11 December 2020

To: Erkki Liikanen, Chair of the IFRS Foundation Trustees, and Lucrezia Reichlin, Chair of the Sustainability Reporting Task Force

From: Janine Guillot, CEO, SASB Foundation

Re: SASB’s Response to the IFRS Foundation’s Consultation Paper on Sustainability Reporting

Dear Chairs Liikanen and Reichlin:

The Sustainability Accounting Standards Board (SASB) commends the IFRS Foundation’s leadership in considering how it might contribute to the sustainability disclosure landscape and in consulting with the public to assess its options. We appreciate the opportunity to provide our views in response to the Foundation’s Consultation Paper on Sustainability Reporting and respectfully submit the following comments. For ease of reference, we have included direct responses to the Foundation’s specific consultation questions in the Annex to this letter.

I. Executive Summary

SASB supports, in principle, the proposed creation of a new Sustainability Standards Board (SSB) under the IFRS Foundation (“the Foundation”). With its experience in international standard-setting and publicly accountable governance structure, the Foundation is ideally positioned to establish authority and legitimacy around sustainability disclosure standards for capital markets, just as it did for financial reporting.

However, we believe the success of an SSB would require having a clearly defined purpose and a Board composition and standards development process well suited to that purpose. With respect to the former, SASB believes an SSB should be committed to addressing the information needs of providers of financial capital. Regarding the latter, we believe an SSB could most effectively meet those needs—achieving high-quality outcomes in a timely fashion—by leveraging previous work and existing expertise, including that of SASB and our colleague organizations in the sustainability disclosure field. With respect to the proposed “climate-first” approach, we believe the IFRS Foundation should balance the urgency for climate disclosure with capital market needs for a comprehensive solution that recognizes the important interrelationships between environmental, social, and governance (ESG) factors in investment decision making. The Foundation can do so by establishing that the remit of the SSB encompasses the full range of sustainability factors that are material to enterprise value creation.

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1 IFRS Foundation, Consultation Paper on Sustainability Reporting (September 2020).
Finally, to ensure that the SSB successfully meets market needs, we also recommend the Foundation further consider:

1) Developing and maintaining **industry-specific standards**;
2) Developing and maintaining standards that include **quantitative metrics**;
3) Leveraging existing sustainability frameworks and standards that have broad investor support, especially the **TCFD recommendations and SASB Standards**;
4) Leveraging **relationships and expertise** of existing sustainability standard-setters, including SASB, given that developing sustainability disclosure standards requires a broader experience and knowledge set than that used for financial accounting standards development;
5) Building a **funding model** that can sustain high quality, global standards development;
6) Ensuring significant **representation from investors and preparers**, including those with sustainability expertise and standard-setting experience, on the SSB; and
7) Establishing processes to **achieve interoperability** with standards focused on multi-stakeholder communication.

In the letter that follows, we further develop these points and outline some of the key challenges we believe the IFRS Foundation is likely to face in considering its role in sustainability disclosure, along with our thinking regarding potential solutions.

- First, we outline the challenges, which will be familiar to the Foundation.
- Next, as a “north star” to guide decision making, we propose that the Foundation begin by identifying investors and other providers of financial capital as the SSB’s primary users.
- We then articulate how the proposed SSB can most effectively meet the needs of those users by outlining the key findings and insights we have developed during nearly a decade of developing standards for sustainability disclosures targeted to providers of financial capital.
- We further describe the implications of those insights for how an SSB could be established as a foundational “building block” in a coherent, comprehensive system for corporate reporting.
- And, finally, we discuss how the SSB could follow historical precedent by adopting the work of key predecessors, including SASB, to balance the need for rigorous due process with the urgent need for timely action.

SASB aims to facilitate more informed decision making by both companies and investors and more efficient price discovery by capital markets by illuminating the intersection between sustainability and long-term enterprise value. We believe the IFRS Foundation can play a galvanizing role in achieving these objectives by bringing coherence—not complexity—to the sustainability disclosure landscape. We thank the IFRS Foundation Trustees for their leadership in taking this important step, and we welcome this significant progress toward a global solution for companies, investors, markets, and the world at large.
II. About SASB

The Sustainability Accounting Standards Board (SASB) is an independent, nonprofit organization established in 2011 to set standards for companies to use when disclosing sustainability information to investors and other providers of financial capital. SASB Standards have been developed for 77 industries, each of which includes standardized disclosure topics and performance metrics for the sustainability issues most relevant to long-term financial performance in the specified industry. SASB’s standards include disclosure topics and metrics across five dimensions of sustainability: Environment, Social capital, Human capital, Business Model and Innovation, and Leadership and Governance. By providing transparency into how companies are managing the sustainability risks and opportunities most closely tied to enterprise value creation, SASB Standards help establish more stable and resilient capital markets that can more efficiently price risks and opportunities and create mutually beneficial value for companies, investors, and society more broadly.

SASB Standards are created through evidence-based research, broad and balanced market input, public transparency, and independent oversight. Developed over eight years and counting, the Standards are driven by input from thousands of market participants, including corporate professionals, investors and other providers of financial capital, and other subject matter experts. This work is carried out by an independent standard-setting board, guided by a robust Conceptual Framework and a due process outlined in a detailed Rules of Procedure. It is overseen by the SASB Foundation Board of Directors in a governance structure similar to that adopted by other internationally recognized bodies that set standards for disclosure to investors, including the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB).

SASB Standards are used by investors and companies globally. One-hundred eighty-seven asset owners and asset managers, representing approximately US$60 trillion in assets under management across Asia, Europe, the Middle East, North America, and South America, participate in the SASB Alliance, or have licensed SASB Standards for use in investment tools and processes. This includes the 55 members of SASB’s Investor Advisory Group (US$41 trillion), who recognize the need for comparable, consistent, and reliable disclosure of financially material, decision-useful sustainability information to investors. Due largely to strong demand from institutional investors, corporate use of SASB Standards has increased rapidly since the Standards were issued in late 2018. More than 500 companies reported SASB metrics in 2020, an increase of 325 percent from 2019. These companies span 67 industries in 37 countries.

Although providers of financial capital have diverse information needs based on their investment strategy, type of organization (e.g., asset owner, asset manager, bank), and the fiduciary and regulatory environment in which they operate, investors are increasingly coalescing around the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and SASB Standards as foundational tools for investor-focused sustainability disclosure. In 2020

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4 Ibid.
alone, a large and growing range of global market participants have publicly encouraged the use of SASB Standards, including the following:

- SASB’s Investor Advisory Group (IAG) updated its public statement to explicitly ask issuers globally to include SASB-based disclosures in their ESG communication to investors. The IAG, chaired by Nordea Asset Management, also stated that while other reporting frameworks may complement SASB Standards, they are not replacements for them. As noted above, the IAG includes 55 global investors with US$41 trillion in both public and private assets under management. The IAG includes investors domiciled in 12 countries across Asia, Australia, the European Union, North America, and the UK.

- The Investment Company Institute (ICI), a leading global association of regulated funds, including mutual funds, exchange-traded funds, closed end-funds, and unit investment trusts whose membership manages US$34 trillion, has encouraged US public companies to provide enhanced reporting on ESG factors “consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the standards of the Sustainability Accounting Standards Board (SASB).”

- A subcommittee of the US Securities and Exchange Commission’s Asset Management Advisory Committee has made potential recommendations that the SEC adopt sustainability disclosure standards that meet specific criteria, including a focus on enterprise value creation and the use of industry-specific metrics, and singled out SASB Standards as a solution that “currently meets these requirements.”

- The CEO’s of Canada’s eight largest pension plan investment managers asked portfolio companies to “measure and disclose their performance on material, industry-relevant ESG factors by leveraging the Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD) framework to further standardize ESG-related reporting.”

- The UK Financial Reporting Council (FRC) encouraged UK public interest entities to voluntarily report using the TCFD recommendations and SASB Standards, noting that these two approaches are well suited to “to meet the information needs of investors and other capital providers.”

- The UK’s HM Treasury-led Asset Management Taskforce encouraged use of the TCFD recommendations and SASB Standards, noting that both “already have a significant amount of traction with global investors and companies and are the basis on which many investors are developing their ESG integration processes.”

- The Taiwanese Financial Supervisory Commission has proposed use of the TCFD recommendations and SASB Standards “to provide ESG-related information that is...”

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10 Maple 8, “ Companies and investors must put sustainability and inclusive growth at the center of economic recovery” (November 25, 2020).
useful for investment decision-making” as part of its Sustainable Development Roadmap.13

- In Canada, a task force of the Ontario government has proposed mandatory disclosure of sustainability information using SASB Standards and/or the TCFD recommendations, noting that these “two widely prevalent frameworks … have global support and meet investor needs for concise, standardized metrics on material issues.”14
- Mexico’s Green Finance Advisory Board—80 institutional investors representing assets equal to more than a quarter of the national GDP—asked listed companies to use the TCFD recommendations and SASB Standards to guide their sustainability disclosures.15
- Specific institutional investors—including BlackRock16 and State Street Global Advisors,17 two of the world’s largest asset managers—made public calls for companies to use SASB Standards. While these open letters to corporate directors and/or CEO’s were among the most visible statements of investor support for SASB in 2020, similar statements are included in the stewardship, proxy voting, and/or ESG integration policies of dozens of other institutional investors, including Aberdeen Standard Investments,18 the Canada Pension Plan Investment Board,19 Goldman Sachs Asset Management,20 Morgan Stanley Investment Management,21 Pensions and Lifetime Savings Association,22 and many others. Many of these investors call for both SASB and TCFD disclosure.
- Meanwhile, investor surveys continue to demonstrate broad support for SASB Standards and the TCFD recommendations. For example, among Canadian investors, SASB and TCFD were identified as the disclosure frameworks most often used in investment analysis.23 More broadly, a survey of global institutional investors with US$26 trillion in assets under management found that “an overwhelming 81 percent of respondents recommend that companies use SASB to better communicate ESG information [to investors] and 77 percent recommended that companies use the TCFD recommendations to disclose climate-related financial information.”24

In response to global market demand for convergence among sustainability standard setters and framework providers, SASB and the International Integrated Reporting Council (IIRC) recently announced their intention to merge into a unified organization, the Value Reporting Foundation (VRF).25 By integrating two entities that are focused on enterprise value creation and communicating to providers of financial capital, this merger represents significant progress

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15 Consejo Consultivo de Finanzas Verdes, “Solicitud a Emisoras Respecto a la Divulgación de Información Ambiental, Social y de Gobierno Corporativo” (September 30, 2020).
18 Aberdeen Standard Investments, Our Listed Company Stewardship Guidelines (October 2019).
towards simplifying the corporate reporting landscape. The Value Reporting Foundation could eventually integrate other entities focused on enterprise value creation, including the Climate Disclosure Standards Board (CDSB), which has signaled interest in entering exploratory discussions in the coming months with the VRF.²⁶

III. Key Considerations

SASB supports, in principle, the proposed creation of a new Sustainability Standards Board (SSB) under the IFRS Foundation. Given the Foundation’s experience in international standard-setting and its publicly accountable governance structure, it is ideally positioned to advance global acceptance of sustainability disclosure standards for capital markets, just as it did for financial reporting. We believe the formal adoption of sustainability disclosure standards by an internationally recognized body like the IFRS Foundation could represent a logical and potentially transformative next step in the evolution of corporate reporting.

However, we believe that success will depend not just on what the Foundation does, but also on how it does so. Although we acknowledge the Consultation Paper is intended to elicit feedback on whether—not necessarily how—the Foundation should play a role in the development of global sustainability disclosure standards, we believe the answer to the former depends heavily on the latter. With this idea in mind, our comments will address both, including identifying several specific criteria that would be necessary for SASB to fully support the proposal.

In considering how the Consultation Paper’s proposal might be implemented, we recognize that the IFRS Foundation faces a range of conceptual and practical challenges that demand careful consideration, some of which are similar to those faced with the launch of IFRS Standards nearly two decades ago. We highlight many of these challenges in the hope that they will frame our comments in a way that is most useful to the Foundation’s deliberations. These issues include the following:

- **Global consistency vs. jurisdictional specificity:** How can the IFRS Foundation facilitate international convergence while also allowing for tailored jurisdictional requirements, including recognizing the differing degrees of ambition across the world’s major markets?
- **Single vs. “double” materiality:** How can the Foundation serve the needs of capital markets in a way that complements and achieves interoperability with the broader interests of other stakeholders?
- **Comprehensive ESG vs. climate-first approach:** How can the Foundation accelerate progress on a key issue like climate risk disclosure while also providing investors with a holistic view of sustainability-related risks and opportunities?
- **Quantitative standards vs. qualitative frameworks:** How can the Foundation strike the appropriate balance between numerical measures and contextual narrative?
- **Making use of existing initiatives:** How can the Foundation most effectively benefit from and build upon the tools, resources, processes, and expertise that already exist in the sustainability disclosure ecosystem?

²⁶ Ibid.
• **Advancing an integrated approach**: How can the Foundation build effective connectivity between traditional financial reporting and sustainability disclosure?

• **Considering funding challenges**: What adjustments may be needed to the Foundation’s funding model to ensure success?

• **Addressing the need for timeliness**: How can the Foundation meet a pressing market need without compromising its well-earned reputation for robust due process?

The IFRS Foundation’s consideration of these questions will be complicated by the fact that sustainability is a broad concept encompassing a wide range of matters and that, unlike financial reporting, sustainability reporting was originally established to meet the information needs of a broad range of stakeholders. Thus, we believe clarity of purpose is essential. Although there may be no objectively “right” or “wrong” path forward, SASB believes the most effective way for the IFRS Foundation to guide its deliberations and decision making is to focus on a clearly defined primary user and a well-established, distinctly identified market need, similar to how the Foundation oversees financial reporting. We agree with the Foundation’s decision to focus on the users of financial statements, which we refer to as investors and other providers of financial capital. (For simplicity, throughout this letter, we use the terms “investors” and “providers of financial capital” interchangeably.)

As noted in the *Consultation Paper*, the primary motivation for public consultation is “to fully understand the type of demand” for sustainability disclosure and “what the Foundation could do in response to that demand.”

While many stakeholders have interest in sustainability information, investors and other providers of financial capital continue to express frustration that existing sustainability information is not sufficient for making capital allocation and other investment decisions. SASB has developed a deep understanding of investor needs, based on years of research, consultation, and feedback from the more than 120 global institutional investors who license SASB Standards for use in investment and stewardship processes. SASB’s understanding is that providers of financial capital need sustainability information that is:

• **Material** to the creation of enterprise value over the short, medium, and long term;

• **Comparable** across companies, especially within an industry;

• **Consistent** across time periods;

• **Reliable**, meaning it is prepared subject to effective internal control and board governance and can be assured by an independent third party;

• **Connected** to information in the financial statements (i.e., identifying the actual or potential impact of a sustainability topic on a company’s financial statements—via future revenue, expenses, valuation of assets and liabilities, cost of capital, and/or future cash flows);

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27 SASB believes the terminology “sustainability-related financial disclosure” or other similar language should be used to differentiate investor-focused communications from traditional “sustainability reporting,” which is a term generally used to refer to sustainability reports used to communicate to multiple stakeholders (See discussion related to Question 1 in the Annex.)

28 Supra note 1, p. 17.

• **Industry-specific** (with cross-industry metrics useful for certain topics such as board governance);

• **Quantitative** and **metrics-based**, with **qualitative** information to provide context about governance, strategy, risk management, and performance;

• Covering the **full range of sustainability issues** material to enterprise value creation (e.g., environmental, social, human capital, and governance); and

• **Comprehensively used for reporting across an investible universe**, including by small, medium, and large-cap companies, public and private companies, and geographic regions.

SASB’s *Conceptual Framework* and standards-development process are designed to meet these investor user needs for decision-useful information. For this reason, SASB Standards have become widely embedded in the infrastructure that supports investment decision making, as evidenced by their licensed use in a range of products and services from data, analytics, and research firms.  

Assuming the Foundation decides to move forward with creating a new SSB, we suggest the Foundation leverage SASB’s experience in developing standards targeted to the needs of investors for information that enables the integration of sustainability factors into investment decision making in a rigorous and scalable manner.

**A) The Need for Global Consistency**

SASB appreciates the *Consultation Paper*’s acknowledgement that “demand is growing for international coordination of an agreed set of sustainability-reporting standards.” We are further encouraged by the suggestion that the IFRS Foundation’s Trustees view the ability to achieve “global consistency and reduce[d] complexity” as a necessary precondition for approving the proposal. Indeed, as the paper further points out, the proliferation of diverse objectives and approaches threaten to increasingly fragment an already complex patchwork of mandatory and voluntary initiatives internationally.

These viewpoints echo SASB’s own. Although our organization was founded in 2011 with a primary focus on US capital markets, we expanded our mission and focus when our consultations with companies and investors made clear that only a globally accepted solution can effectively address the information needs of capital markets. Today’s businesses have global supply chains, face global risks, and have global investors. Similarly, today’s investors manage global portfolios and need comparable information across all their portfolio companies. In the absence of a globally accepted approach to sustainability disclosure, key market actors will face significant challenges.

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31 Supra note 1, p. 11.
33 Ibid, p. 6.
For example:

- Companies may incur higher costs related to meeting different reporting requirements across multiple jurisdictions, barriers to entry in new markets, and/or constraints on access to capital in key regions.
- Investors may confront higher economic or opportunity costs related to managing information asymmetry across markets and related risks, while limited comparability and inconsistent availability of information hinders the development of deep and liquid cross-border markets for securities and other investible products.

Given that the IFRS Foundation’s widely respected mission and governance structure have prompted support for its work in at least 144 jurisdictions around the globe, SASB believes a newly formed SSB could have immediate, international credibility and legitimacy, matching the urgency and scale of the market need. As such, the creation of an SSB could minimize the risk of global and jurisdictional fragmentation, and support the information needs of global capital markets, while allowing for additional jurisdiction-specific disclosure requirements.

Although many markets would likely mandate the use of standards issued by an SSB, it should be noted that regulators around the world face unique jurisdictional circumstances that may preclude or delay such action. While this could create a challenge to achieving global consistency, a new SSB would face a somewhat different situation than what the IASB initially encountered at its founding with the widespread existence of domestic GAAP standard-setters. Because the sustainability disclosure system is far less mature than financial accounting standards were when the IASB was established in 2001, we believe global consistency could still be achieved, even in the absence of universal mandatory adoption, if the standards issued by the SSB were used on a voluntary basis in markets where they are not mandated. We believe one of the key reasons the IFRS Foundation should play a role in sustainability disclosure standards today is to capitalize on the opportunity to establish global standards before the emergence of the type of jurisdictional fragmentation that persists to this day for financial accounting standards.

B) Maintaining a Focus on Enterprise Value Creation and the Investor User

A key consideration in the IASB’s Conceptual Framework is the primary user. A well-developed understanding of that primary user is critical to the success of standards promulgated by the Board. For sustainability information, the question of the primary user of the data is even more important, because such information is of interest to a wide range of stakeholders. SASB agrees with the Consultation Paper’s proposal that, in establishing an SSB, the IFRS Foundation should retain its traditional focus on supporting the decisions of users of financial statements, and we believe that perspective should therefore be reflected in the SSB’s approach to materiality. Sustainability information is now recognized as critical to investment decisions because it has significant impact on business value and risk. Accordingly, we believe the SSB should adopt a definition of materiality focused on the creation of enterprise value over the short, medium, and long term.

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Figure 1 visualizes the concept of “nested materiality,” which was introduced in the recent paper, *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*, by “the group of five” frameworks and standard-setters—CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and SASB.\(^{36}\) Existing corporate financial reporting, guided by IFRS Standards, sits at the core of this model. The middle square represents a broader set of sustainability information that is not reflected in the financial accounts, but which is nevertheless material to enterprise value creation. We believe this middle square is where the SSB should focus its work. Finally, the largest square captures the broadest set of sustainability information, which would lie beyond the remit of the SSB. It is important to note, however, that the dotted lines in the diagram indicate that materiality is a dynamic concept. Sustainability topics that are considered immaterial to enterprise value creation today may become material over time, either gradually or rapidly due to catalyst events, stakeholder reaction, and regulatory reaction as well as innovation.\(^{37}\) (Importantly, this dynamic can be bi-directional—for example when regulation is relaxed.)

*Figure 1. “Nested” Materiality*

As the *Consultation Paper* points out, the Trustees considered a more broadly defined perspective on materiality that would include an organization’s significant impacts on the economy, environment, and people. This broader perspective on materiality is called “double materiality.”\(^{38}\) We agree with the Foundation’s conclusion that addressing double materiality would substantially increase the complexity of the SSB’s task as well as the time involved.\(^{39}\) Additionally, as recently suggested in public discussions of the IFRS Advisory Council, such an


\(^{38}\) European Commission, *Guidelines on non-financial reporting: Supplement on reporting climate-related information* (June 20, 2019).

\(^{39}\) Supra note 1, p. 14.
approach could involve politicized issues that could create real or perceived threats to the independence of the SSB or its governance.\textsuperscript{40}

Based on our experience developing sustainability disclosure standards, we believe it is not possible to manage a single standards development process that meets the information needs of many disparate users and that operates with multiple definitions of materiality. Attempting to meet the information needs of several types of users—including investors, customers, employees, civil society, policy makers, and different types of regulators—with a single standard-setting process risks meeting the needs of none. We also believe it would dilute the Foundation’s focus on its primary audience, the providers of financial capital.

Other initiatives have already demonstrated significant leadership in addressing the broadest category of sustainability information, including the sustainability reporting standards developed by the Global Reporting Initiative (GRI) and the “stakeholder capitalism metrics” proposed by the World Economic Forum’s International Business Council (WEF IBC). Such endeavors can serve as complementary “building blocks” to enable disclosure of an enterprise’s contributions to sustainable development in parallel with the more narrowly focused efforts of an SSB. To minimize the burden on report preparers, it will be important to build a “bridge” of interoperability between standards focused on enterprise value creation and those focused on the broader societal, environmental, and economic impacts relevant to sustainable development. (Interoperability would enable preparers to capture data once and use it for multiple purposes.)

Thus, in considering a conceptual framework to guide its work, the SSB should target the middle square in \textbf{Figure 1} and capitalize on the established work and accumulated knowledge that already exists in this area. For example, SASB has developed and refined a \textit{Conceptual Framework} for setting sustainability disclosure standards that includes a proposed definition of materiality that is both well-aligned with that of IAS 1 and more closely tailored to the unique characteristics of sustainability information.\textsuperscript{41, 42} By adopting this approach to materiality, the SSB could codify the significant portion of “the group of five’s” shared vision that is focused on enterprise value creation, drawing on the existing standards and frameworks already built for that purpose, including those of the IIRC,\textsuperscript{43} CDSB,\textsuperscript{44} SASB, and the TCFD.\textsuperscript{45}

We also think it is important to clarify that the term “financial materiality” is sometimes used differently by accountants, investors, and other users. For example, we have observed that when accountants talk about financial materiality, they are often focused on concepts of recognition and measurement in the financial statements—that is, ensuring that assets, liabilities, and book equity are reflected appropriately on the statement of financial position. When investors talk about the financial materiality of sustainability issues, they are often referring to a broader information set that can provide insight into the current and future market value of an entity. Because market valuations of companies are increasingly driven by off-balance-sheet intangible assets, sustainability-related financial disclosure (as SASB uses that term) consists of disclosure topics and metrics that provide insight into drivers of enterprise value, including intangibles. Thus, conceptual frameworks developed for financial accounting standard-setters need to be slightly adapted for sustainability disclosure standard-setting. This

\textsuperscript{40} IFRS Foundation Advisory Council meetings (November 3-4, 2020).
\textsuperscript{41} Supra note 3.
\textsuperscript{42} IFRS Foundation, IAS 1 – Presentation of Financial Statements (amended October 2018).
\textsuperscript{43} International Integrated Reporting Council, \textit{The International <IR> Framework} (December 2013).
\textsuperscript{44} Climate Disclosure Standards Board, \textit{CDSB Framework for reporting environmental and climate change information} (April 2018).
\textsuperscript{45} Task Force on Climate-related Financial Disclosures, \textit{Final Report: Recommendations of the TCFD} (June 2017).
is the primary reason why SASB’s Conceptual Framework is similar to, but not identical to, the IASB’s and includes the concept of industry-specificity and the characteristics of decision-useful, actionable metrics.

C) The Importance of a Holistic View of Sustainability

The Consultation Paper suggested that an SSB could take a “climate-first approach,” prioritizing the development of disclosure standards for climate-related risks and opportunities ahead of those for other sustainability issues material to the creation of enterprise value. SASB recognizes the appeal of such an approach, given that climate change is a matter requiring great urgency and that related risks are a pressing concern for companies, investors, and other participants in global capital markets.46

However, we also note that the recent global pandemic has emphatically demonstrated a compelling need to facilitate more efficient price discovery across a broad range of sustainability risks. And, indeed, providers of financial capital around the world have increasingly called for a comprehensive approach to sustainability disclosure, recognizing the important interrelationships between environmental, social, and governance factors.47 For example, the impacts of climate change are likely to create business model disruption among electric utilities, giving rise to knock-on risks more closely associated with social issues, such as access to and affordability of energy.48 Conversely, just as climate risk can precipitate social challenges, the reverse is also true. For example, COVID-19 triggered seismic supply chain disruptions, which can fundamentally alter the climate risk profile of an apparel company whose roster of suppliers may require significant reconfiguration.49 These are but two examples.

For investors in these and other industries, strong performance on climate issues does not necessarily correlate to strong performance on other sustainability issues that are important for enterprise value creation. For example, a company may have strong performance on environmental factors, but weak labor relations and governance challenges. To make effective capital allocation decisions, investors must evaluate performance on the full range of sustainability issues linked to enterprise value creation. Thus, SASB recommends that the SSB establish standards for the full range of sustainability issues relevant to enterprise value creation, which are likely to be industry-specific in nature.

A decision to focus narrowly on climate disclosure as a starting point would be understandable if the SSB were to be charged with developing sustainability disclosure standards from the ground up. However, SASB has already developed a body of 77 industry-specific standards that address the five dimensions of sustainability outlined in SASB’s Conceptual Framework: Environment, Social Capital, Human Capital, Business Model & Innovation, and Leadership & Governance. SASB’s Investor Advisory Group, which represents nearly half of all global assets under professional management,50 has publicly called for companies to use SASB Standards in disclosures to investors.51 Thus, SASB believes the IFRS Foundation could balance the need

47 Supra note 6.
48 Sustainability Accounting Standards Board, Electric Utilities Research Brief (March 2016).
51 Supra note 6.
for urgency in addressing climate disclosure with the market need for a comprehensive solution by:

- Establishing that the remit of the SSB encompasses the full range of sustainability factors that are material to the creation of enterprise value over the short, medium, and long term.
- Adopting or endorsement of existing standards and frameworks accordingly, on an interim basis, as outlined below (see “Leveraging Previous Work and Existing Expertise”); and
- Prioritizing amendments to climate-related standards and frameworks—including incorporation of the TCFD recommendations—in ongoing standards-development work. (As the next step in our collaboration, the “group of five” standard setters and framework providers is developing a prototype of a climate standard that integrates the TCFD recommendations with our own content and could serve as a starting point for the SSB’s work.)

D) Achieving the Appropriate Mix of Quantitative and Qualitative Information

Providers of financial capital use a combination of quantitative analysis and qualitative judgments to evaluate companies and make investment or lending decisions. Sustainability disclosure standards, like their traditional financial counterparts, should support both quantitative and qualitative analysis. Qualitative disclosure provides invaluable context, particularly in cases where numeric measures have more confirmatory than predictive value. For example, qualitative information can provide important visibility into why a company is pursuing sustainability-related efforts and how it achieves, or intends to achieve, results—for instance, through information about its approach to governance, strategy, and risk management. Meanwhile, standardized, quantitative metrics are essential to ensure accountability against stated goals and targets, shedding important light on the effectiveness of the organization’s governance and strategy, while also facilitating comparisons against peers or industry benchmarks.

In considering quantitative metrics, investors have repeatedly told us and SASB believes that an industry-specific approach is essential because not all sustainability issues matter equally to each industry—and, indeed, the same sustainability issue can manifest differently across industries. Similar to any other business issue, an industry lens helps to ensure that sustainability information will be relevant for decision making. Returning to the example of climate change: For a manufacturer, it’s an energy-efficiency issue. For an automaker, it’s a product-design challenge. For a bank, it’s about managing the climate risk embedded in its loan portfolio. Each will require its own tailored measurement approach to provide decision useful information to investors. In other words, industry-specific measures can provide insight into how effectively a company is adapting its business model and operations in the face of climate and other sustainability risks. Industry-specific measures can also be cost-effective for companies, because they are a focused set and are often operating metrics that are already in use for internal management decision making.

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52 Sustainability Accounting Standards Board, Industrial Machinery & Goods Sustainability Accounting Standard (October 2018).
53 Sustainability Accounting Standards Board, Automobiles Sustainability Accounting Standard (October 2018).
54 Sustainability Accounting Standards Board, Commercial Banks Sustainability Accounting Standard (October 2018).
It is also important to recognize that key aspects of a sustainability issue cannot always be readily captured by quantitative data. For example, issues such as human rights and ethics are inherently difficult to quantify and, in such instances, SASB supports the inclusion of qualitative, “discussion and analysis” requirements. Furthermore, SASB believes the core elements set out by the TCFD recommendations (governance, strategy, risk management, metrics and targets) can be usefully applied across all material sustainability topics to facilitate effective, narrative-based disclosure. In fact, we have incorporated the TCFD’s core elements into SASB’s Standards Application Guidance and suggested that companies discuss their governance, strategy, and risk management approach for all material sustainability topics.55

Although narrative disclosure provides useful context, to effectively meet investor needs for comparable information, an emphasis on quantitative, industry-specific metrics will be necessary. In the European Commission’s public consultation on the review of its Non-Financial Reporting Directive, users of non-financial information identified the lack of comparability as the primary challenge they face (84 percent of users). Furthermore, an overwhelming majority of all respondents (80 percent) favored the inclusion of “sector-specific elements.”56 (The desire for comparability may appear inconsistent with the desire for sector-specific elements. However, in our experience, when investors use the term “comparable” in relation to sustainability data, they often mean comparability within a sector because they are making a security selection decision by comparing the relative performance of companies within sectors.)57, 58 Quantitative metrics play an especially important role in providing investors and other providers of capital with consistent, comparable, reliable information on which to base their decisions.59

We believe the increasing global investor support for the use of TCFD recommendations and SASB Standards in tandem (see “About SASB,” above) reflects a recognition of this important balance between the flexibility of principles-based frameworks and the consistent application of detailed standards—a delicate balancing act well understood by the Foundation in the context of financial reporting.60 Likewise, the recently announced intent to merge between SASB and IIRC recognizes the value of combining principles-based frameworks and more detailed standards, especially when those frameworks and standards share similar conceptual underpinnings as do SASB Standards, the CDSB Framework, the International <IR> Framework, and the TCFD recommendations.

Finally, SASB welcomes the IFRS Foundation’s acknowledgement that sustainability disclosure standards intended for use by global capital markets will need to support independent external assurance. SASB’s Standards Application Guidance suggests that “a reporting entity should design, implement, and maintain a system of governance around developing and disclosing sustainability information—including management involvement, board oversight, and internal control—that is substantially similar to what it uses for financial reporting.”61 Of the metrics included in SASB’s 77 industry-specific Standards, 74 percent are quantitative, with underlying technical protocols that are designed to serve as a basis for suitable criteria in an independent, third-party assurance engagement.

57 Supra note 12, p. 46.
58 Supra note 9.
59 Ibid.
61 Supra note 55, p. 3.
E) Leveraging Previous Work and Existing Expertise

SASB is encouraged by the Consultation Paper’s acknowledgement that a newly formed SSB would need to build appropriate expertise, and that in order to do so, the Trustees would “decide how best to engage with existing organizations involved in sustainability reporting” and “make use of” their work. These statements demonstrate an appreciation of several important facts, including (a) that existing initiatives have laid important groundwork, obviating a need to “reinvent the wheel,” (b) that in so doing, these organizations have developed valuable experience and expertise in both measurement and disclosure of sustainability topics, and (c) that the road ahead will involve drawing on these existing initiatives, their collective experience, their due process expertise, and their relationships to not only establish but also to maintain sustainability disclosure standards.

First, to establish a baseline for the ongoing work of the SSB, SASB believes the IFRS Foundation should use existing standards and frameworks to help create globally accepted standards for disclosure of sustainability information that is material to the creation of enterprise value. In the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, the “group of five” demonstrated how the combination of our standards and frameworks can help address market confusion and facilitate high-quality, consistent, comparable, and verifiable sustainability disclosure as part of a comprehensive corporate reporting system. We have adapted this graphic to demonstrate how the IFRS Foundation could play a role in accelerating progress. (See Figure 2.)

Figure 2. A comprehensive corporate reporting system

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62 Supra note 1, p. 11.
64 Supra note 36.
We believe the shared vision described in the joint *Statement of Intent*, using existing standards and frameworks as "building blocks," can achieve the comprehensive corporate reporting system that global capital markets so urgently need. The area “inside the house” of the diagram represents a coherent system for the disclosure of information material to the creation of enterprise value and therefore serves as a model of how the IFRS Foundation can most efficiently and effectively leverage the work of existing framework providers and standard setters, along with that of the TCFD.

The history of financial accounting standards development provides precedents for how the SSB could leverage the work of existing organizations. If established, SASB believes an SSB should:

- Perform a review of existing standards and frameworks, with an emphasis on the due process used to develop them;
- Develop an understanding of the conceptual frameworks used to develop the existing standards and frameworks;
- Narrow its focus on those standards and frameworks that address sustainability from the perspective of enterprise value creation;
- Satisfy itself that at least on an interim basis the standards are reasonably detailed and complete, with appropriate disclosure requirements;
- Identify the standards and frameworks that satisfy due process conditions and related concerns;
- Adopt those standards and frameworks on an interim basis, with an acknowledgement that companies should use them on a comply-or-explain basis;  
  
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- Establish a conceptual framework to guide the SSB’s work on an ongoing basis, drawing key elements from the conceptual frameworks of the IASB, SASB, and other sustainability framework and standard setters; and
- Establish an ongoing process through which the SSB may develop, amend, and maintain standards either by hiring its own professional staff with sustainability expertise, by bringing in-house the expertise of the existing standard-setting organizations, by contracting with those standard setters, and/or through some other mechanism.

Additionally, given the dynamic nature of sustainability issues, it will be essential for the SSB to consider how it can most effectively “build a bridge” to achieve interoperability with broader standards that reflect an organization’s significant impacts on the economy, environment, and people, especially those developed by GRI. By taking the approach outlined above, the Foundation could benefit from the work that has already been initiated  
  
  66 to connect sustainability

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65 This approach, whereby a newly formed standard-setting body adopts on an interim basis or otherwise the standards set by another body, has precedent in many similar situations, including the transition from the International Accounting Standards Committee (IASC) to the International Accounting Standards Board (IASB) in 2001, from the Accounting Principles Board (APB) to the Financial Accounting Standards Board (FASB) in 1973, and the adoption in the US by the Public Company Accounting Oversight Board (PCAOB) of auditing standards originally set by the American Institute of Certified Public Accountants (AICPA).

66 Sustainability Accounting Standards Board and Global Reporting Initiative, “Promoting Clarity and Compatibility in the Sustainability Landscape (July 12, 2020).
disclosure focused on enterprise value creation with sustainability reporting that is focused on broader societal impacts and objectives, including achieving the Sustainable Development Goals. This includes the work of GRI as well as the “stakeholder capitalism metrics” recommended by the WEF IBC.

We are encouraged that market participants have begun to embrace the shared vision articulated in the joint Statement of Intent and recognize its alignment with the IFRS Foundation’s proposal. For example, Erik Thedéen, Chair of the International Organization of Securities Commissions (IOSCO) Sustainable Finance Task Force, recently wrote that, “While to date the two initiatives have been running in parallel, we are keen to see them come together. We consider the two initiatives to be highly complementary.” Similarly, Kevin Dancey, CEO of the International Federation of Accountants (IFAC), recently stated, “We recommend that the [IFRS Foundation’s] proposed board adopt a ‘building blocks’ approach, working with and leveraging the expertise and disclosure requirements of the CDP, CDSB, GRI, IIRC, and SASB.” Meanwhile, Mark Carney, the United Nations Special Envoy for Climate Action and Finance, has publicly supported the “building blocks” approach and encouraged the Foundation to “consider how it can leverage the technical content” from the “group of five’s” collaborative efforts.

Although using existing standards and frameworks to establish a baseline is an important and necessary first step, SASB believes the value of the existing organizations extends well beyond their tangible frameworks and standards to encompass human and intellectual capital, including individual competencies, organizational processes, institutional knowledge, and industry-based relationships. These intangible assets are essential to the SSB’s success.

As the Council of Institutional Investors (CII) in the US has stated, “Market participants, non-governmental organizations and governments can aid the success of these [independent, private-sector] standard setters by supporting their independence and long-term viability, attributes of which include: stable and secure funding; deep technical expertise at both the staff and board levels; accountability to investors; open and rigorous due process for the development of new standards; and adequate protection from external interference.”

As the CII statement suggests, developing standards is only part of the job. It will be equally important to maintain them. SASB believes the “group of five’s” joint vision presents an opportunity for the IFRS Foundation to leverage not only the standards and frameworks that the collaborating organizations have developed over many years, but also the processes, expertise, and other intangible assets we have built up in the course of that work.

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68 Sustainability Accounting Standards Board, “CEOs Back Convergence of Corporate Reporting” (September 29, 2020).
69 Erik Thedéen, Chair of the International Organization of Securities Commissions (IOSCO) Sustainable Finance Task Force, “Open response to the open letter from CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), and Sustainability Accounting Standards Board (SASB) proposing avenues for working together to meet the needs of capital markets (October 28, 2020).
70 International Federation of Accountants, “IFAC Calls for Creation of an International Sustainability Standards Board Alongside the International Accounting Standards Board (IASB)” (September 11, 2020).
71 Mark Carney, UN Special Envoy for Climate Action and Finance, letter to IFRS Foundation Trustees (November 17, 2020).
SASB agrees with the Consultation Paper’s assertion that developing the appropriate technical expertise is paramount,73 and recommends that the IFRS/SSB leverage the deep experience and well-honed competencies of existing sustainability standard setters and subject matter experts to do so effectively. While SASB has designed its processes and governance with the IASB and FASB as prototypes, it should not be underestimated how fundamentally different it can be to set sustainability disclosure standards as opposed to financial accounting standards. Financial accounting concepts have existed and been developed over hundreds of years; sustainability disclosure is comparatively immature and evolving quite rapidly. The units of measurement for sustainability disclosures are varied and the subject matters in question range from deep physical science such as environmental concerns to less precisely measured areas in social science such as human rights. The lessons SASB has learned in nearly a decade of developing standards for providers of financial capital could prove useful to the SSB as it considers these, and other unique challenges related to the development of sustainability standards.

F) Building Effective Synergies with Financial Reporting

SASB supports the goal of developing a structure and culture around the SSB that seeks to build effective synergies with traditional financial reporting.74 Indeed, the recently announced merger of SASB and the IIRC recognizes that both SASB and IIRC share a common vision to connect the information in the financial accounts with a broader information set that can provide insight into current and future enterprise value.75 The interconnection between traditional financial reporting and sustainability disclosure is also a core component of the shared vision SASB, as part of “the group of five,” recently laid out in our Statement of Intent to Work Together Towards Comprehensive Corporate Reporting.76 Very importantly, the Statement of Intent acknowledges that it is equally important to connect enterprise-value oriented disclosure with sustainability reporting focused on a company’s significant impacts on the economy, the environment, and people. This is the purpose of the collaborative workplan announced by SASB and GRI earlier this year.

To achieve this complementarity most effectively, SASB again recommends drawing on existing expertise in this area, especially the work of the IIRC. Sustainability information that is material to enterprise value creation is likely to be of greatest value to investors when it is part of a coherent, comprehensive approach to corporate reporting. A key element of such an approach is a principles-based framework that articulates the critical interconnections between financial information, sustainability information and other drivers of intangible value. To develop this essential architecture, SASB recommends leveraging the International <IR> Framework,77 key principles and requirements of the CDSB Framework,78 and the core elements of the recommendations of the TCFD.79 In doing so under the oversight of the IFRS Foundation, it would be possible to create greater alignment between these frameworks and the IASB’s Management Commentary Practice Statement.

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73 Supra note 1, p. 9.
74 Ibid, p. 10.
75 Supra note 25.
76 Supra note 36.
77 Supra note 43.
78 Supra note 44.
79 Supra note 45.
G) Funding Considerations

SASB appreciates that the Consultation Paper recognizes the success of an SSB would likely be contingent on certain key factors, including global support, consistent jurisdictional application, effective governance, appropriate technical expertise, adequate funding, practical synergy with traditional financial reporting, and the IFRS Foundation’s capacity to preserve the integrity of its current mission and resources.80

Regarding the adequacy of separate funding for an SSB, we would note that, generally speaking, the benefits of sustainability disclosure standards accrue to capital markets as a whole to a significantly greater degree than they do to individual participants. As a result, obtaining funding for standard setters can be challenging. SASB believes the most effective funding model for sustainability disclosure standards involves sourcing from a broad set of market participants, including companies, investors, regulators, and service providers. A balanced mix of funders would serve to minimize real or perceived conflicts of interest. Licensing, educational products, and credentialing are other possible sources of funding.

H) Achieving High-Quality Standards on a Timely Basis

Arguably the overarching challenge faced by the Foundation in considering this proposal is how to respond to a pressing market need for high-quality sustainability disclosure standards in a timely fashion. The time required to develop standards from the ground up—including lining up funding, formalizing the structure, nominating and appointing SSB members, developing a conceptual framework, designing and carrying out due process, and so on—would be substantial. (For example, it took SASB six years to develop the initial versions of our Standards, and we currently have 12 research and standard-setting projects in process.81) Given the proliferation of divergent public- and private-sector solutions established to date, markets appear unlikely to wait.

By taking the approach outlined above, leveraging the work and expertise of existing organizations, and establishing a foundation on which to build over time, we believe the IFRS Foundation can establish an effective system for maintaining high-quality sustainability disclosure standards on a reasonable timeline.

IV. Conclusion

In conclusion, SASB supports the IFRS Foundation’s proposal to broaden its current standard-setting activities by establishing an SSB, provided the effort is carried out in a way that solves the existing market problem and effectively responds to the needs of investors and other providers of financial capital. This would require that the SSB is committed to:

- Establishing investors and other providers of financial capital as the primary users;
- Adopting a definition of materiality focused on the creation of enterprise value over the short, medium, and long term;

80 Supra note 1, pp. 9-10.
• Addressing the full range of sustainability factors that are material to enterprise value creation (e.g., environmental, social, human capital, governance);
• Developing and maintaining industry-specific standards;
• Developing and maintaining standards that include quantitative metrics;
• Leveraging existing sustainability frameworks and standards that have broad investor support, especially the TCFD recommendations and SASB Standards;
• Leveraging the relationships and expertise of existing sustainability disclosure standard-setters, including SASB, given that developing sustainability disclosure standards requires a broader experience and knowledge set than that used to develop financial accounting standards;
• Building a funding model that can sustain high-quality, global standards development;
• Ensuring significant representation from investors and preparers, including those with sustainability expertise and standard-setting experience, on the SSB; and
• Establishing processes to achieve interoperability with standards focused on multi-stakeholder communication.

SASB stands ready to support the IFRS Foundation’s efforts to achieve global consistency and reduce complexity in sustainability disclosure. We believe the Consultation Paper touches on many important issues, and we would welcome participation in the process should the Foundation elect to move forward, lending our expertise as may be necessary or appropriate. We consider consistent, comparable, reliable sustainability information to be foundational to the efficiency, stability, and resilience of 21st century capital markets and we welcome the IFRS Foundation’s interest in this vitally important evolution of corporate disclosure.

Kind regards,

Janine Guillot
CEO, SASB Foundation
Annex: SASB’s Responses to the Questions for Consultation

Question 1: Is there a need for a global set of internationally recognized 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 internationally recognized sustainability reporting standards. However, we believe this question needs to be more precisely worded. “Sustainability reporting,” as the terminology is commonly used, means reporting on a company’s significant impacts on the economy, people, and the environment to all of a company’s key stakeholders. Global standards for this type of sustainability reporting already exist. Those standards have been established by the Global Reporting Initiative (GRI) and are used by more than 10,000 organizations around the world.

However, despite the widespread practice of traditional sustainability reporting, investors continue to state that the sustainability data currently available is not sufficient for investment decision making. It often lacks comparability, consistency, and reliability. Investors also report that the data is not comprehensive across an entire investible universe, including public and private assets, and it is not clear how sustainability information is connected to business strategy and the creation of enterprise value. To close this gap, there is a need for globally accepted sustainability disclosure standards targeted to the needs of investors and other providers of financial capital. We call this “sustainability-related financial disclosure.” Both traditional sustainability reporting and sustainability-related financial disclosure comprise key elements of a more coherent, comprehensive system for corporate reporting. Such a system should be broadly understood and accepted by companies, investors, other stakeholders, and regulators. We describe a vision for this system in our recent joint paper, Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, by “the group of five” frameworks and standard-setters.

Based on our experience developing sustainability disclosure standards, SASB’s understanding is that providers of financial capital need sustainability information that is:

- **Material** to the creation of enterprise value over the short, medium, and long term;
- **Comparable** across companies, especially within an industry;
- **Consistent** across time periods;
- **Reliable**, meaning it is prepared subject to effective internal control and board governance and can be assured by an independent third party;
- **Connected** to information in the financial statements (i.e., identifying the actual or potential impact of a sustainability topic on a company’s financial statements—via future

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82 See, for a recent and representative example, ISS ESG, “Survey Analysis: ESG Investing Pre- and Post-Pandemic” (October 13, 2020).
83 Supra note 36.
revenue, expenses, valuation of assets and liabilities, cost of capital, and/or future cash flows);

- **Industry-specific** (with cross-industry metrics useful for certain topics such as board governance);

- **Quantitative** and **metrics-based**, with **qualitative** information to provide context about governance, strategy, risk management, and performance;

- Covering the **full range of sustainability issues** material to enterprise value creation (e.g., environmental, social, human capital, and governance); and

- **Comprehensively used for reporting across an investible universe**, including by small, medium, and large-cap companies, public and private companies, and geographic regions.

Therefore, SASB supports the IFRS Foundation’s proposal to broaden its current standard-setting activities by establishing an SSB, provided the effort is carried out in a way that effectively responds to the market need outlined above. This would require that the SSB is committed to:

- Establishing investors and other providers of financial capital as the primary users;

- Adopting a definition of materiality focused on the creation of enterprise value over the short, medium, and long term;

- Addressing the full range of sustainability factors that are material to enterprise value creation (e.g., environmental, social, human capital, governance);

- Developing and maintaining industry-specific standards;

- Developing and maintaining standards that include quantitative metrics;

- Leveraging existing sustainability frameworks, standards, and processes that have broad support across global capital markets, including SASB Standards and the TCFD recommendations;

- Leveraging the relationships and expertise of existing sustainability disclosure standard setters, including SASB, given that developing such standards requires a broader experience and knowledge set than that used to develop financial accounting standards;

- Building a funding model that can sustain high-quality, global standards development;

- Ensuring significant representation from investors and preparers, including those with sustainability expertise and standard-setting experience, on the SSB; and

- Establishing processes to achieve interoperability with standards focused on multi-stakeholder communication.

**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?

SASB supports, in principle, the proposed creation of a new Sustainability Standards Board (SSB) under the governance structure of the IFRS Foundation. Only a globally accepted solution can effectively address the information needs of capital markets. Today’s businesses
have global supply chains, face global risks, and have global investors. Similarly, today’s
investors manage global portfolios and need comparable information across all their portfolio
companies. In the absence of a globally accepted approach to sustainability-related financial
disclosure, both companies and investors will continue to face significant challenges.

However, for the SSB to be successful, we believe clarity of purpose will be essential. SASB
believes the most effective way for the IFRS Foundation to guide its deliberations and decision
making is to focus on a clearly defined primary user and a well-established, distinctly identified
market need, similar to how the Foundation oversees financial reporting. Thus, if an SSB is
created, we agree with the Foundation’s proposal to focus primarily on investors and other
providers of financial capital as primary users (see Question 9) and we furthermore recommend
an approach that addresses the information needs of these users (see Question 1).

**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)?**

SASB agrees with the Trustees’ assessment that the success of the SSB would likely be
contingent on certain key factors, including global support, consistent jurisdictional application,
effective governance, appropriate technical expertise, adequate funding, practical synergy with
traditional financial reporting, and the IFRS Foundation’s capacity to preserve the integrity of its
current mission and resources.

SASB agrees that developing the appropriate technical expertise is paramount and
recommends that the IFRS/SSB leverage the deep experience and well-honed competencies of
existing sustainability standard setters and framework providers to do so effectively. While
SASB has designed its processes and governance with the IASB and FASB as prototypes, it
shouldn’t be underestimated how fundamentally different it can be to set sustainability standards
as opposed to financial accounting standards. Financial accounting concepts have existed and
been developed over hundreds of years; sustainability disclosure is comparatively immature and
evolving quite rapidly. The units of measurement for sustainability disclosures are varied and
the subject matters in question range from deep physical science such as environmental
concerns to less precise areas in social science such as human rights. The lessons SASB has
learned in nearly a decade of developing standards for providers of financial capital could prove
extremely useful to the SSB as it considers these, and other unique challenges related to the
development of sustainability standards.

As noted in Question 1, SASB believes it will be essential to market acceptance that the SSB
develop industry-based standards with quantitative metrics. In considering quantitative metrics,
investors have repeatedly told us and SASB believes that an industry-specific approach is
essential because not all sustainability issues matter equally to each industry—and, indeed, the
same sustainability issue can manifest differently across industries. Similar to any other
business issue, an industry lens helps to ensure that sustainability information will be relevant
for decision making. The investor desire for comparability may appear inconsistent with the
desire for sector-specific elements. However, in our experience, when investors use the term
“comparable” in relation to sustainability data, they often mean comparability within a sector
because they are making a security selection decision by comparing the relative performance of
companies within sectors.
To meet these challenges, the SSB could use a variety of different models to engage with and enlist the support of existing sustainability standard-setters such as SASB, and we encourage that it adopts a formal, ongoing approach that will continue to leverage the expertise of those organizations. This could include either consolidating, acquiring and/or contracting with such organizations.

Additionally, SASB supports the goal of developing a structure and culture around the SSB that seeks to build effective synergies with traditional financial reporting. Indeed, the recently announced merger of SASB and the IIRC recognizes that both SASB and IIRC share a common vision to connect the information in the financial accounts with a broader information set that can provide insight into current and future enterprise value. The interconnection between traditional financial reporting and sustainability disclosure is also a core component of the shared vision SASB, as part of “the group of five,” recently laid out in our Statement of Intent to Work Together Towards Comprehensive Corporate Reporting.

To achieve this complementarity most effectively, SASB again recommends drawing on existing expertise in this area, especially the work of the IIRC. Sustainability information that is material to enterprise value creation is likely to be of greatest value to investors when it is part of a coherent, comprehensive approach to corporate reporting. A key element of such an approach is a principles-based framework that articulates the critical interconnections between financial information, sustainability information and other drivers of intangible value. To develop this essential architecture, SASB recommends leveraging the International <IR> Framework, key principles and requirements of the CDSB Framework, and the core elements of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In doing so under the oversight of the IFRS Foundation, it would be possible to create greater alignment between these frameworks and the International Accounting Standards Board (IASB)’s Management Commentary Practice Statement.

Finally, regarding the adequacy of separate funding for an SSB, we would note that, generally speaking, the benefits of sustainability disclosure standards accrue to capital markets as a whole to a significantly greater degree than they do to individual participants. As a result, obtaining funding for standard setters can be challenging. SASB believes the most effective funding model for sustainability disclosure standards involves sourcing from a broad set of market participants, including companies, investors, regulators, and service providers. A balanced mix of funders would serve to minimize real or perceived conflicts of interest. Licensing, educational products, and credentialing are other possible sources of funding.

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?

Given that IFRS Foundation’s widely respected mission and governance structure have prompted support for its work in at least 144 jurisdictions around the globe, SASB believes a newly formed SSB could have immediate, international credibility and legitimacy, matching the

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84 Supra note 1, p. 10.
85 Supra note 25.
86 Supra note 36.
87 Supra note 43.
88 Supra note 44.
89 Supra note 45.
urgency and scale of the market need. As such, the creation of an SSB could minimize the risk of global and jurisdictional fragmentation, and support the information needs of global capital markets, while allowing for additional jurisdiction-specific disclosure requirements.

Although many markets would likely mandate the use of standards issued by an SSB, it should be noted that regulators around the world face unique jurisdictional circumstances that may preclude or delay such action. While this would create a challenge to achieving global consistency, a new SSB would face a somewhat different situation than what the IASB initially encountered at its founding with the widespread existence of domestic GAAP standard-setters. Because the sustainability disclosure system is far less mature than financial accounting standards were when the IASB was established in 2001, we believe global consistency could still be achieved, even in the absence of universal mandatory adoption, if the standards issued by the SSB were used on a voluntary basis in capital markets where they are not mandated. We believe one of the key reasons the IFRS Foundation should play a role in sustainability disclosure standards today is to capitalize on the opportunity to establish global standards before the emergence of the type of jurisdictional fragmentation that persists to this day for financial accounting standards.

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

SASB is encouraged by the Consultation Paper’s acknowledgement that a newly formed SSB would need to build appropriate expertise, and that in order to do so, the Trustees would “decide how best to engage with existing organizations involved in sustainability reporting” and “make use of” their work. These statements demonstrate an appreciation of several important facts, including (a) that existing initiatives have laid important groundwork, obviating a need to “reinvent the wheel,” (b) that in so doing, these organizations have developed valuable experience and expertise in both measurement and disclosure of sustainability topics, and (c) that the road ahead will involve drawing on these existing initiatives, their collective experience, their due process expertise, and their relationships to not only establish but also to maintain sustainability disclosure standards.

First, to establish a baseline for the ongoing work of the SSB, SASB believes the IFRS Foundation should use existing standards and frameworks to help create globally accepted standards for disclosure of sustainability information that is material to the creation of enterprise value. In the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, the “group of five” demonstrated how the combination of our standards and frameworks can help address market confusion and facilitate high-quality, consistent, comparable, and verifiable sustainability disclosure as part of a comprehensive corporate reporting system. We have adapted this graphic to demonstrate how the IFRS Foundation could play a role in accelerating progress. (See Figure A1.)

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90 Supra note 1, p. 11.
92 Supra note 36.
We believe the shared vision described in the joint Statement of Intent, using existing standards and frameworks as "building blocks," can achieve the comprehensive corporate reporting system that global capital markets urgently need. The area "inside the house" of the diagram represents a coherent system for the disclosure of information material to the creation of enterprise value and therefore serves as a model of how the IFRS Foundation can most efficiently and effectively leverage the work of existing framework providers and standard setters, along with that of the TCFD.

The history of financial accounting standards development provides precedents for how the SSB could leverage the work of these existing organizations. If established, SASB believes an SSB should:

- Perform a review of existing standards and frameworks, with an emphasis on the due process used to develop them;
- Develop an understanding of the conceptual frameworks used to develop the existing standards and frameworks;
- Narrow its focus on those standards and frameworks that address sustainability from the perspective of enterprise value creation;
- Satisfy itself that at least on an interim basis the standards are reasonably detailed and complete, with appropriate disclosure requirements;
- Identify the standards and frameworks that satisfy due process conditions and related concerns;
- Adopt those standards and frameworks on an interim basis, with an acknowledgement that companies should use them on a comply-or-explain basis;\(^\text{93}\)

\(^\text{93}\) This approach, whereby a newly formed standard-setting body adopts on an interim basis or otherwise the standards set by another body, has precedent in many similar situations, including the transition from the...
• Establish a conceptual framework to guide the SSB’s work on an ongoing basis, drawing key elements from the conceptual frameworks of the IASB, SASB, and other sustainability framework and standard setters; and

• Establish an ongoing process through which the SSB may develop, amend, and maintain standards either by hiring its own professional staff with sustainability expertise, by bringing in-house the expertise of the existing standard-setting organizations, by contracting with those standard setters, and/or through some other mechanism.

Additionally, given the dynamic nature of sustainability issues, it will be essential for the SSB to consider how it can most effectively “build a bridge” to achieve interoperability with broader standards that reflect an organization’s significant impacts on the economy, environment, and people, especially those developed by GRI. By taking the approach outlined above, the Foundation could benefit from the work that has already been initiated to connect sustainability disclosure focused on enterprise value creation with sustainability reporting that is focused on broader societal impacts and objectives, including achieving the Sustainable Development Goals. This includes the work of GRI as well as the “stakeholder capitalism metrics” recommended by the World Economic Forum’s International Business Council.

Finally, among the “essential requirements” listed by the IFRS Foundation, SASB notes that the clearly defined market need described in Question 1 is a necessary precondition for achieving the first of these requirements: “a sufficient level of global support.” To effectively meet this market need, SASB believes an emphasis on quantitative, industry-specific metrics will be necessary. In the European Commission’s public consultation on the review of its Non-Financial Reporting Directive, users of non-financial information identified the lack of comparability as the primary challenge they face (84 percent of users). Furthermore, an overwhelming majority of all respondents (80 percent) favored the inclusion of “sector-specific elements.” (The desire for comparability may appear inconsistent with the desire for sector-specific elements. However, in our experience, when investors use the term “comparable” in relation to sustainability data, they often mean comparability within a sector because they are making a security selection decision by comparing the relative performance of companies within sectors.) Quantitative metrics play an especially important role in providing investors and other providers of capital with consistent, comparable, reliable information on which to base their decisions.

We believe the increasing global investor support for the use of TCFD recommendations and SASB Standards in tandem (see “About SASB,” in the accompanying letter) reflects a recognition of this important balance between the flexibility of principles-based frameworks and the consistent application of detailed standards—a delicate balancing act well understood by the Foundation in the context of financial reporting. Likewise, the recently announced intent to merge between SASB and IIRC recognizes the value of combining principles-based frameworks

International Accounting Standards Committee (IASC) to the International Accounting Standards Board (IASB) in 2001, from the Accounting Principles Board (APB) to the Financial Accounting Standards Board (FASB) in 1973, and the adoption in the US by the Public Company Accounting Oversight Board (PCAOB) of auditing standards originally set by the American Institute of Certified Public Accountants (AICPA).

94 Supra note 66.
95 Supra note 67.
96 Supra note 68.
97 Supra note 56.
98 Supra note 12, p. 46.
99 Supra note 9.
100 Ibid.
101 Supra note 60.
and more detailed standards, especially when those frameworks and standards share similar conceptual underpinnings as do SASB Standards, the CDSB Framework, the International <IR> Framework, and the TCFD recommendations.

**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?**

SASB believes the “building blocks” approach described in the “Leveraging Previous Work and Existing Expertise” section of the accompanying letter and further details in *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* would establish a more coherent corporate reporting system that could accommodate supplemental jurisdictional requirements to support local public accountability.\(^\text{102}\)

**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?**

SASB appreciates that climate change is a matter requiring great urgency and that related risks are a pressing concern for companies, investors, and other participants in global capital markets.\(^\text{103}\) However, we also note that the recent global pandemic has emphatically demonstrated a compelling need to facilitate more efficient price discovery across a broad range of sustainability risks. And, indeed, providers of financial capital around the world have increasingly called for a comprehensive approach to sustainability disclosure, recognizing the important interrelationships between environmental, social, and governance factors.\(^\text{104}\) For example, the impacts of climate change are likely to create business model disruption among electric utilities, giving rise to knock-on risks more closely associated with social issues, such as access to and affordability of energy.\(^\text{105}\) Conversely, just as climate risk can precipitate social challenges, the reverse is also true. For example, COVID-19 triggered seismic supply chain disruptions, which can fundamentally alter the climate risk profile of an apparel company whose roster of suppliers may require significant reconfiguration.\(^\text{106}\) These are but two examples.

For investors in these and other industries, strong performance on climate issues does not necessarily correlate to strong performance on other sustainability issues that are important for enterprise value creation. For example, a company may have strong performance on environmental factors, but weak labor relations and governance challenges. To make effective capital allocation decisions, investors must evaluate performance on the full range of sustainability issues linked to enterprise value creation. Thus, SASB recommends that the SSB establish standards for the full range of sustainability issues relevant to enterprise value creation, which are likely to be industry-specific in nature.

A decision to focus narrowly on climate disclosure as a starting point would be understandable if the SSB were to be charged with developing sustainability disclosure standards from the ground up. However, SASB has already developed a body of 77 industry-specific standards that address the five dimensions of sustainability outlined in SASB’s *Conceptual Framework*:

\(^{102}\) *International Federation of Accountants (IFAC)*, “Enhancing Corporate Reporting: The Way Forward” (September 11, 2020).

\(^{103}\) Supra note 46.

\(^{104}\) Supra note 6.

\(^{105}\) Supra note 48.

\(^{106}\) Supra note 49.
Environment, Social Capital, Human Capital, Business Model & Innovation, and Leadership & Governance. SASB’s Investor Advisory Group, which represents nearly half of all global assets under professional management,\(^{107}\) has publicly called for companies to use SASB Standards in disclosures to investors.\(^{108}\) Thus, SASB believes the IFRS Foundation could balance the need for urgency in addressing climate disclosure with the market need for a comprehensive solution by:

- Establishing that the remit of the SSB encompasses the full range of sustainability factors that are material to the creation of enterprise value over the short, medium, and long term;
- Adopting or endorsement of existing standards and frameworks accordingly, on an interim basis, as outlined below (see "Leveraging Previous Work and Existing Expertise" in the accompanying letter); and
- Prioritizing amendments to climate-related standards and frameworks—including incorporation of the TCFD recommendations—in ongoing standards-development work. (As the next step in our collaboration, the “group of five” standard setters and framework providers is developing a prototype of a climate standard that integrates the TCFD recommendations with our own content and could serve as a starting point for the SSB’s work.)

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

SASB believes climate-related risk, broader environmental risks, and other sustainability risks cannot be effectively assessed, disclosed, or managed in isolation. See Question 7.

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

A key consideration in the IASB’s *Conceptual Framework* is the primary user. A well-developed understanding of that primary user is critical to the success of standards promulgated by the Board. For sustainability information, the question of the primary user of the data is even more important, because such information is of interest to a wide range of stakeholders. SASB agrees with the *Consultation Paper*’s proposal that, in establishing an SSB, the IFRS Foundation should retain its traditional focus on supporting the decisions of users of financial statements, and we believe that perspective should therefore be reflected in the SSB’s approach to materiality.\(^{109}\) Sustainability information is now recognized as critical to investment decisions because it has significant impact on business value and risk. Accordingly, we believe the SSB should adopt a definition of materiality focused on the creation of enterprise value over the short, medium, and long term.

*Figure A2* visualizes the concept of “nested materiality,” which was introduced in the recent paper, *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*, by “the group of five” frameworks and standard-setters—CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Board (IIRB), and the International Sustainability Accounting Standards Board (ISASB) and the European Union’s Sustainable Finance Disclosure Regulation (SFDR).

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\(^{107}\) Supra note 50.

\(^{108}\) Supra note 6.

\(^{109}\) Supra note 1, pp. 13-14.
Council (IIRC), and SASB. Existing corporate financial reporting, guided by IFRS Standards, sits at the core of this model. The middle square represents a broader set of sustainability information that is not reflected in the financial accounts, but which is nevertheless material to enterprise value creation. We believe this middle square is where the SSB should focus its work. Finally, the largest square captures the broadest set of sustainability information, which would lie beyond the remit of the SSB. It is important to note, however, that the dotted lines in the diagram indicate that materiality is a dynamic concept. Sustainability topics that are considered immaterial to enterprise value creation today may become material over time, either gradually or rapidly due to catalyst events, stakeholder reaction, and regulatory reaction as well as innovation. (Importantly, this dynamic can be bi-directional—for example when regulation is relaxed.)

Figure A2. “Nested” Materiality

As the Consultation Paper points out, the Trustees considered a more broadly defined perspective on materiality that would include an organization’s significant impacts on the economy, environment, and people. This broader perspective on materiality is called “double materiality.” We agree with the Foundation’s conclusion that addressing double materiality would substantially increase the complexity of the SSB’s task as well as the time involved. Additionally, as recently suggested in public discussions of the IFRS Advisory Council, such an approach could involve politicized issues that could create real or perceived threats to the independence of the SSB or its governance.

Based on our experience developing sustainability disclosure standards, we believe it is not possible to manage a single standards development process that meets the information needs of many disparate users and that operates with multiple definitions of materiality. Attempting to

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110 Supra note 36.
111 Supra note 37.
112 Supra note 38.
113 Supra note 1, p. 14.
114 Supra note 40.
meet the information needs of several types of users—including investors, customers, employees, civil society, policy makers, and different types of regulators—with a single standard-setting process risks meeting the needs of none. We also believe it would dilute the Foundation’s focus on its primary audience, providers of financial capital.

It is therefore fortunate that other initiatives have already demonstrated significant leadership in addressing the broadest category of sustainability information, including the sustainability reporting standards developed by the Global Reporting Initiative (GRI) and the “stakeholder capitalism metrics” proposed by the World Economic Forum’s International Business Council (WEF IBC). Such endeavors can serve as complementary “building blocks” to enable disclosure of an enterprise’s contributions to sustainable development in parallel with the more narrowly focused efforts of an SSB. To minimize the burden on report preparers, it will be important to build a “bridge” of interoperability between standards focused on enterprise value creation and those focused on the broader societal, environmental, and economic impacts relevant to sustainable development. (Interoperability would enable preparers to capture data once and use it for multiple purposes.)

Thus, in considering a conceptual framework to guide its work, the SSB should target the middle square in Figure A2 and capitalize on the established work and accumulated knowledge that already exists in this area. For example, SASB has developed and refined a Conceptual Framework for setting sustainability disclosure standards that includes a proposed definition of materiality that is both well-aligned with that of IAS 1 and more closely tailored to the unique characteristics of sustainability information. By adopting this approach to materiality, the SSB could codify the significant portion of “the group of five’s” shared vision that is focused on enterprise value creation, drawing on the existing standards and frameworks already built for that purpose, including those of the IIRC, CDSB, SASB, and the TCFD.

We also think it is important to clarify that the term “financial materiality” is sometimes used differently by accountants, investors, and other users. For example, we have observed that when accountants talk about financial materiality, they are often focused on concepts of recognition and measurement in the financial statements—that is, ensuring that assets, liabilities, and book equity are reflected appropriately on the statement of financial position. When investors talk about the financial materiality of sustainability issues, they are often referring to a broader information set that can provide insight into the current and future market value of an entity. Because market valuations of companies are increasingly driven by off-balance-sheet intangible assets, sustainability-related financial disclosure (as SASB uses that term) consists of disclosure topics and metrics that provide insight into drivers of enterprise value, including intangibles. Thus, conceptual frameworks developed for financial accounting standard-setters need to be slightly adapted for sustainability disclosure standard-setting. This is the primary reason why SASB’s Conceptual Framework is similar to, but not identical to, the IASB’s and includes the concept of industry-specificity and the characteristics of decision-useful, actionable metrics.

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115 Supra note 3.
116 Supra note 42.
117 Supra note 43.
118 Supra note 44.
119 Supra note 45.
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?

SASB welcomes the IFRS Foundation’s acknowledgement that sustainability disclosure standards intended for use by global capital markets will need to support independent external assurance. SASB’s Standards Application Guidance suggests that “a reporting entity should design, implement, and maintain a system of governance around developing and disclosing sustainability information—including management involvement, board oversight, and internal control—that is substantially similar to what it uses for financial reporting.”120 Of the metrics included in SASB’s 77 industry-specific Standards, 74 percent are quantitative, with underlying technical protocols that are designed to serve as a basis for suitable criteria in an independent, third-party assurance engagement.

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

As technology influences both corporate reporting and investment analysis, we believe the concept of “reporting” will significantly evolve for the better. Today’s sustainability data supply chain includes many data providers who rate companies with proprietary ESG scores. There is a growing demand for raw (or source) sustainability data. In other words, investors want access to the underlying, company-reported data on which ESG scores are based. The key to providing raw (or source) sustainability data is through transparent, structured reporting mechanisms using established technology formats like XBRL (eXtensible Business Reporting Language). XBRL is an effective way to make structured and machine-readable sustainability data available alongside financial information in an integrated format. As such, digitization could democratize sustainability data, ultimately reducing the cost and improving the effectiveness and decision-usefulness of this information. This is the primary reason why SASB is engaged in publishing its XBRL taxonomy and making it available to the market. We believe that market participants, companies, and governments will only make the infrastructure investments needed to enable digitization on a large scale if there is a generally accepted system of international disclosure standards. In this context, the creation of an SSB under the IFRS Foundation could be a significant enabler of digitization.

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120 Supra note 55, p. 3.