



IFRS Foundation
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Via email: commentletters@ifrs.org

December 22, 2020

Dear Sirs/ Madam

Re: Consultation Paper on Sustainability Reporting

We appreciate the effort that the IFRS Foundation has undertaken to consult on advancing the consistency of sustainability reporting and for the opportunity to comment on your consultation paper.

The purpose of a company in society is changing and so are the demands on what it reports. Long term enterprise value is not only assessed in financial terms but also with regards to a company's sustainability. Investors and broader stakeholders are increasingly demanding more strategic, holistic information about long term value creation and a company's wider impact on society.

There is an urgent need for such sustainability (that is, ESG - environmental, social, governance) information to be reported in a way that is globally consistent, comparable and trusted. We support the development of a single set of global sustainability reporting standards to address the needs for corporate reporting beyond financial reporting. We believe this can be achieved by creating an independent Sustainability Standards Board ('SSB') within the sphere of the IFRS Foundation.

Using this structure, experience and due process will allow a move forward at pace. A structure that includes both the IASB and new SSB will facilitate a coherent approach to standard setting that supports the interconnectivity between financial and non-financial reporting.

The SSB should focus on enterprise value, addressing where there is overlap between the needs of investors and broader stakeholders and producing standards that address these needs. In this way it will be creating a 'baseline for sustainability reporting'.

It should work closely with the major existing sustainability standard setters focused on a wider stakeholder population and impact, being ready to act at pace when impact reporting areas become material to enterprise value (e.g. diversity and inclusion in 2020).

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The SSB should leverage the best of existing standards, focussing, at least initially, on areas of commonality on the topic of climate to act quickly. Collaboration will be a key requirement to making progress and achieving harmonisation and comprehensive sustainability reporting standards that address investor and stakeholder needs beyond financial reporting. Wherever possible, existing standards issued by global bodies should be leveraged to allow rapid progress.

In parallel the SSB should set up a consultation process to identify sustainability areas to prioritise after climate. A detailed plan and timelines should be developed for adoption of these priorities and the SSB should be held accountable to ensure that standards are developed quickly. A key element of this consultation will be working with existing sustainability framework and standards setters.

It is clear that businesses, investors, auditors, governments including regional government agencies, stock exchanges, regulators, standard setters, industry bodies and consumer associations and broader societal stakeholders all have a role to play in making this a success.

Markets can only reward actions that they know about, and customers and broader stakeholders can only gravitate to responsible businesses if they can tell which businesses are responsible. To reward sustainable value creation, stakeholders need to receive information that facilitates this understanding.

We acknowledge that in pursuing goals beyond enterprise value (SSB 'baseline standards') with respect to the societal impact of sustainability issues or specific policy goals, governments and regulators may require 'add ons' to these baseline standards to reflect their goals. Where possible they should use definitions and metrics that source from existing sustainability standards. Where these are well defined/ commonly understood and this will help avoid divergence and confusion. They should not issue their own standards creating more divergence. Where gaps are identified, the SSB and/ or 'impact' focused standard setters should address them.

The robust system we have for the financial components of value is critical to an understanding of broader forms of value creation. We need a harmonised globally aligned system with clear and common standards, comparable metrics and robust assurance to eliminate fragmentation.

Of course, we recognise that the task ahead of the IFRS Foundation is not a simple one. Yet, with your efforts, the right strategic planning and focus, and the cooperation of key stakeholders, we are confident that globally consistent standards are achievable on an accelerated timetable.

This is truly an exciting time and an exciting opportunity: we are crossing the threshold to a fundamental change in corporate reporting. We look forward to working closely with the IFRS Foundation and to continuing to share our perspectives as these initiatives progress.



Please see the appendix to this letter for our more detailed responses to your questions.

If you have any questions about our response, please contact Henry Daubeney

Yours faithfully

A handwritten signature in blue ink that reads "PricewaterhouseCoopers". The signature is written in a cursive style and is positioned above the typed name and contact information.

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Appendix - Response to Consultation Questions

Question 1

Is there a need for a global set of internationally recognised sustainability reporting standards?

(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?

(b) If not, what approach should be adopted?

Yes, we do believe that the IFRS Foundation should play a role and expand its standard setting activities in this area.

We want to see a transition to a globally aligned system that ensures that non-financial reporting has the same robustness as financial reporting: a system that is aligned with the vital elements of a thriving, sustainable economy and society. Accordingly, we support the development of a single set of global sustainability (that is, ESG - environmental, social, governance) reporting standards to address investor and stakeholder needs for corporate reporting beyond financial reporting and we believe this can be achieved by creating a Sustainability Standards Board ('SSB') within the sphere of the IFRS Foundation.

For a reporting ecosystem to be effective, financial and non-financial reporting need to co-exist and not operate in silos. Adequate inter-connectivity between International Financial Reporting Standards (IFRS) and non-financial reporting is likely to be best accomplished when both frameworks are developed under the same roof. Furthermore, the IFRS Foundation's credibility, experience, and due process in standard setting for financial reporting standards will help to promote broader acceptance with preparers, investors and other stakeholders.

There is an urgent need for such sustainability information to be reported in a way that is globally consistent, comparable and trusted.

A structure that includes both the IASB and new SSB will facilitate a coherent approach to standard setting that supports the interconnectivity between financial and non-financial reporting.

The SSB should initially focus on enterprise value, addressing where there is overlap between the needs of investors and broader stakeholders and producing standards where there is common ground that addresses these needs. In this way it will be creating a 'baseline for sustainability reporting'.

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?

We recognise that the IASB has a strong governance structure and is a well respected independent standard setter. Its work has led to the successful adoption of IFRS in much of the world. However, we also recognise that the IASB structure was developed for a different purpose and that widespread adoption of IFRS occurred over many years. As IFRS developed there were few competing global accounting standard setters but the current landscape is quite different from what the IASB experienced.



Although the IASB governance structure ultimately led to successful adoption of IFRS, it will be important to consider whether any simplifications can be made in the early stages of the SSB in order to balance an appropriate level of oversight and recognition of the work of other standard setters with the need for adoption of clear standards with application guidance at a fast pace.

To support the interconnected ecosystem of financial reporting, non-financial reporting and management commentary, coordination of the SSB with the IASB is critical and adequate resources need to be put in place to support both organisations to move forward on an integrated basis. The Foundation Trustees should oversee such coordination and ensure that both the IASB and SSB are held accountable in meeting their strategic objectives in their respective field of responsibility.

Question 3

Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

A robust strategic plan with both short, medium and long-term objectives and priorities will be important to achieving the IFRS Foundation's objectives. This strategic plan should outline how broader ESG issues will be incorporated into the standards. The plan should define "success" and include KPIs that will be reported with an aim of holding both the IASB and SSB accountable against these metrics.

In addition, it will be necessary to address whether the Board will provide more detailed implementation guidance than the IASB, including industry implementation guidance. Industry focussed implementation guidance is viewed as important by preparers and users to drive consistency in the short term (i.e. the risk of inconsistency in application is even greater in this area because of the novelty of the subject matter). Having input from key industry groups will be important to drive widespread adoption.

Working with regional initiatives is highlighted in the consultation, but the strategic plan should also acknowledge existing global initiatives and how the SSB would work with them and capitalise on their knowledge and success. With a narrow focus on climate change as a starting point, it is likely that these other global initiatives will continue to exist until a full set of ESG standards is developed and serve an important role in providing guidance for items that have not been included in the SSB standards. Getting those other organisations and regional initiatives to buy in to the SSB's mandate and work together will be important. We recognise in some cases that competing objectives and competition for limited resources may also present challenges.

As mentioned previously, interconnection with the financial reporting framework is important and we presume that interconnectedness with IFRS will be a priority. It is important to acknowledge that the United States is unlikely to adopt IFRS in the near term. However, maintaining a close connection with US developments in this area will be important. The aim should be to converge in areas where such convergence makes sense due to the non-financial metric subject matter because IFRS and US Generally Accepted Accounting Principles are aligned.



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?

Yes, working with stakeholders is critical if the standards are to be adopted as a global framework. The IFRS Foundation and IASB already have strong relationships with investors, preparers, local standard setters and regulators. These relationships should help in gaining acceptance of such standards from those groups. It will be important that such regulators and national or regional legislators are willing to promote the mandatory adoption of developed standards in order for them to gain widespread acceptance. The SSB should plan on emphasising to such groups that the reporting of such information will ultimately drive healthy, competitive, and transparent capital markets and improve overall communication of value creation and the social license for operations.

IFRS Foundation and IASB relationships with broader stakeholder groups are likely currently less developed. However, working with existing global initiatives that have relationships with broader stakeholder groups could help to build these relationships.

Question 5

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

The importance of working with existing initiatives cannot be overemphasised. As mentioned earlier, the situation for non-financial reporting is different from the origin of IFRS because robust global frameworks have already been developed by groups such as GRI, TCFD, and SASB amongst others.

Without robust working relationships with these groups and willingness to make use of their experience and skills it will be difficult if not impossible to develop a set of standards that gain widespread acceptance on a timely basis. “Starting from scratch” would unlikely be acceptable to any of the key stakeholders.

The nature of the working relationship with other global standard setters will have to be understood and developed as a strategic priority including how resources (monetary and staff) will be put to their highest and best use.

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?

The SSB should focus on enterprise value, addressing where there is overlap between the needs of investors and broader stakeholders, producing standards where there is common ground that addresses the needs of both investors and broader stakeholders between these parties. In this way it will be creating a ‘baseline for sustainability reporting’.

While focussing on baseline standards, it will be important for the SSB to understand the expectations of significant regional regulators and their objectives. These “regulators” may include securities regulators, stock exchanges and legislative bodies.



Some regions are further ahead than others and so the SSB's initial standards may be a subset of reporting required in some jurisdictions and may be the first required standards to be adopted by others. It will be important for the SSB to work closely and co-ordinate with these regional regulators.

We acknowledge that in pursuing political goals beyond enterprise value (SSB 'baseline standards') with respect to the societal impact of sustainability issues or specific policy goals, governments and regulators may require 'add ons' to these baseline standards to reflect their goals. Where possible they should use definitions and metrics that source from existing sustainability standards. These are well defined/ commonly understood and this will help avoid divergence and confusion. They should not issue their own standards creating more divergence. Where gaps are identified, the SSB and/ or impact focused standard setters should address them.

For regions with existing reporting requirements, an understanding should be developed of their willingness to adopt SSB standards as they are finalized. The path to endorsement and adoption of sustainability standards for these regions should be understood, including whether they are willing to approve process simplifications in order to quickly adopt the standards as they are finalised.

For regions where these would be the first set of standards to be adopted, it will be important to provide necessary information for their regional adoption process (i.e. to be able to clearly articulate the benefits of adopting and the recommended transition process, suggested time frames etc).

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?

We know that sustainability reporting is broadly focussed, but recognise that climate is considered by many to have the highest priority and hence financial and non-financial climate metrics are a sensible place to start. In developing a climate standard the SSB should focus on where there is overlap between existing standards (where there are common needs of investors and broader stakeholders) initially relating to enterprise value. This will also allow for a quick turnaround of the first exposure draft.

Given limited available resources, it is likely not possible to focus on broader non-climate ESG metrics initially, but a detailed plan and timelines should be developed for adoption of such broader metrics and the SSB should be held accountable to ensure that standards for such metrics are developed quickly.

It should focus on and prioritise areas of commonality where the building blocks of investor and stakeholder reporting overlap and impact enterprise value (by their nature, ESG reporting areas that are of fundamental importance to stakeholders will have an impact on enterprise value) and look to address their interoperability via new standards.

A robust understanding of the priority of other metrics for stakeholders will be important to adopting other metrics in a sensible order and on an appropriate timeline. Considering the work done in the World Economic Forum's consultation "Toward Common Metrics and Consistent Reporting of Sustainable Value Creation" may be a starting point to identifying short and medium term priority areas.



We believe that many companies will continue to report on broader ESG metrics either voluntarily or through regional initiatives. Accordingly, until SSB standards on these broader metrics are available, significant diversity in such reporting will continue. This might lead to short-term confusion between what is required by SSB standards and what is reported under other standards. Therefore requirements for clear disclosure of what is being reported within the scope of the SSB standards will be important.

An understanding of how non-financial information should be incorporated into financial reporting should also be a priority, building on IASB member Nick Anderson's article on "IFRS Standards and climate-related disclosures" and the recently published IASB "Educational material: the effects of climate-related matters on financial statements prepared applying IFRS standards". Clear guidance should be developed by the IASB on how various financial reporting standards and estimates interact with whatever standards the SSB develops.

Question 8

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

As mentioned above, we understand the rationale for focussing on climate related risks as a starting point. However, the risks of focussing only on climate-related risks should also be understood. By focussing initially only on climate related risks in such disclosures, this may pressure entities to improve such metrics while causing broader ESG issues as contemplated by Goodhart's law. For example, improving carbon emissions at the cost of significant water pollution or poorer labour conditions would unlikely be acceptable to stakeholders.

Focussing on climate related risks is a valid starting point, but the SSB should in parallel actively engage in a consultation process as part of its strategy to develop a plan setting out the other areas in the sustainability agenda that need to be addressed.

Question 9

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

We know this is an area of considerable debate and in many cases is driven by expectations of who the primary users of this sustainability information will be.

Sustainability reporting is a key part of delivering systemic change for the future. It can help tackle issues from climate change to economic exclusion, from shortsighted business decisions to diversity and inclusion. It is clear that we need the robust system we have for the financial components of value for other forms of value.

Ultimately, what is material to broader stakeholders is also likely to be material to investors. For example, many businesses need a "social licence" to operate effectively and such social licence can be eroded by actions that impact those broader stakeholders.

Rather than letting the debate on materiality delay the much needed adoption of these standards, as a starting point we think addressing areas that impact enterprise value that are important to both investors and broader stakeholders is where the SSB should look to develop standards.



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?

Given the importance of this information to investors and stakeholders, we believe it needs to be trusted. Hence the assurability of such information is a baseline expectation for building a high degree of “trust” in such information. Standards should be developed with an aim of being robust enough and sufficiently specific such that they can be subject to assurance and/ or regulatory oversight.

The SSB ultimately will not be the one to decide on whether the information is subject to assurance; this will be determined by jurisdictional or regional regulators. However, as mentioned it is important for the SSB to have a close relationship with the IAASB to monitor and evaluate the need for changes to assurance frameworks or existing standards for auditors or other external assurance providers to be able to provide assurance on the reported information.

Regulators will also need to determine whether they require companies to report on the internal controls associated with the preparation of this information and what certifications and attestations are required by executive officers regarding such information.

Question 11

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

As previously mentioned, we believe that an interconnected ecosystem of reporting is necessary. Management commentary should be designed to supplement and provide insight into both the metrics reported for financial and non-financial reporting and therefore additional development of interconnected management commentary standards is also important.

Although we don’t believe it is necessary to issue separate standards for individual industries, it will be important to have representatives from various industries to provide input during the standard setting process and to have staff that are experienced in various industries. The SSB will need to recognise that such standards may require more industry application guidance than is required under IFRS.