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Open Letter to Erkki Liikanen, Chair of the Trustees of the IFRS Foundation, in response to the Consultation Paper on Sustainability Reporting

Environmental and social sustainability – expressed for example in the Sustainable Development Goals (SDGs) - is essential for a healthy, functioning society, and therefore also for the long-term success of the corporate sector and its investors.

Yet the current environmental and social impact of the corporate sector is dangerously unsustainable. Climate change is an existential threat to the global economy, as is the depletion of natural resources such as fresh water, forests and biodiversity. The social impact of inequality, in its many forms, is a related and similarly urgent challenge to economic prosperity.

The economic argument for sustainable development is overwhelming. The costs from failing to develop sustainably far exceed those from making the transition. It follows that environmental and social impact are increasingly matters that impact business resilience and long-term financial performance and, as such, fall within the fiduciary duties of company directors and institutional investors alike.

The transition to a sustainable economy changes the information needs of investors in capital markets. When sustainable business operations are strategically central to a corporation's long-term licence to operate, sustainability information is no longer a 'nice to have'. Moreover, such information must be connected with financial reporting, because the evaluation of prospective sustainability performance is inseparable from that of prospective financial return and risk.

International financial reporting standards (IFRS) provide global investors with mandatory, rigorous and comparable financial accounting information. There is no equivalent provision of sustainability information, which remains voluntary, of mixed quality and lacking in comparability. There is therefore an urgent information gap in global capital markets.

Filling that gap requires a standard setter that can deliver the following.

- Global standards. Meeting the information needs of global investors requires a standard setter to have established relationships with governments, regulators and other capital market authorities across different countries, enabling its standards to become mandatory.

- Legitimacy and recognised authority. A standard setter must have credibility and accountability, which requires robust governance and oversight, including due process that responds effectively to stakeholders' interests.
- Expertise in standard-setting. A standard setter must have the specialist skill required to draft reporting standards that generate relevant and reliable information, including measurement criteria and disclosure requirements.
- Connection between sustainability reporting and IFRS financial reporting. A conceptually coherent approach is required to connect sustainability and financial reporting standards, including maintaining an approach to materiality that provides investors with information relevant to capital allocation decisions.
- Urgent response. The climate emergency, in particular, calls for a standard setter to be 'up and running' quickly.

The IFRS Foundation is the only body in the world that meets all these criteria.

We strongly welcome the IFRS Foundation's initiative in consulting on the issues above, and we urge an expansion of its remit to create a Sustainability Standards Board. This would be the most effective way to provide global sustainability reporting standards, so filling a critical information gap in the capital markets. We likewise urge IOSCO and the IFRS Monitoring Board to give their full support to the Trustees of the IFRS Foundation in making the Sustainability Standards Board a reality.

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