December 23, 2020

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

Dear IFRS Foundation Trustees,

I am pleased to provide you with Ceres' comments in response to the Consultation Paper on Sustainability Reporting. I am appreciative that the IFRS Foundation recognizes the urgent need for consistency and comparability in sustainability reporting in financial filings and reports. I support your work in this area to "achieve the objectives of developing a framework for sustainability reporting which is coherent with and connected to financial reporting and the IASB's own mission to serve investors and other primary users of financial statements."

Ceres is a nonprofit organization working with institutional investors and companies to build sustainability leadership and drive solutions throughout the economy. We support the Investor Network on Climate Risk and Sustainability, which consists of over 175 institutional investors managing more than $29 trillion in assets, who advance leading investment practices, corporate engagement strategies, and policy and regulatory solutions to address sustainability risks and opportunities.

Generally, Ceres' perspective on sustainability reporting and disclosure encompasses two factors: 1, the disclosure of material ESG issues in financial filings and reports, and 2, voluntary sustainability reporting, including a broader consideration by companies of their role in society as a whole. On the latter, our expectation is that, "Companies will recognize that sustained value creation and the license to operate depend on business models and corporate strategies that link financial performance to the sustained health and well-being of the planet and all of its communities. Companies will integrate material and salient sustainability risks and opportunities, including relevant stakeholder perspectives and concerns, into business planning and execution to achieve sustainable business goals and drive innovation across business models."[1]

[1] Ceres Roadmap 2030, Strategic Planning and Execution. The Roadmap provides a vision for sustainable business leadership, including a 10-year action plan to help companies strategically navigate the accelerated transition to a more equitable, just and sustainable economy.

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, the IFRS should play a role in setting sustainability reporting standards for use in financial filings and reports. The IFRS' role as creator of accounting standards that apply in 144 of 166 jurisdictions globally positions the organization well for this task.

Ceres works with companies and institutional investors which have operations or own assets around the world. Consistent global standards for financial reporting of ESG issues in all the jurisdictions IFRS covers would be a great benefit to companies (for making risk assessment and reporting more efficient, more useful, and less costly), investors (for improving their ability to compare companies' material risks, opportunities and performance on ESG issues), and other stakeholders (for accelerating progress by financial market actors in addressing climate risk and other critical ESG issues). There is a clear need for these standards, building on the work of Ceres, the Global Reporting Initiative (GRI), CDP, the Sustainability Accounting Standards Board (SASB), the Climate Disclosure Standards Board (CDSB), the International Integrated Reporting Coalition (IIRC), the Corporate Reporting Dialogue, the Task Force on Climate-Related Financial Disclosures (TCFD) and others.

It is well established that voluntary ESG reporting standards are widely used, but most reporting does not meet investors' needs and much of this information is not included in financial filings and reports. KPMG, in a survey of 5,200 companies, found that of the top 100 companies by revenue in each of the 52 countries and jurisdictions studied ("N100"), 80% reported on sustainability issues, and 96% of the world's 250 largest companies by revenue ("G250") did so.[2] GRI continues to be the dominant global standard for sustainability reporting, used by 67% of N100 companies and 73% of G250 companies, while the SASB framework and International Standards Organization (ISO) standards are the most commonly used of other standards.[3]

Numerous studies have found that many aspects of reporting do not meet investors' needs and much of this information is not included in financial filings and reports. For example, KPMG surveyed 135 institutional investors, hedge fund managers, long only managers and pension consultants in 13 countries about ESG integration in their work.[4] Hedge fund managers and institutional investors were asked, "What are your organization's biggest challenges in making ESG-oriented investments?" In answer, 63% of hedge fund managers and 49% of institutional investors cited the lack of quality/consistent sustainability data, the leading answer in each case.[5] KPMG also found that the inclusion of sustainability data in annual reports has remained

[2] KPMG, *The time has come: The KPMG Survey of Sustainability Reporting 2020* (2020) at 4, 10.
[3] Id. at 25.
[4] KPMG, *Sustainable investing: fast-forwarding its evolution* (February 2020) at i.
[5] Id. at 27, 29.

about the same from 2017-2020, moving from 60% to 61% of N100 companies in that time, and from 78% to 76% of G250 companies.[6]

The IFRS could play a critical role in increasing the number of companies including sustainability information in financial filings and reports, and ensuring that information is consistent, comparable, and decision-useful. Ceres is encouraging the U.S. Financial Accounting Standards Board (FASB) to accelerate its work on sustainability and ensure that FASB standards and GAAP are consistent with the work of the IFRS and other global bodies. IFRS' work on sustainability could spur FASB and the U.S. Securities and Exchange Commission (SEC) to set U.S. sustainability accounting and disclosure standards and align them with the standards that the IFRS develops.

In the area of climate change, Ceres has worked to create unified global expectations for disclosure. We collaborated with investors and other organizations in 2006 to create the first global statement of investor expectations for comprehensive climate-related corporate disclosure, the *Global Framework for Climate Risk Disclosure*, and continued that work by jointly founding the CDSB. We worked with investors to petition the SEC, resulting in its 2010 interpretive guidance on climate risk disclosure. This work, the TCFD's reporting recommendations and many other developments worldwide have brought us closer than ever to global standards for climate-related disclosure in financial filings. But there are only a few organizations—such as the IFRS, IOSCO and the Financial Stability Board—with the ability to build on these developments to move quickly towards global standards.

And there is an urgent need for global standards for climate risk disclosure in financial filings and reports to get comparable, consistent, decision-useful information at scale. The quality of disclosure is improving but not at a sufficient speed. A survey of ESG disclosure in SEC filings found an increase in environmental disclosure, but risk disclosure was not as prominent as discussion of investments in environmental sustainability, emissions reduction goals, and renewable energy.[7] One study of climate risk disclosure found, "assessed companies largely make disclosures on some climate-related metrics, but they often do not cover some of the most material climate-related risks that they are exposed to."[8] A similar study found, "most financial institutions disclose CO2 emissions in relation to their own operations, but disclose very little on the CO2 emissions from investments and lending activities."[9] Finally, as the UK, New Zealand, the EU and other countries create standards for mandatory climate risk disclosure, there is an obvious risk of fragmentation of reporting standards.

The IFRS should build on the climate risk work done by sustainability standard setters, NGOs, investors and companies. In many cases I believe there is no need for the IFRS to create new reporting principles or metrics for climate risk, but instead provide guidance on using existing metrics and principles in financial filings and reports. Some existing metrics and principles,

[6] KPMG, *The time has come: The KPMG Survey of Sustainability Reporting 2020* (2020) at 17.
[7] White and Case, *ESG disclosure trends in SEC filings* (August 13, 2020).
[8] EY, *How are your climate change disclosure revealing the true risks and opportunities of your business? Climate Risk Disclosure Barometer Study Belgium* (2020) at 8.
[9] EY, *Climate Risk Disclosure Barometer 2020* at 11.

particularly those developed by the CDSB and SASB, were developed for disclosure in financial filings/reports. In cases where the SSB finds, in consultation with investors, that existing metrics are inadequate, it may need to develop new ones.

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?

Yes, and I appreciate IFRS' list of requirements for success, which recognizes the need to achieve "appropriate technical expertise for the Trustees, SSB members and staff". Building on that, I respectfully request that the IFRS consider modest amendments to its current governance structure to increase expertise on sustainability matters within the IFRS Foundation Monitoring Board and the IFRS Trustees, as well as create a climate risk-focused advisory body or consultative group. With these changes in place, the IFRS would be better positioned to achieve the goals of further consistency and global comparability in sustainability reporting in financial filings and reports.

Currently, membership requirements for the IFRS Foundation Monitoring Board and the IFRS Trustees do not discuss sustainability expertise. The IFRS Foundation Monitoring Board includes heads of national securities/financial regulators and an IOSCO representative. The IFRS Trustees includes the following distribution of membership: "'[T]he mix of Trustees shall broadly reflect the world's capital markets and diversity of geographical and professional backgrounds'. To reflect this and ensure a broad international basis, six of the Trustees must be selected from the Asia/Oceania region, six from Europe, six from the Americas, one from Africa and three can be from any area, subject to maintaining overall geographic balance." I recommend that IFRS ensure, going forward, that individuals with significant sustainability expertise are represented on each of these bodies, such as through amending the membership requirements.

I also recommend that IFRS create a climate risk-focused advisory body or consultative group, since the current IFRS list of these bodies does not include one focused on sustainability issues. I make this recommendation based on the work of the TCFD over the last five years and my work on the U.S. Commodity Futures Trading Commission's (CFTC) Climate-Related Market Risk Subcommittee. While progress has been made globally on improving climate risk disclosure in financial filings and reports, the 2020 TCFD status report and the Subcommittee's final report demonstrate there is significant work remaining. An IFRS advisory body or consultative group would be invaluable for ensuring that the SSB's climate-related work meets the needs of investors, companies and other stakeholders.

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)?

In addition to my comments above regarding sustainability expertise at the IFRS, I have a recommendation regarding your goal of "achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets." To achieve this level of global support, market stakeholders should be well represented on the SSB and other key bodies, such as any IFRS climate risk advisory body or consultative group. I recommend the IFRS consider opening a new consultation on the SSB membership structure and requirements, to ensure diverse, global representation from a variety of types of investors and NGOs. From Ceres' perspective, the SSB should ideally include representatives of religious, labor, SRI, and public pension funds; asset managers; a variety of NGO stakeholders; and sustainability experts such as academics.

Finally, I suggest that close collaboration with IOSCO and FASB should be one of IFRS' requirements for success, which would be so valuable for moving towards truly global reporting standards. I discuss this in more detail below, on pages 6-7.

Question 5

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

IFRS need not reinvent sustainability reporting standards, since GRI, SASB, CDP and other frameworks or questionnaires are collectively used by thousands of companies globally. IFRS should instead build on those standards by analyzing their metrics and determining which are most relevant for financial reporting.

The IFRS could collaborate with existing initiatives to create a formal system, or pipeline, through which learnings from the work of those initiatives could be fed into the SSB's work. For example, learnings from the evolving practice of climate change scenario analysis could be a part of this system. The IFRS should encourage the voluntary standard setters to continue to innovate, so new and decision-useful metrics can be fed into this pipeline.

In addition, the IFRS could regularly survey investors to learn about the climate-related reporting principles and metrics that result in the most useful disclosure to meet their needs, and integrate those into the SSB's work.

I want to emphasize that voluntary sustainability reporting is invaluable for investors and stakeholders and will remain so in the future. Ceres recommends to companies that are new to this type of reporting: "A good place to start is by using comprehensive and credible disclosure resources as a guide. The Global Reporting Initiative (GRI) Standards and the Sustainable Accounting Standards Board (SASB) are two disclosure resources widely recognized as standards for comparable sustainability disclosure. Investors value disclosures that are comparable for their decision-making processes and using a recognized and well-established sustainability disclosure standard helps to achieve this."[10]

[10] Ceres Roadmap 2030, Transparency and Disclosure: Stakeholder Relevant.

The IFRS could release a public statement about the roles that ESG standard setters play in the sustainability reporting ecosystem, how their work stands on its own for use in voluntary sustainability reporting, and how it could feed into the work of the SSB. Standards setters continue to strengthen the usefulness and integration of voluntary reporting through the Corporate Reporting Dialogue and other initiatives. Those initiatives will complement the SSB's work and in many cases will provide reporting metrics appropriate for use in financial filings and reports. Standards setters like SASB, which creates reporting metrics for material ESG issues that are well suited for use in financial filings and reports, will be particularly useful to the SSB for the same reason. Finally, an IFRS public statement would provide a helpful differentiation between global standards for ESG reporting in financial filings and reports, which have not yet been implemented, and existing, robust standards for voluntary reporting.

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?

While the IFRS works to improve sustainability disclosure in financial filings and reports, I encourage the IFRS to actively support governments' efforts to mandate sustainability reporting referencing or requiring use of the GRI standards. Currently, more than 160 policies in over 60 countries and regions reference or require GRI for reporting.[11] Some policies reference several reporting standards, such as the UK's Environmental Reporting Guidelines (March 2019), which references the CDSB framework, GRI, the GHG Protocol and others.[12]

I also encourage IFRS to strengthen its ties with IOSCO and FASB on sustainability issues. IOSCO has noted that they are looking to focus more on ESG disclosure in financial reporting. Specifically, IOSCO's October 2020 open letter discusses their areas of focus in their work on improving sustainability disclosures:

> (1) Content, focusing on ensuring that companies disclosure information that meets the needs of capital markets participants and also support businesses' risks management and strategy decisions; and
>
> (2) Governance, due process and public interest processes that ensure the integrity of the standard setting process.[13]

---

[11] GRI website, Policies and regulation, accessed December 5, 2020

[12] HM Government, Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance (March 2019) at 43-44.

[13] *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 the capital market*s, Erik Thedéen, Director General of Finansinspektionen Sweden and Chair of the IOSCO Task Force on Sustainable Finance - 28 October 2020.

I encourage the IFRS to actively cooperate with IOSCO on an ongoing basis, and consider designating a seat on the SSB for IOSCO representation.

I also encourage the SSB to actively cooperate with FASB in its work. Former FASB Board Member Marc Siegel has recognized that FASB already considers ESG issues to some extent in his 2017 article, *Should the FASB Have a Role in Sustainability Disclosures?* That article notes that sustainability issues intersect with financial reporting in the U.S. in FASB standards about recognition, measurement, presentation, and disclosure related to historical transactions or the financial position related to existing assets or liabilities.

However, FASB needs to do more work on sustainability disclosure in financial filings. As the SSB is formed, it will be important for FASB to work in alignment with the SSB as much as possible, so the gap in sustainability disclosure rules between the U.S. and IFRS jurisdictions does not deepen. FASB could do this by promulgating similar standards in the U.S. for sustainability accounting in financial filings and reports. I recommend that the SSB offer a FASB representative an observer position on the SSB to encourage this alignment.

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?

I think it would be strategic for the SSB to initially develop standards for climate-related financial disclosures, building upon the work of the TCFD, standards setters and NGOs with expertise on this issue. That said, human rights, deforestation, water and other issues also pose material financial risks to companies, and I would like to see the SSB move quickly to work on these issues.

Beginning with climate risk is a strategic approach because of the urgent need to make rapid global progress in addressing the climate crisis. The SSB could build upon the strong existing momentum towards mandatory climate-related financial disclosures in many jurisdictions such as the EU, and the New Zealand, UK, Canadian and other governments.

Beginning with climate could also foster greater global collaboration on standardized reporting in financial filings and reports. In the U.S., there is greater momentum towards mandatory climate risk disclosure than is apparent at first glance, and enhanced IFRS collaboration with U.S. regulators would accelerate that momentum. SEC Commissioner Allison Lee has discussed the importance of a wide range of SEC actions to address climate risks, while lawmakers have introduced bills focused on climate risk disclosure and stress testing for large financial institutions to measure their resilience to climate risks. President-Elect Biden is considering action, once in office, requiring public companies "to disclose climate risks and the greenhouse gas emissions in their operations and supply chains."

CFTC Commissioner Rostin Benham created a subcommittee of experts which provided comprehensive recommendations about addressing climate risks to the U.S. financial system. Other notable actions and recommendations concerning climate risk disclosure came from the U.S. House of Representatives and Senate committees on the climate crisis, Federal Reserve Bank representatives, the New York Department of Financial Services, and the Government of California.

Sustainability reporting can be complicated, especially for large corporations, and hundreds of sustainability issues may pose material risks and opportunities to companies. As this is the first major foray of the IFRS Foundation into the sustainability reporting field, it would be very challenging to attempt to tackle the full range of sustainability issues in its first year of work. I would ask the IFRS, though, as soon as practical, to create a plan for how the IFRS will work on additional ESG issues.

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

I suggest modifying the proposed approach to materiality for the SSB, because I respectfully disagree with the IFRS's assertion that "[f]or the SSB to commence with a double-materiality approach would substantially increase the complexity of the task and could potentially impact or delay the adoption of the standards." If the SSB considers key aspects of double materiality as it begins its work, that would not substantially increase complexity. Below, I provide two examples related to climate risk: GHG emissions and scenario analysis disclosure.

Also, only a double materiality approach can fully account for corporate impacts on the environment and society, which the business and investor communities globally have increasingly recognized in recent years. Ceres' expectations for corporations' sustainability work through 2030 explicitly recognizes the need to consider impacts. We expect that, "Companies expand the assessment of financially material risks and opportunities to include relevant sustainability impacts, including a specific examination of the salient human rights issues of people most affected by corporate operations and business practices and partnerships. Companies regularly engage with and consider the perspectives of all key stakeholder groups in the evaluation of material and salient sustainability impacts, and then integrate material and salient priorities in their determination of corporate purpose, evaluation of enterprise risk, refinement of corporate strategy and identification of business priorities."

Ceres and the investors we work with have emphasized the importance of material climate risk disclosure in financial filings since the founding of our Investor Network in 2003, when we first asked the SEC to improve climate risk disclosure in corporate filings. We believe that climate and other sustainability issues must be disclosed in financial filings, just like any other financially material risk.

The systemic risks posed by climate change is an important reason for the IFRS to focus on double materiality. Over time, Ceres' and investors' views on climate risk have evolved. As it has become clear that climate poses systemic risks to the financial system, the need for more disclosure of corporate impacts on the climate has also become clear.

Ceres defines systemic risks as those that, "have the potential to destabilize capital markets and lead to serious negative consequences for financial institutions and the broader economy." Under this definition, "climate change, like the current COVID-19 crisis, is indisputably a systemic risk. Its wide-ranging physical impacts, combined with expected transitions to a net-zero carbon economy and other socio-economic ripples, are likely to manifest in both cumulative and unexpected ways and present clear systemic risks to U.S. financial markets -- and the broader economy. Left unmanaged, these risks could have significant, disruptive consequences on asset valuations, global financial markets and global economic stability."[14] It is in this context that investors have increasingly asked for more information about corporate responses to climate change, in addition to the financial risks to their bottom lines. Disclosure of these issues requires the same robust framework that the IFRS provides for financial reporting.

Disclosure of GHG emissions and the results of scenario analysis demonstrate how double materiality concepts are important for the SSB. The TCFD uses a double materiality approach in aspects of its work. For example, as you mention on page 13, paragraph 49, of the consultation paper, "it must be recognized that disclosures that focus on a company's impact on the environment are becoming increasingly important to the investor audience (see the TCFD's recommended disclosure on GHG Emissions), because there is a connection between a company's impact on the environment and the risks and opportunities for that company. Such disclosures are increasingly important for investors to understand a company's long-term value creation as well as its impact on the climate." Disclosure about GHG emissions and reduction targets is appropriate for inclusion in financial filings so investors can have standardized data to compare the risks companies face.

Another example is scenario analysis, which the TCFD recommends companies in all industries perform, acknowledging that companies in some industries will undergo a more in-depth, quantitative analysis than others. These exercises are aimed at considering how a company's business will fare in different future climate scenarios. The exercises are also aimed at considering companies' impacts on the environment, since, according to the TCFD, "A critical aspect of scenario analysis is the selection of a set of scenarios that cover a reasonable variety of future outcomes, both favorable and unfavorable."[15] Companies that consider dangerous, unfavorable future climate scenarios cannot help but consider their businesses' impacts on the environment and their role in a Net Zero world, in addition to the risks the companies face.

---

[14] Ceres, *Addressing Climate as a Systemic Risk: A call to action for U.S. financial regulators* (June 2020) at iv.

[15] TCFD, *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities*, June 2017.

If the SSB does not consider double materiality, that could represent a step backwards, globally, on improving climate risk disclosure in financial filings and reports. Instead, the SSB should build upon the comprehensive work of the TCFD, as discussed above. I recommend that the SSB consider selected metrics that focus on a company's impact on the environment, in its first year of work, and create accounting standards for those issues.

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?

Yes, sustainability information should be subject to external assurance. Ceres' position is included in the Ceres Roadmap 2030's expectation on transparency: that companies disclose comparable and verified sustainability information, using globally accepted disclosure standards and frameworks and seeking external assurance to create comparable and verified disclosures. For assurance, our specific expectation is that companies seek external assurance for material sustainability disclosures with the same level of rigor they do for financial disclosures.

Furthermore, assurance increases confidence in the reliability and accuracy of disclosure. An investor survey has ranked external assurance a close third, behind board oversight and audit committee oversight, in establishing accountability for sustainability reporting, with two-thirds of those surveyed saying that independent verification is "very useful" or "essential."[16]

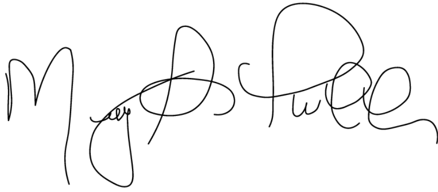
Financial regulators in the U.S. are starting to recognize the need for assurance of ESG and climate risk information. For example, PCAOB Board Member J. Robert Brown has said that ESG issues that affect financial statements may benefit from assurance, and the role of audit firms in providing assurance for ESG metrics, as part of the audit, is an "important topic that should be addressed."[17] Regarding climate risk, his research examined Critical Audit Matters disclosures in approximately 2,400 audit reports for public companies, finding that only three appear to have included a meaningful and explicit discussion of the impact of climate change on the financial statements.[18]

Thank you very much for your consideration. In addition, I have reviewed letters from GRI, SASB and CDSB in response to the IFRS consultation, and I hope you will give them your careful consideration. Please do not hesitate to contact me directly at lubber@ceres.org if you have thoughts or questions.

---

[16] Ceres, *Disclose What Matters: Bridging the Gap Between Investor Needs and Company Disclosures on Sustainability* (2018) at 20, citing Ernst & Young, *Is your nonfinancial performance revealing the true value of your business to investors?* (2017).
[17] J. Robert Brown Jr., PCAOB Board Member, *It's Not What You Look at that Matters: It's What You See, Revealing ESG in Critical Audit Matters*, ICGN's Global Virtual Summit (Nov. 4, 2020)
[18] Id.

Sincerely,



Mindy S. Lubber
CEO and President, Ceres

Jim Coburn
Counsel to Ceres