



23 December 2020

IFRS Foundation
Columbus Building
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Canary Wharf
London E14 4HD

Via email: commentletters@ifrs.org

Dear Sir/Madam,

Re: IFRS Foundation's consultation paper on sustainability reporting

The Corporate Reporting Users' Forum (the CRUF) welcomes the opportunity to provide the IFRS Foundation with its comments on the consultation paper on sustainability reporting. The CRUF was established in 2005 and we have been holding regular meetings since. The CRUF ESG sub-group was formed in October 2020 and has prepared this comment letter based on the discussion about this consultation at its first meeting, as well as our professional experience. This letter also reflects input from participants across the global CRUF network. We have highlighted in our response any contrasting views amongst participants.

Key points:

1. We commend the IFRS Foundation for addressing the issue of sustainability reporting standards.
2. We see a clear need for the standardisation of sustainability information disclosed by companies. The current situation, characterised by a plethora of topical sustainability frameworks without sufficient standardisation, is unsatisfactory for us as investment professionals.
3. We are convinced that IFRS Standards can provide a perfect role model for sustainability reporting standards. IFRS Standards have high quality content, are subject to a rigorous due process, and are endorsed by legislators and regulators in many countries and regions.
4. Furthermore, we believe that sustainability standards should be subject to an overarching purpose, including long-term benefit to society. In line with IFRS Standards, this purpose is the economic consideration of an asset or a liability by investors and lenders, albeit with a long-term perspective consistent with the various sustainability goals.
5. Finally, we suggest the IFRS Foundation is a suitable body that could oversee the SSB as they develop sustainability reporting standards, due to their existing relationships with policy makers and regulators and their experience in overseeing the work of a standard setting board.

The CRUF response to the consultation questions:

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 standards for the subject matter and components of sustainability reporting. Although guidance already exists - such as the reporting framework of the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and the reporting standards for individual topics such as carbon e.g. the framework of the Task Force for Climate-Related Financial Disclosure (TCFD) - the application of these reporting frameworks by companies is largely voluntary and the consistency of their application leaves much to be desired.

In addition, the existing standards often have different but overlapping methodologies or subject matter focusses. However, irrespective of the quite widespread adoption of existing standards, such as the GRI, the health of the natural environment that the economy and society rely upon is still worsening.

Sustainability reporting standards defined, designed and developed by experts and endorsed by jurisdictions at the political level, from CRUF's perspective, seem to be a well-suited mechanism to give sustainability reporting a quality and acceptance by stakeholders that is equivalent to those of accounting standards. As a result, CRUF supports the IFRS Foundation playing a role in setting these standards and expanding its standard-setting activities into this area.

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. CRUF believes that similar or equivalent structures and processes that give IFRS its quality, and can be considered successful, should be used in developing a framework for sustainability reporting. In simpler terms, we believe that sustainability reporting standards should be developed in a similar way to how IFRS accounting standards are developed. CRUF believes a sustainability standards board might be the right body to do this.

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)?

(a) In view of our answer to Question 1, we are convinced that the IFRS Foundation, as an acknowledged authority in accounting standard setting, will receive sufficient support from public authorities and especially preparers and users.

(b) To avoid duplication and to minimise competing reporting requirements (of which there are already enough in the sustainability space), dialogue with those undertaking other initiatives is important. Although we seem to be witnessing the first signals of consolidation with the announced merger of SASB and IIRC, there is the risk that too many sustainability reporting requirements are added to the agenda and this could lead to the existing “patchwork” of regulations and requirements continuing, albeit under a single umbrella. We do not suggest disregarding these other initiatives and the issues that are raised, but we do suggest that priorities be set from the point of view of the economic stakeholders of an asset, materiality and societal importance. One CRUF participant thought it important that the SSB should adopt existing standards, e.g. from SASB or GRI, because in their view these standards are already fit for purpose. Other CRUF participants do not believe that the existing sustainability standard are fit for purpose, and believe that this can be resolved by ensuring that the SSB’s terms and conditions specify how to collaborate with existing initiatives and standard-setters. The composition of the SSB in terms of experience and expertise will be important in helping to ensure consistency and reducing complexity, and therefore the CRUF believes that the SSB’s composition should be publicly consulted on before being finalised.

(c) See our answer to Question 1. The IASB and the IFRS Foundation Trustees already have a governance structure that could be replicated for the purpose of designing standards for sustainability reporting.

(d) Technical expertise on sustainability certainly needs to be built up within the IFRS Foundation to a sufficient extent. However, such expertise exists in the market and could be mobilized for this purpose through bodies such as the new SSB. Within CRUF there is a lot of expertise in handling sustainability information for the purposes of investment decision-making. CRUF would be glad to offer our support to a new SSB accordingly.

(e) This point seems important to us, although we as users can neither make suggestions nor express further opinions.

(f) These synergies are obvious as the financial implications of sustainability matters become clearer. It would be desirable that the "preliminary work" of the International Integrated Reporting Council (IIRC), which has ensured that financial and sustainability reporting are discussed in a common context, should now be taken further.

Whilst the consultation paper notes the need to “build effective synergies with financial reporting”, mention of the need to build effective synergies with work on sustainable development is absent.

Corporate value creation and sustainable development are often interlinked. For example, the provision of access to goods and services in developing countries can represent growth opportunities for corporates but poor management of ESG issues can lead to higher costs, declines in asset values or reputational issues that impact revenues.

(g) CRUF does not see the mission of the IFRS Foundation being endangered by an extension to sustainability reporting. CRUF cannot comment on the resource situation.

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?

We refer to our answer under Question 1. We believe that the relationships of the IFRS Foundation with financial reporting stakeholders are instrumental for the purposes described here.

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

There are a multitude of reporting requirements for individual or specific aspects or sub-areas of sustainability, which are often the responsibility of NGOs. It is not for us to judge the legitimacy or usefulness of these initiatives, but it is noticeable that the propagated reporting or information standards of these initiatives often touch on a supposed “right to know” but are not designed to inform investment decisions. A newer generation of reporting approaches, most notably the TCFD, requires preparers to demonstrate how the specific issue, such as carbon in the case of the TCFD, is integrated into corporate governance, corporate strategy, and risk management. Thus, the TCFD stands for an approach that focuses on the connection between a real-life topic (carbon) and its impact on the profitability of a company’s assets. This approach has already been replicated in the field of natural capital (biodiversity).

IFRS reporting standards focus on references to enterprise value. In this respect, we believe it is crucial that sustainability topics, which are brought to the SSB by other initiatives, are examined to see whether they contribute to enabling users of company reporting to make better informed investment decisions.

We also believe the best way for the IFRS Foundation to build upon the work with existing initiatives is to consolidate, harmonise and clarify terminology, particularly in relation to materiality.

Finally, we recommend that the Foundation works at pace. Historically, developing new accounting guidance on topics such as carbon inventories and carbon trading has been slow to say the least. While we appreciate that the slow pace could be a reflection of quality control and due processes, we urge the IFRS Foundation to favour streamlined processes.

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?

Some initiatives, such as GRI or SASB, are already relatively advanced with their reporting approaches, but most lack the endorsement of legislators and regulators (see answer Question 1 above). Other initiatives, such as the Non-Financial Reporting Directive of the European Union (NFRD), have led to a variety of different reporting requirements due to the federal situation in Europe, which differs from country to country in terms of granularity and strictness. The CRUF has doubts as to what extent the NFRD has paved the way for users of corporate reports to be able to use sustainability reports.

We recommend the IFRS Foundation familiarises itself with the frameworks of other initiatives and jurisdictions and, above all, learns lessons from the successes and failures of adopting these frameworks. We would also recommend engaging with lawmakers on the extent to which they have an appetite to make potential “International Sustainability Reporting Standards” or existing standards mandatory in law.

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?

Climate-related aspects of sustainability are currently among the most important ones on a social and political level. With regards to financial disclosures of these aspects, we believe that the TCFD standards are well-defined for stakeholders’ purposes including investors.

The TCFD has already become the internationally recognised standard for climate change reporting. In addition, opportunities related to climate change, as well as risks, are material for investors who are looking to invest in solutions to the problem.

More broadly, there are significant environmental issues around the world related to air pollution, biodiversity loss, plastics etc which are all of significant concern. We would therefore recommend that the SSB consider broader environmental factors and we consider a focus on climate only to be too narrow.

Starting with climate helps the IFRS Foundation get the processes for sustainability standard-setting in place, so that other topics such as biodiversity, water quality protection, or environmental degradation caused by pollution, which are already emerging as issues, can be dealt with based on a standard procedure. The United Nations Sustainable Development Goals (SDGs) seem a good benchmark for topics which will arise in addition to climate. (NB: Many institutional investors and asset owners already pursue investment approaches which are built on meeting the SDGs.)

Therefore, a new SSB should consult on the priority areas for sustainability reporting, as corporate reporting users may see other areas, besides climate, as being more material and/or important to the businesses they are interested in.

Finally, given our reservations on piecemeal standards and the breadth and depth of existing sustainability reporting standards, we think the focus should be on consolidation of all the standards across the various subject matters and investigating/clarifying areas of theoretical difference.

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

See 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?

We do not concur with the proposed approach. Mindful of our full response to this question, the CRUF agrees with the proposed approach to materiality whereby the focus is initially on sustainability information most relevant to investors and other capital market participants in making investment decisions. This focus should be on the impact of sustainability issues on the business, so that users can better incorporate the risks and opportunities associated with sustainability issues into their valuations. In this sense, the overarching objective of sustainability standards should be that capital markets efficiently reflect the risks and opportunities associated with sustainability-related issues.

Prior to developing standards that deal with material information for investors and other market participants, the IFRS Foundation needs to conclude on a definition of materiality as it relates to sustainability information. The question of the definition of materiality needs resolving in a satisfactory way and is currently a source of considerable debate. At the moment there is confusion on materiality in relation to:

- Material to whom
- Material in relation to financial, social or environmental capital / impacts / dependencies
- Material over what time horizon

Our sense is that it is very difficult to have one set of material issues, as interests and circumstances differ between different stakeholders. It therefore follows that there is a need for multiple levels of materiality that take into account these different interests and circumstances. The existing terminology of financially material and non-financially material issues is divisive and not reflective of the fact that a lot of non-financial issues have a bad habit of becoming very financially material. Having the IFRS Foundation bring together experts to conclude on this is of vital importance before proceeding to standards development as, while it can feel theoretical, it is of crucial importance to decision making and outcomes.

Some CRUF participants disagree with the [concept of double materiality](#), while others are of the opinion that both sides of double-materiality are important for investment decisions and these should be understood as “two sides of the same coin”. On double materiality, it seems that the

common understanding as, e.g., in the European Commission or in the TCFD differs from the one that is suggested in the consultation paper. We understand double materiality as follows, using climate as an example: Climate change has an impact on the “books” of companies, be it as damage caused by climate change, be it as costs arising from climate protection measures, be it through changed buyer behaviour (customers “going Green”). But companies also have an impact on climate change and understanding and measuring this impact is key for investors, e.g. in the asset allocation process (i.e., the process with which investors decide which company or which asset to include in or exclude from an ESG fund).

We would therefore support the IFRS Foundation ensuring double materiality considerations are considered throughout the standard-setting process so that they can be catered for at a later date.

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?

Investors need high quality information and are reluctant to wait for assurance standards to be defined and implemented beforehand. If the market deems assurance standards necessary, it might demand assurance on sustainability reporting to aid its reliability.

Investors expect companies to disclose high quality and reliable sustainability information that is developed with the same rigour as their financial information, and this would involve getting external assurance that gives investors the same level of trust they are able to get on the financial reporting.

One of the barriers to providing assurance is the need to have a reporting framework in place to be able to ‘audit’ against it (today, the assurance providers mainly give limited assurance). The IAASB is working on standards for auditing/assuring non-financial reporting.

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

We have no other comments to add at this moment.



About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting and auditing standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance and ESG professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

Signatures

Ralf Frank
RFC Frankfurt

Lloyd McAllister

Jeremy Stuber

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