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Submitted electronically via [www.ifrs.org](http://www.ifrs.org)

IFRS Foundation  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear IFRS Foundation Trustees,

Re: Consultation Paper on Sustainability Reporting

The Canadian Accounting Standards Board (AcSB) appreciates the opportunity to respond to the International Financial Reporting Standards (IFRS) Foundation Trustees Consultation Paper, “Sustainability Reporting” issued in September 2020.

### **Who we are and our process**

The AcSB is an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

In developing our response, we have leveraged the learnings obtained during recent work on our [Framework for Reporting Performance Measures](#) (the Framework). The Framework provides voluntary guidance designed to enhance the relevance of financial reporting. The Framework was created to help entities – from public to private companies, to not-for-profits and pension plans – improve the quality of financial and non-financial performance measures they choose to report outside of the financial statements. The Framework sets out what we think is best practice guidance for:

- selecting, developing and reporting performance measures; and
- implementing and maintaining controls and governance practices.

In preparing our response, we also sought input from our [User Advisory Committee](#) to assist us in reflecting our continued focus on users’ need for relevant financial and non-financial information to enable them to make well-informed decisions.

## Our views

We are supportive of the direction of this consultation paper because of the urgent demand for sustainability information and we think the IFRS Foundation is uniquely positioned to play a role given its structure and current relationships with stakeholders.

We agree with dealing with climate-related matters initially to address the urgent need, but we encourage the IFRS Foundation to think more broadly when considering the scope of the new Board, and consider, at the appropriate time, going beyond sustainability to other types of non-financial information or metrics that may be contained within or outside the financial statements. We encourage the Foundation to be mindful of the wide range of stakeholders that may apply these standards, including the range in types and sizes of entities. The Foundation should also consider the full range of information that users are relying on to make investment decisions.

Finally, we strongly agree with the need to move quickly in the development of these standards. It is imperative that the IFRS Foundation leverages existing guidance and considers changes in the current due process for IFRS Standards to expedite the process while producing high-quality standards.

## Applicability of the Standards

We commend the IFRS Foundation Trustees for developing this consultation paper. There is a growing demand in Canada and globally for reporting beyond that which is provided in the financial statements, including information impacting sustainability. A single set of high-quality global standards will be greatly welcomed in this area to address the urgent need to improve the consistency and comparability of this reporting.

The landscape of entities in Canada includes some large publicly accountable entities; however, the overwhelming majority of Canada's publicly accountable entities are small to mid-sized. Additionally, approximately 300 Canadian publicly accountable entities are dual listed on a U.S. securities exchange and our jurisdiction represents the highest number of foreign private issuers based on our review of data of foreign domiciled entities listed on a U.S. securities exchange. We also have over 1.2 million private employer enterprises, with over 80% of these enterprises having less than 10 employees and most of the remaining having less than 100 employees<sup>1</sup>. Additionally, we have over 156,000 not-for-profits in Canada with again the majority having less than 10 employees<sup>2</sup>. We also have over 16,000 pension plans in Canada<sup>3</sup>.

Each of the different types of entities in Canada currently include non-financial reporting in the information provided to users and may apply a myriad of frameworks when disclosing sustainability information. Publicly accountable entities provide sustainability information in environmental, social and governance (ESG) reports and public accountability statements. For example, banks, insurers, and trust and loan companies in Canada are required to prepare a public accountability statement by the prudential regulator, subject to certain conditions. We are also noticing a trend from private equity driving the need for this information with our private enterprises. For instance, BlackRock, the world's largest asset manager, is planning to make environmental sustainability a key part of its investment strategy and has been advocating for companies and investors to consider ESG risk and opportunities.

<sup>1</sup> Source: Statistics Canada, Business Register, June 2019

<sup>2</sup> Source: CharityCan (2016 T3010 Data)

<sup>3</sup> Source: Statistics Canada, Business Register, June 2019

Brookfield Asset management, a Canadian company and a leading global alternative asset manager, launched a series of impact funds this year starting with a global transition fund, that will focus on investments that accelerate the world's transition to a net-zero carbon economy. Additionally, not-for-profit organizations are disclosing metrics on sustainability in their annual impact reports as there is increasing external pressure to demonstrate accountability and transparency. Recently, the largest pension funds in Canada joined forces to help shape a future defined by more sustainable and inclusive economic growth by integrating ESG factors into their investment strategies and decisions.

As demonstrated above, any global standards would need to consider scalability. Each jurisdiction would need to decide whether entities are required to apply the standards, otherwise adoption would be voluntary. However, to facilitate the broadest acceptance, the standards need to be scalable. The standards also need to be capable of application by all entities, not only entities that apply IFRS.

We also note that the consultation paper does not refer to public sector entities, comprised of governments and their controlled entities. Public sector entities represent a large portion of the Canadian economy. We refer you to the response from the Canadian Public Sector Accounting Board for further details on public sector entities.

### **Global solution**

We acknowledge the urgent need for a global set of sustainability standards. As mentioned in the consultation paper, there is a strong need to improve the comparability and consistency of sustainability information on a global scale.

In Canada, for example, our government created a large employer emergency financing facility (LEEFF) program to respond to COVID-19. The objective of this support is to help protect Canadian jobs, help Canadian businesses weather the current economic downturn, and avoid bankruptcies of otherwise viable entities. The liquidity provided through LEEFF will allow Canada's largest businesses and their suppliers to remain active during this challenging time and position them for a rapid economic recovery. A condition for this funding is for the entity to provide a report on climate-change and sustainability-related risks and opportunities. This reporting will likely require companies to develop forward-looking plans to contribute to Canada meeting its net-zero by 2050 goal under the Paris Agreement.

When we were discussing the Framework with users, the topic of sustainability and more broadly, ESG, was raised. The feedback received noted a growing focus on entities that operate for social and/or environmental purposes. Furthermore, users are looking for more information around sustainability to obtain a better understanding of how that information can be considered in their analysis of an entity.

Currently, there is an extensive body of work that exists on ESG reporting, much of which is applied by entities in Canada to varying degrees. It is important to build upon this work that has been done by other groups such as the CDP<sup>4</sup>, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB)<sup>5</sup> and the Task Force on Climate-Related Financial Disclosures (TCFD). We encourage the IFRS Foundation to work closely with these groups to help identify gaps in existing sustainability guidance and develop high-quality standards in a timely manner.

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<sup>4</sup> Formally known as the Carbon Disclosure Project

<sup>5</sup> On November 25, 2020 the IIRC and SASB announced intent to merge into a unified organization, the Value Reporting Foundation in 2021.

A global solution would be extremely beneficial as multiple frameworks reduce comparability. The standards also need to work across various industries. While we acknowledge that this would be a departure from the International Accounting Standards Board (IASB)'s current industry agnostic way of standard setting, we think this is important to address the differing needs across industries.

Global acceptance is necessary for a set of standards to be capable of application. In that regard, each jurisdiction would have to determine whether the standards are fit for purpose in their respective jurisdiction. As noted above, factors that would contribute to global acceptance include the scalability of the standards and their suitability to all types of entities, including those entities that are listed in multiple jurisdictions.

Global enhancement would also be improved by working with other jurisdictions and considering the work currently being carried out in those jurisdictions. For example, from a financial reporting perspective, the IASB and the Financial Accounting Standards Board in the USA have a good working mechanism to try to minimize differences where possible.

### **The Governance Structure of the IFRS Foundation is uniquely positioned to be a starting point for a global solution**

While the IFRS Foundation does not have the expertise specifically in sustainability reporting, we think the Foundation is uniquely positioned to help in this area due to the governance structure and due process already established. That underpinning, coupled with the relationships with other key stakeholders including regulators, international bodies, and national standard setters, provides a good starting point for the creation of a new Board. However, unlike financial reporting, the range of stakeholders that would be interested in sustainability is much broader. For example, Barrick Gold Corporation, Canada's largest mining company, has an environmental and social oversight committee that helps connect site-level ownership of sustainability with its Board of Directors, which holds the ultimate responsibility. The Committee consists of the President and Chief Executive Officer, Chief Operating Officers in each region, Group Sustainability Executive, Mine General Managers and Regional health, safety, environment, and community leads demonstrating the breadth and depth of stakeholders involved in sustainability. Thought will be needed as to how to engage with this broader stakeholder base and whether the current due process that is followed for IFRS Standards is fit-for-purpose.

As previously noted, it is necessary for the standards to be accepted by other jurisdictions, including regional authorities within those jurisdictions. The IFRS Foundation has proven its ability to achieve global acceptance in the application of IFRS Standards with 144 jurisdictions requiring IFRS Standards for all or most of their publicly accountable entities and 13 additional jurisdictions permitting or requiring IFRS Standards for at least some domestic publicly accountable enterprises.

The consultation paper does not explain the funding for this new Board. A better understanding is needed of the funding structure that the IFRS Foundation deems appropriate. The Foundation is funded by voluntary contributions from jurisdictions, international accounting firms and revenue from the sale of IFRS-related products. Consideration should be given if the funding structure currently in place is applicable for the scope and mandate of a new Board.

## **Interconnection between financial reporting and non-financial reporting**

Another reason that the IFRS Foundation is uniquely suited to develop a new Board is the interconnection between financial and non-financial reporting that exists. Having the oversight be retained by one body provides an excellent structure for interconnected reporting. It is imperative that financial reporting and non-financial reporting, such as ESG reporting, are not be done in silos.

There are financial reporting considerations currently being discussed by the IASB, such as the use of management performance measures, that would be beneficial in discussions on sustainability reporting. Another example of the interconnection between financial reporting and climate-related matters could be IFRS 13, *Fair Value Measurement*. When the fair value of an asset is affected by climate-related risks, a company may need to disclose how it factors climate-related risk into the calculations. Taking the needs of users into consideration, users would like to see the integration of all information and the impact the information would have on their evaluation of a company.

## **Scope of the standards, composition of a new Board and criteria for success**

The scope for this Board needs to be well-defined. While we agree that the new Board should focus initially on climate-related disclosures, consideration of the Board's overall scope should be given at the outset. In particular, the IFRS Foundation Trustees could consider a scope beyond climate-related reporting, and even sustainability reporting, to potentially addressing the demand for broader non-financial information outside the financial statements. When consulting with our User Advisory Committee, they questioned how sustainability and climate-related risks were defined. In that regard, we think that, in addition to defining the scope of the Board, defining terms such as sustainability and climate-related risks will define the scope in this area as those terms could be narrowly or broadly interpreted.

Referring to the Board as a 'Sustainability Board' ringfences the scope of potential work in the future. While the demand for sustainability information is significant, there is also a strong demand for other non-financial information outside the financial statements and this Board could potentially play a role in that area in the future.

Regarding the requirement for expertise by the Board members and staff, the Board needs to have a balance of varying expertise. For example, members of existing sustainability bodies could help bring expertise necessary for the development of climate-related reporting standards. In addition, we note that this expertise would need to come from individuals that do not have an accounting background; rather, experts such as engineers would be necessary. However, we also note that consideration will need to be given to the longer-term objectives of the Board beyond climate-related reporting standards when deciding on the composition of the Board and staff.

The oversight of this Board also needs to have the breadth of knowledge to be effective in monitoring work on sustainability due to the broader stakeholder base. As the IFRS Foundation Trustees would provide oversight to both the IASB and the new Board, the current composition might need to be revisited. However, in doing so, it is crucial that the Trustees' current effective oversight of the IASB not be compromised.

Again, one of the key metrics for success for this Board would be the development of high-quality standards with a sense of urgency. While quality and due process should not be compromised, the

traditional standard setting process that exists for IFRS Standards might not be appropriate at addressing the urgency of these issues.

### **Leveraging existing initiatives and development of standards**

As mentioned above, we think the first step in the development of new standards would be to consider the work that has been developed by other existing bodies. The new Board should gather data on why current standards have been developed and the widespread use of these frameworks to build upon and create standards that are fit for purpose.

The new standards should be principles-based including both quantitative and qualitative disclosures. As mentioned earlier, to improve comparability, metrics might need to be more industry specific, focus on how management makes decisions and information material to enterprise value creation, as users are seeking this data for their decision making. Stakeholders are also increasingly interested in how an entity creates value without causing harm to society or the environment.

The Framework describes principles for selecting, developing, and reporting high-quality performance measures and we think that many of these principles may be of assistance in the development of sustainability standards. This includes developing strategies and objectives that link to value creation, value realization and remuneration. The Framework also discusses characteristics of high-quality performance measures that a comprehensive global solution would require such as relevance, faithful depiction, consistency, comparability, verifiability, timeliness, and understandability.

### **Auditability**

Users have told us that it is important that the information is relevant, consistent, comparable, transparent, credible and reliable. These factors contribute to the information being of high-quality. In working towards standards that will embody these factors, we would encourage an approach that balances the interplay between relevance – including timely development of usable standards – versus reliability; we would hope that those who feel reliability needs to be demonstrated by audit of this information would support getting the standards published and allowing the necessary time for the audit considerations to follow. Furthermore, publicly listed entity's financial statements are audited. However, the entity's Management Discussion and Analysis (MD&A) is not; rather, it is read for consistency. The Framework project also demonstrated that, even though one is audited and the other is not, users did not place different weight on the value of the information provided in the financial statements and MD&A.

We do think that a long-term goal should be that the information is audited while not sacrificing the factors mentioned above that users deemed important. Although the nature of sustainability information is more forward looking, there are examples of financial reporting standards that require some forward-looking considerations – such as IFRS 9, *Financial Instruments* and the expected credit loss model.

Finally, if the Foundation does move forward with a new Board, a close working relationship with the Public Interest Oversight Board that oversees the work of the International Auditing and Assurance Standards Board is needed. We refer you to the Canadian Auditing and Assurance Standards Board letter for more details on the question of auditability.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Kelly Khalilieh, Director, Accounting Standards (+1 416 204-3453 or email [kkhalilieh@acsbcanada.ca](mailto:kkhalilieh@acsbcanada.ca)) or Katharine Christopoulos, Senior Principal, Accounting Standards (+1 416 204-3270 or email [kchristopoulos@acsbcanada.ca](mailto:kchristopoulos@acsbcanada.ca)).



Linda F. Mezon, FCPA, FCA, CPA (MI), CGMA  
Chair, Canadian Accounting Standards Board  
[lmezon@acsbcanada.ca](mailto:lmezon@acsbcanada.ca)  
+1 416 204-3490