

**Investment Consultants Sustainability Working Group (“ICSWG” or the “Group”):
Response to The International Financial Reporting Standards (“IFRS”) Foundation’s public
consultation entitled “Consultation Paper on Sustainability Reporting”**

The ICSWG welcomes the IFRS Foundation’s public consultation to identify the demand from stakeholders in the area of sustainability reporting and the invitation to provide comments on the paper. We are also grateful for the time provided by Lee White, Executive Director of the IFRS Foundation, to afford our Group the opportunity to engage and discuss the objectives of the IFRS trustees on a deeper level.

Who is the ICSWG?

The members of the ICSWG include seventeen firms that undersigned this response. We represent a broad spectrum of the UK investment consulting industry and work closely with a wide array of stakeholders, including asset owners, asset managers, platform providers, regulators and non-governmental organisations. We aim to engage with all relevant stakeholders and give added power to asset owners and their ultimate beneficiaries in order to seek genuinely sustainable investment outcomes.

One of the main objectives of the ICSWG is to ensure that the investment industry, including trustees of pension schemes, is better informed and accounts for climate-related risks and opportunities in their investment decisions. As a Group, we are fully behind the UK Government’s Net Zero 2050 target and align with the EU Climate Law.

Objectives aligned

Sustainability reporting is an essential ingredient in ensuring genuinely sustainable long-term outcomes for all stakeholders. The absence of credible, relevant and globally comparable reporting standards implies a large gap in this area. Consequently, any proposals that enhance consistency, comparability and transparency in sustainability reporting standards and disclosures must be welcomed.

The IFRS Trustees’ objective to establish a Sustainability Standards Board (SSB) is strongly welcomed by the ICSWG. The establishment of a global framework to provide greater consistency, transparency, comparability and a reduction in the complexity of approaches and objectives in sustainability reporting is aligned with the ICSWG’s objectives and therefore strongly supported by us. The ICSWG views such proposals as an opportunity to help ensure an alignment between key players in the industry and prompt further positive action for the benefit of ultimate beneficiaries.

The Group is mindful that practical considerations favour commencing with a narrow scope towards sustainability reporting requirements and materiality focus. However, in order to fully effect the requirements for a comprehensive and globally harmonised corporate sustainability reporting framework, broader definitions for both the scope of the reporting structure and materiality need to be addressed. To ensure broad-based stakeholder support, the Group suggests that the IFRS Foundation is clear from the outset about its intention to broaden the scope of sustainability reporting and include a broader definition of materiality. This could be outlined in a roadmap detailing the Trustees’ plan and implementation timeline. This should help reduce uncertainty and assist various stakeholders align their own implementation timelines for embedding sustainability reporting in decision making processes.

ICSWG views on the IFRS Consultation document

This is a collective response from the ICSWG, but our members may also respond individually. The focus of our response is guided by the questions commencing on page fifteen of the said document.

Supportive of IFRS driving a global reporting standards framework (Questions 1 and 2)

The ICSWG agrees that there is a need for globally recognized and aligned sustainability reporting standards. We welcome and are supportive of the IFRS Foundation playing a leading role in driving this outcome by establishing a Sustainability Standards Board (SSB). The credibility and the global reach of the IFRS Foundation and the International Accounting Standards Board (IASB) are well-established and well-placed to drive this initiative forward.

We are mindful that there are various other organisations (regulatory bodies, industry bodies, investor groups, NGOs) that are producing inputs in ESG reporting standards. We are supportive of, and encourage, the IFRS Foundation establishing a sustainability reporting standards framework by working with existing initiatives and, where appropriate, building upon their work. We would not want the IFRS Foundation's initiative to be to the exclusion of other appropriate groups. Our preferred approach is collaboration across various organisations and initiatives.

The ICSWG is in favour of a broad-based consultation to establish suitable sustainability reporting standards that enhance transparency, accountability and efficiency at a global scale, while recognising differing perspectives among regional stakeholders on issues such as "double materiality". We believe it will be beneficial for the IFRS Foundation to use its relationships with stakeholders to aid the adoption and consistent application of the SSB standards globally with room to reflect and 'top up' global standards in more advanced regulatory environments or where jurisdictions have specific additional information needs.

Funding and expertise (Question 3)

The Group believes it is both important and necessary to ensure access to a broad and suitable range of skills and ensure the relevant technical expertise is part of the solution. Processing and dealing with both qualitative and quantitative information and ensuring consistency and comparability across regions will require resources and funding. Resources should not be overly weighted to the IFRS's existing strengths in traditional financial reporting.

We would expect the IFRS to draw on the skills and expertise from other existing global entities involved in sustainability reporting and assumption/scenario setting. Our understanding is that there will be full disclosure of the source of the funding.

Collaboration with other industry bodies (Questions 4, 5 and 6)

The Group believes effective engagement and collaboration with other regulatory and industry bodies is critical and essential for the success of the SSB. We would therefore strongly encourage this. Recognition of different perspectives across various stakeholders and jurisdictions is important. Following from this, the Group welcomes discussions and engagement with global initiatives, such as The Sustainable Finance Network of IOSCO, the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), Partnership for Carbon Accounting Financials and regional initiatives such as the European Financial Reporting Advisory Group (EFRAG).

We are also very supportive of the Trustees using and building on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) which has already laid out a strong foundation for climate-related financial disclosures.

Scope (Questions 7 and 8)

The Trustees are seeking feedback on whether the SSB should initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting.

The Group notes that the focus of the IFRS paper as well as the objectives and priorities as laid out, for now at least, are narrow. Ultimately, the ICSWG is seeking, on behalf of our stakeholders, a comprehensive set of global sustainability reporting standards.

However, we are mindful that covering the full scope and breadth of sustainability factors and reporting requirements from inception may well prove too onerous which could impact quality and delivery. Trying to broaden the focus too much from the start could fail to achieve the objectives in a timely way. The pressing need and acknowledgement that time is of the essence to put a suitable and credible reporting framework in place implies that a practical approach should be taken.

Consequently, we are supportive of the IFRS Foundation's proposal to prioritise and initially develop climate-related financial disclosures and standards before broadening its remit into other areas of sustainability reporting. It seems appropriate to commence with a focussed definition of climate-related risks and broaden the scope to incorporate other environmental impact factors and sustainability reporting more generally in due course. In addition, dealing with granularity and broad-based international standards, will need to be navigated carefully. This may have implications for the definition of materiality (discussed further below).

In order to ensure strong buy-in to the process, manage the expectations across stakeholders and enhance the credibility of the SSB, the Group suggests the Trustees provide a roadmap clearly detailing the planned scope of standards ultimately to be included within the SSB. The roadmap should include an anticipated timeline to develop the various standards, perhaps on a thematic basis starting with climate-related reporting. This would provide the industry with future direction and guidance.

Materiality (Question 9)

The current IFRS Standards, and focus for the time being, are based on the concept of financial materiality and focus on ensuring relevant (material) financial information and risks, specific to the reporting entity, are included. As such, we understand that the Trustees' proposed approach for the SSB is to commence with focusing on the sustainability information that is directly relevant to the financial performance of the reporting entity, as this would support the decisions of investors and other market participants (the prime audience for financial reporting). Then at a later date, the SSB may consider broadening its scope.

We are of the view that this focus is too narrow. Our preference is to incorporate broader environmental and societal implications and factors impacting people, communities and the environment connected to a reporting entity's activities and business relationships. As the focus of the ICSWG is towards ensuring more sustainable investment outcomes, driving a reduced carbon footprint for broader society and supporting the UK government's Net Zero path, our preference is that the IFRS Foundation's objective from the outset should include both definitions of materiality, or "double materiality".

We view ESG data as having two principal investor uses. First, to enable portfolios to be adjusted or constructed to achieve improved risk-adjusted returns; and second, to enable engagement with companies to drive behavioural change to reduce risk. With the latter being increasingly important for investors, a broader range of information is required about a company's policies, risk management and strategy than the former which could be largely achieved by using corporate metrics.

The availability of credible, consistent, comparable information is important to allow decision makers to act on ESG-related financial risks and opportunities. Incorporating a broader definition of materiality should, in our view, lead to better risk pricing at a corporate entity level as well as transparency and disclosure around ESG risk factors. Capturing this broader definition of materiality from the outset should help better manage how various stakeholders understand and address the challenge and ultimately lead to better outcomes for all stakeholders.

In addition, we would like to note the TCFD's top-down approach to reporting, whereby the focus is on a company's business model and strategy, the associated risks and opportunities and investment needed to achieve transition to a net zero state. Rather than focusing on a narrow set of metrics, such an approach is preferred as the basis for future sustainability standards.

However, whilst the ICSWG's preference is a double-materiality focus, we are mindful that it may prove challenging and not be practical for the SSB to commence with such a broad remit.

We are supportive of the suggestion in the PRI's response to the IFRS Consultation for a modular approach to harmonisation that allows jurisdictions to move at different speeds, but still acknowledges the different concepts of materiality and the different uses and users of sustainability information. It seems sensible that the IFRS Foundation should commence with an investor and financial materiality focus as a core "building block". In this regard, we also note the FCA comment in their response that this will help to promote consistency between the sustainability information in companies' annual financial reports, and the financial statements in those reports. Ultimately, the objective is to incorporate sustainability reporting initiatives that cover companies' sustainability performance, which would be the second "building block" of global standards.

As with establishing credibility around the scope of the ESG reporting structure, the Group would like to see a roadmap clearly illustrating the process, steps and development of reporting standards to be taken by the IFRS Foundation to achieve the broader definition of materiality.

Going forward

The Group welcomes the engagement with the IFRS Trustees and the opportunity to contribute towards establishing a global framework for sustainability reporting that provides greater

comparability, increased consistency, transparency and accountability, leading to better outcomes for all stakeholders. The establishment of a Sustainability Standards Board would be a significant and hugely positive step in this regard and, subject to appropriate collaboration with support from other leading organisations working in this area, one we fully support. Our objectives are aligned.

We look forward to working with your organisation to reach outcomes that are in the interests of all stakeholders.

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