFRS Standards now enjoy, whilst protecting the current operations and funding of the International Accounting Standards Board (IASB).

We agree with the need to protect the current operations and funding of the IASB.

Whilst we do not comment on each of the criteria in detail, we note that there are developments already on many of the requirements for success, as below.

- The Report of the IOSCO Sustainable Finance Network[20] noted that "the existing multiplicity of frameworks constitutes a problem for companies as well as investors." Further to this, a Board-level Sustainable Finance Task Force has been established which aims "to improve sustainability–related disclosures made by issuers and asset managers; to work in collaboration with other international organizations and regulators to avoid duplicative efforts and to enhance coordination of relevant regulatory and supervisory approaches." This Task Force has been working informally with framework- and standard-setters that were identified in the Report, as well as other interested organisations (supporting criterion (a)).

- The chair of the IOSCO Task Force, Erik Thedéen, in remarks on 30 September 2020[21], noted that the Trustees' consultation, the collaboration of the CDP, CDSB, the GRI, the IIRC and the SASB, together with the work of the IOSCO Sustainable Finance Task Force, should resolve themselves in a unified standard-setting initiative. In addition, Mr. Thedéen noted subsequently that the IFRS Foundation possesses the governance, due process and public interest focus necessary to develop standards that uphold the integrity of global capital markets.[22] These are important steps by IOSCO on the way to securing support from public authorities (also supporting criterion (a)).

- As noted in our response to Q2 above, there has been a groundswell of calls from capital market participants, regulators and other stakeholders in support of transparent measurement and disclosure of information about sustainability performance, many of whom have already expressed their support for an outcome aligned with the Trustees' proposals. This also supports criterion (a).

- Working with regional initiatives (criterion (b)), including the European Union, is critical to the success of global standards. As Erik Thedéen noted, the "EU Action Plan on Sustainable Finance for instance includes several legislative actions that will require the private sector to consider and to integrate sustainability into their business. This is really good. But in order to avoid fragmentation and to find a solution that is scalable and can operate internationally, we also need to work globally."[23] There is an opportunity for both the EU and the IFRS Foundation to collaborate effectively in a way that does not compromise the EU's ability to address specific policy priorities,

[20] IOSCO, *Sustainable Finance and the Role of Securities Regulators and IOSCO*, April 2020
[21] www.fi.se/en/published/presentations/2020/erik-thedeens-speech-at-driving-global-standards-on-sustainable-finance/
[22] Erik Thedéen, Open Response to the Open Letter of CDP, CDSB, GRI, IIRC and SASB, 28 October 2020
[23] Erik Thedéen, 30 September 2020, *ibid*

whilst at the same time supporting the IFRS Foundation's objective of setting global sustainability standards. IFAC's *Enhancing Corporate Reporting: The Way Forward*, lays out how a 'building block approach' would accommodate both a core set of global sustainability standards and "supplemental jurisdictional requirements to support local public accountability."

- With respect to governance (criterion (c)), there will be a need to amend the IFRS Foundation Constitution, and we note that the forthcoming constitutional review presents a timely opportunity to consult on how best to incorporate the SSB into the existing governance and oversight structures of the IFRS Foundation. In our view, the current institutional arrangements of the IFRS Foundation are largely fit-for-purpose, and the changes required to accommodate the SSB would be modest and targeted.
- In addition, the signatories of the Open Letter have pledged to work collaboratively with IOSCO and the IFRS Foundation to "drive towards the vision" elaborated in the Joint Statement, and to "continue to use [their] best endeavours in the public interest to achieve the comprehensive corporate reporting system." The signatories may provide part of the pool of people with 'appropriate technical expertise' in criterion (d).
- With respect to funding (criterion (e)), some private sector initiatives may agree to roll-up into the SSB, if it is established, and may be able to offer avenues for additional sources of funding. In addition, the IFRS Foundation, working through those treaty-based organisations with which it has established relationships, may find sources of funding for sustainability standard-setting that it is currently unable to access solely as a financial reporting standard-setter. In this respect, we note the recent recommendation of the B20, that "The G20 should mandate the FSB, in coalition with international standard boards, relevant standard setting bodies and initiatives involved in the Corporate Reporting Dialogue, to promote alignment on disclosures on ESG factors, to enhance reporting by publicly traded corporations, including setting a path to encourage widespread ESG disclosure, and designing a mechanism to assure reported information."[24]
- In addition, given that metrics that enable organisations to report progress towards achieving the UN SDGs are of particular interest to many multilateral agencies, some might also be willing to fund the SSB. Such funding would likely be seen as independent of any particular jurisdiction or regional interest.

[24] B20, Realizing Opportunities of the 21st Century for All: B20 Policy Recommendations to the G20 September 2020

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?

The IFRS Foundation has a comprehensive network of relationships with standard-setters, regulators, treaty-based organisations, user and preparer organisations, civil society, and the accounting profession. In addition, the IFRS Foundation already has a working relationship with the primary global sustainability standard setters and can use this to accelerate the development of its approach to setting sustainability standards. The proposed focus on sustainability reporting standards relevant to enterprise value implies that the initial stakeholders will be similar to these existing relationships, because of the alignment of objectives between the SSB and the IASB. As the work of the SSB matures, other stakeholders will naturally be drawn into this network.

We note also that, in many cases, the organisations responsible for aiding the adoption and consistent application of IFRS Standards, are those in a position to aid the adoption and consistent application of the initial SSB sustainability reporting standards.

The conditions under which the IFRS Foundation's extended network would likely support and facilitate the adoption and consistent application of SSB standards would be that the SSB embodies, and is seen to embody the principles of legitimacy, independence, transparency, public accountability, due process and balanced membership[25]. The institutional architecture inherent in the IFRS Foundation is designed to deliver and protect these principles. In the case of the SSB, achieving a balanced membership, geographically and by background, whilst ensuring as diverse a membership as possible, will be important to reassure the various stakeholders that the SSB's standards will be high-quality and deliver consistent, comparable information that can be assured.

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 IFRS Foundation should build upon what we have and work with the existing initiatives in sustainability. The signatories of the Joint Statement noted above are an obvious starting point. They feature prominently in the April 2020 report issued by IOSCO and in the remarks by Erik Théeden noted in our response to Q3, above. Together with the TCFD they represent the most frequent disclosure and reporting principles and frameworks used by companies and issuers in IOSCO's study.[26] The IFRS Foundation should use their existing standards and frameworks as the starting point of global standards, involving technical resources from those organisations in this development work as much as feasible.

The work of the WEF-IBC, referred to in our response to Q2, is another useful resource that could inform the initial work of the SSB.

[25] See Accountancy Europe, *Standard-setting in the 21st Century*, June 2017.
[26] Other principles and frameworks cited by IOSCO include those issued by the UN agencies responsible for the UN Global Compact and its "Communication on Progress" Reporting Framework and the UN Guiding Principles Reporting Framework; the OECD, which has issued *Guidelines for Multinational Enterprises*; and the Science Based Targets Initiative.

Critical to the success of the SSB achieving inter-connected corporate reporting is a framework for sustainability reporting that is coherent with and connected to financial reporting. The IIRC's International <IR> Framework should form the basis for a unified framework for interconnected corporate reporting.

IFAC's *Enhancing Corporate Reporting: The Way Forward*, proposed a 'building block approach' as an efficient and effective way to enable a global foundation of sustainability reporting standards. IFAC proposed three primary blocks. The first focuses on standards for "material non-financial information focused on company performance, risk profile, economic decisions and enterprise value creation," and this core block is the subject of this Consultation. The second block, should address standards necessary to report on the contribution of business to " broader, material sustainable development and company impacts on economy, environment, and people" Whilst we recognise that these sustainability reporting matters may fall within the oversight of another standard-setting body, it would be necessary to establish appropriate institutional arrangements for effective collaboration in order to eliminate duplication and ambiguity between frameworks and disclosures that are focused specifically on reporting sustainability information that is material for enterprise value creation and those that address reporting of significant impacts on sustainable development. Here the IFRS Foundation could use memoranda of understanding or cooperation agreements to ensure that connectivity between this block and the work of the SSB is maintained, and that fragmentation of sustainability reporting is avoided.

The third building block addresses specific jurisdictional priorities and would "accommodate supplemental jurisdictional requirements to support local public accountability." We agree with IFAC that the ability to supplement global requirements is essential, in order to achieve a core of global sustainability reporting standards, whilst responding to local or regional public policy objectives.

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?

See also our responses to Q3 and Q5.

The IFRS Foundation should build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting. For example, jurisdictions including New Zealand and the UK have announced that they will strengthen domestic reporting and disclosure requirements based on TCFD disclosures to align with international best practice, and prepare for global Standards and the UK regulators and legislators issued a joint statement of support for the SSB under the IFRSF umbrella

Recent developments in the European Union, in particular the European Green Deal and the activities surrounding the revision of the Non-financial Reporting Directive and the related Regulation, demonstrate that the EU has an extensive body of experience, as well as a political ambition in the reporting of sustainability information. Commissioner Valdis Dombrovskis noted that the EU could not develop European non-financial reporting standards alone, but that "the best and most widely accepted elements of what exists today will be our starting point." Further, the EU would "use expert assistance from those organisations and individuals who can best contribute to the process."[27]

[27] Valdis Dombrovskis, Remarks at the Conference on implementing the European Green Deal: Financing the Transition, 28 January 2020.

The IFRS Foundation and jurisdictional activities, like those in the EU, should be seen as complementary and not as being in competition. For example, in line with the 'building block approach' described in the answer to Q5, global sustainability standards focused on enterprise value developed through the IFRS Foundation's initiative could meet a significant part of the EU's requirements for non-financial reporting standards. The IFRS Foundation should therefore engage with the European Institutions to explore with the EU this building block approach to see how the proposals in the Consultation Paper would assist EU in achieving their ambitions, whilst avoiding further fractures in the global reporting system. Further, this could help accelerate developments in standards in Block 2, designed to address broader, material sustainable development and companies' impacts on economy, environment, and people, with EU taking a leadership role in driving the creation of the appropriate global governance architecture for such standards. Further matters that reflect particular EU policy priorities and not addressed in either of these standards could be accommodated by supplemental requirements (IFAC 'Block 3').

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?

We believe that the IFRS Foundation should begin with sustainability reporting standards for climate-related information for the reasons stated in the Consultation Paper. We think that climate change is an urgent existential issue that is material to many companies across sectors and jurisdictions. High-quality consistent and comparable information is vital to investors and other capital market participants managing the transition to a low-carbon economy.

However, climate change affects and is related to a broad range of economic, social and governance topics, including impacts on water, oceans, biodiversity, land use and loss, migration, and social topics such as nutrition, communities and livelihoods, equality, and inclusion. How companies and boards respond to these factors also affects their reputation, ability to attract financial capital, and ability to attract customers and employees. Environmental, social and governance issues are interconnected and whilst a climate-related reporting standard is urgently needed, and should be the first priority, the SSB should proceed without delay to other sustainability topics. As noted earlier, there is a valuable body of work already available that could be used as the basis for subsequent sustainability reporting standards, including the work of the five leading international sustainability standard-setting organisations.

Furthermore, the IFRS Foundation has established arrangements to cooperate with other bodies, drawing on expertise wherever it is, for example the Accounting Standards Advisory Forum and the National Standard Setters. These arrangements can be replicated where necessary to facilitate the SSB's work and accelerate progress on standards on other sustainability topics.

Sustainability reporting will continue to evolve – just as financial reporting has evolved – as it seeks to respond to a changing planet. Consequently, whilst a climate-related reporting standard is urgently needed, and should be the first priority, the SSB should proceed without delay to other sustainability topics.

Question 8

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

We think that the SSB should prioritise climate-related risk in the first sustainability standard it issues because of its urgency. Market and prudential regulators and investors have made clear their expectation for transparency and high-quality information on climate-related matters in mainstream financial reports. In this respect, the work of the TCFD will be extremely useful as the SSB develops a climate standard, particularly given the wide acceptance of the TCFD recommendations as being an appropriate framework for disclosures on this topic.

The SSB should broaden its work once a climate standard is issued to focus on other essential environmental, social and related topics as set out in our answer to Question 7.

Question 9

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

The materiality lens is important. In our view, there are two materiality concepts used by companies for sustainability disclosure:

- A company determines the sustainability topics that are material for disclosure based on the organisation's significant impacts on the economy, environment and people, and their importance to its stakeholders.
- A company delineates the sub-set of sustainability topics that are material for enterprise value creation, recognising that some of that performance may already be reflected in the annual financial accounts.[28]

We think that sustainability reporting standards need to be and can be progressed quickly. High-quality consistent and comparable information is vital to investors and other capital market participants managing the transition to a low-carbon economy. Investors can only respond to climate-related financial risks and opportunities if they have access to consistent, comparable and decision-useful information across jurisdictions.

Sustainability reporting standards viewed through the lens of investors and capital market participants (i.e., materiality focused on enterprise value/financial materiality) will attract the broadest range of global support and promote the international consistency needed by global capital markets. Consequently, we support the approach proposed in paragraph 50 that "the SSB would initially focus its efforts on the sustainability information most relevant to investors and other market participants."

We also agree with the view in paragraph 47, that the SSB's initial approach to materiality 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 Institutional Investors Group on Climate Change and the UN Principles for Responsible Investment are clear that climate risk is a material risk for entities across all industries. Physical and transition risks

[28] See CDP, et al, *Joint Statement,* Chapter 4

relating to climate are closely related to wider environmental topics such as water and land use, oceans and biodiversity loss. Global standards focused on enterprise value creation would incorporate many of these related topics, particularly because they need to address the 'circularity' of impacts and dependencies—the fact that a company's impacts on the environment can lead directly to impacts on its own access to natural and other resources that are an essential part of the value creation process (dependencies). Therefore, information that is relevant to enterprise value creation forms a sub-set of company's impacts on the economy, environment and people, as explained in the Joint Statement (pp. 7-8). Furthermore, as sustainability information becomes further embedded in investment decisions, the range of sustainability topics that are seen as financially material to the long-term success of a business will increase.

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?

In our view, the sustainability information disclosed in annual reports should be capable of being audited or subject to external assurance. Independent assurance can enhance the reliability of information that companies disclose. Assurance reflects the seriousness of the reporting and provides a greater confidence in the non-financial disclosures. We note that, at present, very little of the sustainability information provided by companies is assured

In our view, because sustainability information is increasingly used by capital market participants, it needs to be credible and well supported, evidencing the quality of the process for accumulating and reporting the information, the oversight of the reporting, and the ability of the information to withstand outside challenges. This governance should be of the same quality as that required for financial information, if the information provided by it is to be truly decision-useful.

Further, the target level of assurance to be provided in the medium term should be reasonable assurance on the entire non-financial information reporting. Pending the maturity level of non-financial reporting in a geography starting with an overall limited assurance on the whole non-financial information statement, including on the materiality assessment process, could be an option. Providing reasonable assurance on specific areas/key performance indicators could also be feasible in the short-term.

We note that there is a strong expectation from stakeholders that any global sustainability standards to be capable of being assured. For example, the U.S. Center for Audit Quality has stated that "like the audits of financial statements and internal control over financial reporting, third-party assurance from a public company audit firm enhances the reliability of ESG information presented by companies to investors and other stakeholders."[29] In a statement issued on 30 September 2020, IFAC noted that it believed "that the demand is urgent and real—from investors, policymakers and other stakeholders—for a sustainability reporting system that delivers consistent, comparable, reliable, *and assurable* information" [emphasis added][30].

[29] The CAQ, Letter to Accountancy Europe, 12 June 2020.
[30] IFAC Press Release, 30 September 2020

Deloitte.

We note that the International Audit and Assurance Standards Board expects to issue, by the end of 2020, guidance on how ISAE 3000 might be applied to extended external reporting, including reporting of sustainability information.

Question 11

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

We have no other matters to raise that we have not raised elsewhere in our response.