Think Ahead ACCA

IFRS Foundation consultation paper on sustainability reporting

Invitation to comment to the IFRS Foundation

Comments from ACCA
December 2020

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IFRS Foundation's consultation paper on sustainability reporting. This has been done with the assistance of members of ACCA's Global Forum for Corporate Reporting. If further information is needed, please get back to us.

ACCA strongly supports the IFRS Foundation's proposal to create a global sustainability standards board. A consistent and global set of standards is needed to enable regulators to address the scale of global environmental and social challenges today, accelerate the necessary reallocation of capital, and drive positive changes in corporate decision-making. We firmly believe that the IFRS Foundation is the organisation that is best suited to achieve this, thanks to its governance structure, robust due processes and its strong relationships with regulators and capital markets across the world.

Sustainability reporting standards should aim not only to provide decision-useful information to investors, but importantly, should also drive changes in corporate behaviour in support of positive social and environmental outcomes. In this context, we agree that climate-related financial disclosures is the area where standard-setting action is likely to be most urgently needed. Looking further forward, though, we believe that the SSB should broaden its standard-setting remit to cover wider social and environmental topics. This is needed to ensure that the interests of stakeholders other than investors are addressed. At the same time, a broader scope would align better with the scope of key existing initiatives (<IR> Framework, GRI, SASB, and the proposed EU non-financial reporting standards).

Before setting standards on climate-related risks, it would be beneficial to have a conceptual framework upon which the standards can be developed on a coherent basis. Besides a conceptual framework for sustainability reporting, the IFRS Foundation may also wish to consider developing a conceptual framework for corporate reporting as a whole, thus strengthening the link between financial and non-financial reporting. The groundwork has already been laid for such an overarching conceptual framework: the *Conceptual Framework for Financial Reporting*, the soon-to-be-revised *Practice Statement on Management Commentary*, and the <IR> Framework provide consistent principles on which this can be built.

Coordination with existing and planned regional and jurisdictional initiatives will be important. Key among these are the proposed EU non-financial reporting standards, the timing of which could affect the adoption of the SSB's standards. Besides this, there are a multitude of mandatory ESG reporting requirements[1] around the world. Greater visibility over these existing and planned reporting requirements will be needed to inform the SSB's work. IOSCO could perhaps facilitate a 'stock-take' of climate-related reporting requirements, for example. More jurisdictional reporting requirements are likely to emerge at greater pace, so it will be key for the SSB to engage with regulators at an early stage, to ensure that future mandatory reporting requirements are consistent

[1] WBCSD, the Reporting Exchange, https://www.reportingexchange.com/ (accessed on 14 December 2020)

not only with the proposed conceptual framework for sustainability reporting, but also with a coherent conceptual framework for corporate reporting.

Close collaboration with existing initiatives will also be a determinant for success. Clear synergies exist between the proposed SSB and initiatives such as the IIRC, SASB, GRI, CDSB, CDP, the World Economic Forum and TCFD in terms of the resources, funding and governance processes. As the IIRC and SASB announce their merger, the scene is set for much closer collaboration between voluntary sustainability standard-setters. The IFRS Foundation should seek to build directly upon the harmonisation work that has already started, rather than progressing in parallel with it. Greater clarity over the timescales for the creation of the SSB would be a helpful start in enabling key stakeholders to coalesce in support of the global standards.

SPECIFIC COMMENTS

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?

There is an urgent need for a global set of internationally recognised sustainability reporting standards, and we believe the IFRS Foundation is uniquely placed to provide a mechanism for this.

We agree that the creation of sustainability reporting standards (as set out at paragraph 22c) would be the best approach. In our view, neither the status quo nor the facilitation of existing initiatives would meet the need for consistency and comparability in sustainability reporting.

The IFRS Foundation’s established relationships with regulators across the world, in 144 jurisdictions, gives the resulting sustainability standards the highest likelihood of being endorsed and adopted.

In order for sustainability reporting to gain the trust of users, it needs to be placed on a similar regulatory footing as financial reporting. This requires standard-setting processes that are robust. The due process and governance structure that have been developed for IFRS are ideal for ensuring that sustainability standard-setting processes are accountable, transparent and subject to full and consultation, in same the way that IFRS standard-setting is.

It is worth more clearly defining what is meant by ‘sustainability reporting standards,’ as we note different terminology are currently used by regulators in different regions and jurisdictions. The scope and purpose of sustainability reporting, or non-financial reporting, should be defined in the proposed conceptual framework for sustainability reporting. This scope would need to be broad enough to encompass the significant social, labour and technological changes that will take place in future years, as governments seek to meet the 2050 net-zero target.

ACCA would support a wide definition to sustainability reporting or non-financial reporting, not only covering climate-related risks, but also information on a broad range of topics that are relevant to an entity's ability to create long-term value for itself and its stakeholders. This includes reporting on an entity's use of, and effects on, resources and relationships such as natural capital, workforce, customers, suppliers, communities, intellectual capital and manufactured capital. In our view, this broader scope would be more likely to provide decision-useful information, to effectively achieve the objective of driving positive changes in corporate behaviour (as highlighted in our general comments above, and response to Question 11 below).

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?

As noted above, the IFRS Foundation's three-tier governance structure will be crucial in ensuring that sustainability standard-setting processes are accountable, transparent, and subject to full and fair consultation. We would therefore strongly support the creation of a SSB under the IFRS Foundation's governance structure.

Some modifications are needed to reflect the widening of the IFRS Foundation's remit, including reviewing the composition of the IFRS Foundation Trustees and rebranding the IFRS Foundation (for example, as the Corporate Reporting Foundation[2]). The oversight exercised by the Foundation needs to ensure connectivity between the activities of the IASB and the SSAB. This may further require a revision of the IFRS Foundation's Constitution.

We note that the timescale for the development of sustainability reporting standards may be more pressurised than would be the case for IFRS, driven by the environmental and socio-economic urgency in this area. Care would be needed to ensure that due process is not sacrificed in order to deliver on shorter timeframes. The speed at which sustainability reporting standards can be developed can be achieved if, as the IFRS Foundation proposes, the SSB builds upon the work which has already been done by other standard-setters and frameworks, and coordinates efforts with EFRAG as they develop EU non-financial reporting standards.

3 Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for

[2] Accountancy Europe (2019) *Interconnected Standard Setting for Corporate Reporting,* https://www.accountancyeurope.eu/wp-content/uploads/191220-Future-of-Corporate-Reporting.pdf (accessed on 14 December 2020)

achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

We agree with the requirements for success as they are set out at paragraph 31. In particular, effective synergies with financial reporting, and collaboration between the IASB and SSB on areas including the management commentary will be important. In addition to the management commentary, synergies are also likely to arise with IASB projects such as extractives activities and pollutant-pricing mechanisms. Preparers and assurance providers would need further clarity as to:

- the location of sustainability information covered by future SSB standards (whether in the financial statements, in the management commentary or elsewhere), and
- the degree of interactions and cross-referencing between SSB standards and IFRS, and the implications that this would have on the authority of the SSB standards in jurisdictions.

This further highlights the importance of the Foundation exercising effective oversight over the activities of the IASB and the future SSB, as noted in our answer to Q2 above. Coordination with regional initiatives will be essential: failure to do so can result in non-adoption in key jurisdictions, leading to further fragmentation of the sustainability reporting landscape. Notably in relation to the EU's push towards EU non-financial reporting standards, we would urge the IFRS Foundation to actively seek alignment in terms of:

- Timing of the publication and application of standards
- Scope of the standards (IFRS Foundation's present proposed focus on climate reporting is at odds with the EU's broader scope for non-financial reporting)
- Terminology: Sustainability vs non-financial, for example

In terms of achieving appropriate technical expertise for the Trustees, SSB members and staff, we would encourage the IFRS Foundation to ensure that this includes scientific expertise on climate and the environment, and social expertise on labour-related issues and impacts on communities. Without these from inception, progress will be partial and fail to meet increasingly informed investor expectations. The IFRS Foundation may also consider including expertise from existing standard-setters, and regional initiatives, on the SSB.

Some additional requirements for success to consider include:

- Close collaboration with the IAASB to ensure that the resulting sustainability reporting can be assured consistently;
- Working actively with the organisations which have developed existing standards and frameworks, including the signatories of the Letter of Intent (as referenced in paragraph 34), the World Economic Forum, and TCFD, to draw upon the knowledge base of these organisations;
- Building relationships with international bodies that represent the interests of civil society, such as the UN, to ensure that the resulting standards are designed to achieve improved social and environmental outcomes; and
- Standards which are based upon a sound conceptual framework for sustainability reporting, which maintains coherence wherever relevant with the *Conceptual Framework for Financial Reporting*.

In addition to developing a conceptual framework for sustainability reporting as proposed in paragraph 45, the IFRS Foundation may wish to consider introducing an overarching conceptual framework for corporate reporting as a whole, which articulates the objectives of corporate reporting and sets out common qualitative characteristics for both sustainability and financial reporting. This would ensure much-needed connectivity between the SSB's and the IASB's standard-setting work.

Several existing frameworks can provide the basis for a conceptual framework for corporate reporting. As observed in our policy paper, *Tenets of Good Corporate Reporting*[3], there is a high degree of commonality between the fundamental principles for effective disclosure as set out in the TCFD Recommendations, the guiding principles of the <IR> Framework, the *Conceptual Framework for Financial Reporting*, and the *Practice Statement on Management Commentary*. We propose that the following qualitative characteristics should apply to both financial reporting and sustainability reporting:

- Relevance and materiality
- Completeness
- Reliability – neutrality and freedom from error
- Comparability
- Verifiability
- Timeliness
- Understandability.

Given the high degree of overlap in practice between sustainability reporting and the management commentary, the IASB may consider suspending the revision of the Practice Statement until the SSB is established, to ensure that the resulting revisions are fully aligned with the work of the SSB.

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 should certainly use its relationships with stakeholders to aid the adoption and consistent application of SSB standards. The IFRS Foundation has an unparalleled strength in this area, through its engagement with national regulators and capital markets around the world – and this must be capitalised upon.

To increase its perceived legitimacy with civil society, the IFRS Foundation through the SSB could consider establishing collaborations with international bodies such as the UN, as suggested above. For example, it would be beneficial to establish collaborations with UNDP (which has developed the SDG Impact Standards) and the UN's Research Institute for Research Development.

[3] ACCA (2018), Tenets of Good Corporate Reporting, https://www.accaglobal.com/uk/en/professional-insights/global-profession/Tenets-of-good-corporoate-reporting.html (accessed on 14 December 2020)

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

As noted in our comments to Question 3, close collaboration with existing initiatives should be a requirement of success. In his open response to ESG standard setters[4], IOSCO's Chair called for the harmonisation drive from the five signatory bodies and the IFRS Foundation's proposals to come together, instead of running in parallel. We strongly support this position.

Where possible, SSB membership should include staff from organisations such as the IIRC, SASB, GRI, CDSB, the WEF and TCFD, to enable the SSB to benefit from their accumulated knowledge and experience. Beyond this, there are also clear synergies that can be drawn from the resources, funding and governance processes of these organisations.

While the timetable for standard-setting would be determined by the SSB, it would be helpful if the IFRS Foundation can provide an indicative timescale for the SSB's formation. A clearer timetable would allow markets and stakeholders involved in relevant initiatives to better support and anticipate the SSB's work.

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?*

Coordination with existing and planned regional and jurisdictional initiatives will be important. Research by the WBCSD has found that there are currently over 2,000 mandatory ESG reporting requirements in 70 jurisdictions[5], and given the global focus on climate change mitigation, these numbers are likely to be even higher. Greater visibility over these existing and planned reporting requirements will be needed to inform the SSB's work. IOSCO could perhaps facilitate a 'stock-take' of climate-related reporting requirements, for example. Coordination and collaboration with IOSCO will be key in ensuring the global adoption and application of future SSB standards.

A key regional initiative is the proposed EU non-financial reporting standards, the timing of which could affect the adoption of the SSB's standards. The impact of a failure to align with the EU initiative is not only limited to large listed entities in the EU. There is a significant risk of trickle-down through the supply chain, both to SMEs and to entities operating in other jurisdictions. In addition, fragmentation could increase reporting burden on consolidation for multinational groups and increase complexity for users – similar to the challenges which had arisen in relation to differences between US GAAP and IFRS.

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[4] IOSCO, *Open response to the open letter from the CDP, CDSB, GRI, IIRC and SASB proposing avenues for working together to meet the needs of capital markets*, https://www.iosco.org/library/speeches/pdf/20201029-Erik-Thed%C3%A9en.pdf (accessed on 14 December 2020)

[5] https://www.reportingexchange.com/ (accessed on 14 December 2020)

We would recommend that the IFRS Foundation considers mechanisms to align as closely with the EU's initiative as possible, for example through joint projects and/or the representation of EFRAG staff on the SSB.

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 agree that climate-related financial disclosures is the area where standard-setting action is most urgently needed.

However, the SSB's standard-setting remit should not stop at developing climate-related financial disclosures, but should extend subsequently to cover wider non-financial reporting topics, including disclosures related to social, natural, human, manufactured and intellectual capital. This is needed to ensure that the interests of stakeholders other than investors are addressed. At the same time, a broader scope would better align with the scope of key existing initiatives (<IR> Framework, GRI, SASB, and the proposed EU non-financial reporting standards).

ACCA believes that reporting standards should ultimately drive changes in corporate behaviour. To achieve that aim, it would make sense for standards to reflect all the different inter-connected value drivers that those charged with governance need to manage in order for entities to create value.

Before setting standards on climate-related risks, it would be beneficial to have a conceptual framework upon which the standards can be developed on a coherent basis. As we note in our response to Question 3, the IFRS Foundation may also wish to consider developing a conceptual framework for corporate reporting as a whole, thus strengthening the link between financial and non-financial reporting. The groundwork has already been laid for such an overarching conceptual framework: the *Conceptual Framework for Financial Reporting*, the soon-to-be-revised *Practice Statement on Management Commentary*, and the <IR> Framework provide consistent principles on which this can be built.

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

The wider social, labour, and technological impacts of climate change need to be considered. As we have noted above, we believe the SSB should have a wider standard-setting remit to cover a wide range of non-financial reporting topics. In our view, climate change has much wider implications than on the environment alone.

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

The concept of materiality is fundamental to both reporting practice and standard-setting. As such, a gradualist approach may not be optimal: future changes to the materiality approach would likely lead to confusion amongst regulators and preparers, and result in inconsistent reporting – thus compromising comparability.

ACCA would recommend that a clear concept of materiality is established from the outset in a conceptual framework. In line with the signatories to the *Letter of Intent*, we would support an enterprise value-creation lens to materiality, built upon a multi-capitals approach and with an emphasis on considering long-term future horizons.

As the UK's FRC observes in the discussion paper *A Matter of Principles: The Future of Corporate Reporting*[6], there is often a significant degree of overlap in the information needs of different corporate reporting user groups. Further, many sustainable development issues which may not have a direct impact on enterprise value creation are likely to affect enterprise value creation in future years – either through societal perceptions affecting consumer demand for products, or through regulation and taxation. In our view, therefore, a dynamic materiality approach will achieve similar reporting outcomes to a double materiality approach.

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?

Sustainability information should be subject to external assurance. We agree with the view set out at paragraph 53, that the assurance framework for sustainability information should ultimately be similar to that for the financial statements. We note that verifiability is a qualitative characteristic in the *Conceptual Framework for Financial Reporting*, and we believe that the same principle should apply to non-financial reporting.

Sustainability reporting standards provide the criteria for assurance. As such, as noted in our response to Question 3 above, collaboration with the IAASB to ensure that the resulting reporting can be assured will be key.

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

In our view, the purpose of sustainability reporting should not be limited to providing information to the capital markets. Sustainability reporting should serve as a means through changes in corporate behaviour can be driven, in support of better social and environmental outcomes. We would encourage the IFRS Foundation, and the future SSB, to bear this objective in mind both in developing the conceptual framework(s) and in considering the scope of the resulting standards.

Given the likely trickle-down effect to SMEs across the globe, we would suggest that careful consideration is given to the costs and benefits in relation to sustainability reporting. This should be built into the future conceptual framework for sustainability

[6] FRC (2020), *A Matter of Principles: The Future of Corporate Reporting*, https://www.frc.org.uk/getattachment/cf85af97-4bd2-4780-a1ec-dc03b6b91fbf/Future-of-Corporate-Reporting-FINAL.pdf (accessed on 14 December 2020)

reporting, in the same way that it features currently in the *Conceptual Framework for Financial Reporting*. SMEs contribute a significant proportion to economic activity around the world. For this reason, we would also suggest that the IFRS Foundation considers simplified sustainability reporting standards for SMEs based on the full set of sustainability reporting standards, in a similar way to *IFRS for SMEs*.