The Association of
Accountants and
Financial Professionals
in Business

via email
commentletters@ifrs.org

December 23, 2020

Dear Trustees of the International Financial Reporting Standards Foundation:

Re: *Consultation Paper on Sustainability Reporting*

IMA® (Institute of Management Accountants) is writing to share its views on the *Consultation Paper on Sustainability Reporting* that the IFRS Foundation (Foundation) released for public comment in September 2020.

IMA is a global association representing more than 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. IMA is also a member of the International Federation of Accountants (IFAC), which has already endorsed the overall approach described in Part II alternative (c): "Create a Sustainability Standards Board [SSB] and become a standard-setter working with existing initiatives and building upon their work." We applaud the IFRS Foundation's careful and thoughtfully written Consultation. As discussed herein, we support this effort and IFAC's general conclusions.

We believe that the transformation of accounting and the profession requires mindful and reasoned debate of the issues and transparent discussion of our future. In consultation with several of our leading members, we observe that there is still a range of views on the movement to interconnect mainstream financial reporting with sustainability reporting. This diversity of views reflects fundamental questions about the purpose of accounting and the role and responsibilities of the profession to the market and societal demands.

In supporting the IFRS Consultation, we highlight two primary concerns raised by members. First, any standard-setting work by the proposed SSB must consider the importance of internal control systems and the need for mainstream financial reporting teams, who are experts in information quality, to play an active role in overseeing the quality of external environmental-social-governance (ESG) data delivered to the market. Here, we site our own work: Robert H. Herz, Brad J. Monterio, and Jeffrey C. Thomson, *Leveraging the COSO Internal Control—Integrated Framework to Improve Confidence in Sustainability Performance Data*, 2017. A rigorous internal control process, supervised by experienced professionals, is an integral party of corporate reporting, including ESG reporting. However, we know that the IFRS Foundation has the deep expertise and capabilities to ensure this aspect of reporting is considered, which is why the proposed SSB, parallel to the IASB, makes sense.

Second, the legal and enforcement environment around the globe must be considered. Litigation potential is a very real risk for many organizations in their reporting jurisdictions.

We also note that the concepts around sustainability accounting and finance, with a value creation and preservation mindset, have particular resonance with our small- and medium-sized business practitioners.

The realities of the COVID-19 pandemic demonstrate that small businesses thrive because of factors such as know-how, relationships, reputation, and community. However, these factors are not measured and reported because many small businesses do not have resources and benchmark key performance indicators to measure and report. Quality standard-setting entities can assist small businesses with determining how to effectively and efficiently measure and report these items, which would be very valuable to small business sustainability.

More specifically, we respond to the specific questions raised in the Consultation as follows:

Question 1, Need for global set of recognized standards: IMA observes that fragmentation has generally been detrimental to the development, implementation, and usefulness of reported sustainable business information. This fragmentation has resulted in confusion among well-meaning organizations that seek to respond to stakeholder demands. We note that this fragmentation is being partially mitigated by the standards organizations themselves, such as through the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting issued by CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB). We also note the recently announced merger of the SASB and the IIRC that we strongly support. In summary, we support efforts to reduce the fragmentation that has hindered, significantly and detrimentally, the development of a framework that connects with financial reporting (and management accounting).

The Consultation observes that it is the expertise of the accounting profession that is a "vital component in developing high-quality and consistent measurement and disclosure requirements." In short, the proposed structure would facilitate sustainability standard setting in a way that is harmonized with mainstream financial reporting, including effective internal control and governance systems, with the overall objective of better information and decision making for performance and value creation.

With respect to standardization, however, we have one caveat around experimentation and agility. In some ways, the connection between specific sustainable business metrics with performance and value is, in many respects, still nascent. Standardization must be accomplished in a way that supports robust research that evidences these connections. Standardization can stifle experimentation, which remains a necessary ingredient in this discipline that is still emerging with respect to the right measurement techniques.

Question 2, Governance: We believe that the IFRS Foundation's three-tier structure can be used effectively for the creation of a Sustainability Standards Board. We note that IFRS has become a worldwide, generally accepted set of standards based on its rigorous and transparent standard-setting process with appropriate oversight and stakeholder input.

Question 3, Requirements for success: The requirements for success (Paragraph 31) are well stated. We note further that we support, in particular, the criterion (f) that specifically identifies a "structure and culture that seeks to build effective synergies with financial reporting." We agree.

Questions 4 and 5, Working with other institutions and initiatives: We agree that the IFRS Foundation is well positioned to develop an institutional and governance framework to facilitate global, sustainability reporting standards. In doing so, we believe that the IFRS Foundation will use care to ensure that innovation and experimentation in the arena of sustainability reporting will continue.

One of the most significant challenges that we've observed in the market are the language barriers between mainstream financial accountants and the sustainability reporting community. Therefore, a key benefit for the proposed IFRS approach is bringing clarity of terminology to the market in a way that is consistent with financial reporting and management accounting teams. As examples, we note enormous confusion around the terms "capital," "multicapital," "multistakeholder," "value creation," and "impact accounting" and the alignment (or misalignment) of these terms with generally accepted financial reporting frameworks.

Looking further at the text of the Consultation, we observe that the Foundation has identified all of the major organizations that have become generally accepted leaders: GRI, SASB, CDP, and the CDSB. We further note that for impact accounting, alliance groups that are working to implement the United Nations Sustainable Development Goals (SDGs) may serve as an ideal avenue. We observe that the SDGs have already gained general acceptance in the corporate community.

In summary, we strongly support initiatives that bring about integration and alignment of the work of the various organizations, measures, and approaches but, at the same time, avoid creating (or enabling) "financial" and "nonfinancial" silos. We observe a market need for a holistic and value-based approach for investors, management, intermediaries, and all other capital market participants. Along with value-based initiatives, this holistic perspective must consider the body of work by long-existing and respected organizations such as the Financial Accounting Standards Board, the International Accounting Standards Board, and the Committee of Sponsoring Organizations. We urge the IFRS Foundation, in working with the European Commission, to promote convergence whenever possible.

Question 6 Jurisdictional development: While we observe that European bodies, generally, are driving much of the forward movement, we note that the approach taken by the IFRS Foundation must be global and align with regulatory schema in other jurisdictions, including North America. We do not want to see the development of more silos in corporate reporting which create complexities and costs.

We applaud the IFRS Foundation for avoiding the phrase "nonfinancial" in describing this area. We believe this is a detrimental misnomer that implies separate silos for financial and nonfinancial information. We would strongly oppose the building of separate infrastructure for so-called "financial" and "nonfinancial" information. As management accountants, we are mindful of the critical importance of looking at information holistically for strategic decision making for all of our stakeholders.

To support this view, we point to our own research on the requisite collaboration between CFOs and their accounting and finance teams with corporate responsibility (or similar sustainable business teams) to meet new informational demands. Based on our 2020 reports, *CFO as Value Creator—Finance Function Leadership in the Integrated Enterprise* and *Finance Function Partnering for the Integration of Sustainability in Business*, we observe that robust, internal partnering is the key ingredient that makes a sustainability reporting endeavor most meaningful and rewarding for all stakeholders, including management.

Questions 7, Climate first: We think the approach suggested in the Consultation, that is, beginning with climate, is practical. The Task Force on Climate-related Financial Disclosure (subsequently overseen by the CDSB) developed reporting standards that are workable with existing reporting standards. They were developed in a way that adheres to well-understood concepts of financial risk.

Question 8, Climate only: Although we agree that climate is an area of great urgency, we also note that limiting this work to climate may be shortsighted. There are environmental concerns around biodiversity losses, which many scientists view as even more severe than climate effects. The history of CDP, which originated around greenhouse gases and climate, is instructive. To meet its mission, it expanded into water, deforestation, and supply chain. We also observe that there is a great need for better metrics and accounting around human resources (that is, the "S" in ESG) and corporate trust and accountability (the "G" in ESG). For example, we note that the SEC has recently adopted new regulations that require reporting on human capital resources, and standard-setting guidelines may be helpful and within the remit of the proposed SSB. Moreover, some consider governance-related metrics the most critical, because they indicate a management team that is monitoring and managing the right things.

Question 9, Materiality: While we understand that this remains under debate in the area of sustainability reporting, we agree that the existing definition and following the existing conceptual framework is beneficial. We agree with this approach.

We also agree, as noted, with putting the challenging arena of impact accounting aside for now. First, this is still a nascent area in terms of identifying the key indicators and measurement. Second, for impact accounting to be meaningful, policymakers must consider, with care, the needs of those entities that will be the users of strictly "nonfinancial" reporting.

We note, however, that in considering sustainability accounting, we favor the consideration of the multiple stakeholders, such as loyal customers, collaborative suppliers, committed employees, and patient shareholders that contribute value to an organization over the long term. This perspective coincides with the 2020 Statement on the Purpose of a Corporation by the Business Roundtable. This differs from impact accounting, which considers effects on external stakeholders.

Question 10, Assurance: We understand that assurance is desirable. We also note that standards can help companies design, implement, and maintain internal controls and oversight to enhance the quality of sustainable business information. As noted above, our own research on the applicability of the COSO Internal Control Integrated Framework to sustainable business information demonstrates that external assurance rests on well-designed and well-functioning governance, oversight, and internal control systems. Assurance, confidence, and trust are interrelated and foundational to any corporate reporting system, particularly when speaking about business sustainability. This applies equally to information released externally and information provided to management for decision making on risk, innovation, and strategy.

We would be pleased to discuss our comments at your convenience.

Sincerely,

Jeffrey C. Thomson

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President and CEO
IMA® (Institute of Management Accountants)