

Open Letter
Comments to IFRS Consultation Paper on Sustainability Reporting

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Trustees
IFRS Foundation

Dear IFRS Foundation trustees,

The Impact Economy Foundation (IEF) greatly welcomes the effort of the IFRS Foundation to explore whether and how it can strengthen sustainability reporting through the creation of a Sustainability Standards Board (SSB) under its governance structure.

The initiation of an SSB by IFRS will be a step forward in the field of integrated reporting. If done well, we believe this can prove to become a historical milestone in the history of accounting and reporting.

IEF believes that accounting and reporting on multi-capital, multi-stakeholder impact is crucial for well-functioning markets in a sustainable economy. Therefore, we believe that legally-mandated reporting will become a multi-stakeholder, multi-capital affair for all the right reasons. In particular, we foresee that accounting and reporting will eventually accord equal importance to non-financial as to financial impacts, and equal importance to the interests and perspectives of clients, workers, governments as those of investors.

In the end, we do believe if it is optimal for one body to oversee the entirety of accounting and reporting standards: the IFRS Foundation is the most logical candidate for such a unified standard. However, for IFRS to assume this role, it would need to become a multi-stakeholder and multidisciplinary organisation. We acknowledge that such a transition would take time.

We see that the IFRS could take up two mandates for sustainability reporting: an investor-oriented mandate and a society-oriented mandate. We understand and respect if IFRS initially chooses for an investor-oriented mandate for sustainability reporting. Over time IFRS may consider if and how it would like to broaden its mandate in due time.

It is crucial that if IFRS chooses to continue its investor-oriented mandate, it gives space to another body (or bodies), and closely works with it, to take up the society-oriented sustainability mandate. Otherwise the establishment of an SSB by the IFRS, due to the weight IFRS carries, could have an unintended depressing effect on the field of society-oriented sustainability reporting. If, in due time, IFRS is ready to take up a society-oriented mandate, which includes the concept of “double materiality” the two approaches could be integrated. In any case, it is important that there is close

collaboration and possible alignment between investor-oriented and society-oriented sustainability reporting standard bodies in the meantime.

To create a standard for investor-oriented sustainability reporting, we recommend IFRS to build on the work of organisations like SASB/IIRC, CDSB and TCFD which have been working on this topic for some time already. For the society-oriented mandate, IEF believes GRI, a mature standard, together with other emerging initiatives such as CDP, the Value Balancing Alliance, the Capitals Coalition and IEF itself, could be logical partners.

In terms of the scope of the SSB, we suggest two parallel activities.

First, the SSB can make an (investor-oriented) conceptual sustainability reporting framework with a holistic scope. Such a framework would consist of two components:

- An impact component describing the sustainability impacts of a company on all its stakeholders, through all forms of capital, as defined in the <IR> Framework.
- A dependency component describing the subsequent financial implications of sustainability matters for the investors of a company.

The dependency component is relevant to all investors, and material. Sufficiently mature aspects may in due time be transferred to IASB. An assessment of impacts is required for an assessment of dependencies, and hence the impact component is instrumentally relevant for all investors. The impact component is also intrinsically relevant to the (increasing) number of investors concerned about society in their mandates.

Second, the SSB can start with developing specific guidance for climate-related financial disclosures. Climate change is the sustainability topic for which the most urgent need from investors is expressed. In addition, it is also the topic for which most information is available. Hence, it is a logical place to start. Biodiversity, which scientists and investors increasingly recognise as a pressing issue, and social inequality could be next sustainability topics the SSB could take up.

We encourage IFRS to establish a Sustainability Standards Board with vigour and confidence, informed by research and practice, and in close collaboration with existing initiatives.

As IEF, we offer IFRS our active involvement in developing the conceptual framework's impact component that we suggest IFRS develops.

Best regards,



Herman Mulder
Chair of the board
Impact Economy Foundation



Dirk Schoenmaker
Chair of the Academic Council
Impact Economy Foundation



Appendix 1: Comments regarding the questions asked in the consultation paper.

Question 1 Is there a need for a global set of internationally recognised sustainability reporting standards?

Yes, there is definitely a need for a global set of internationally recognised sustainability reporting standards, even more urgent in the post-COVID19 era to collectively (business, governments, civil society) address the old and new challenges facing humanity. In the medium term, the Sustainable Development Goals cannot be realised by 2030 without a strong contribution of the private sector, and businesses cannot act if they do not know their sustainability impacts and dependencies. Also beyond 2030, meaningful, structured reporting by all relevant market actors is the essential oxygen for well-functioning markets, locally, regionally, and globally. "Making markets fit for Purpose" given the challenges and opportunities of the 21st century is imperative

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

Yes, IFRS should play a role in setting these standards and expand its standard-setting activities into this area.

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

Not applicable

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?

IEF believes the answer is a resounding yes. There is one caveat. The IFRS should choose to either (i) assume a society-oriented mandate for sustainability reporting and transform itself into a multi-stakeholder, multidisciplinary organisation or (ii) continue to assume an investor-oriented mandate for financial and sustainability reporting and provide space and collaborate with organisations that take up the society-oriented mandate for sustainability reporting.

IEF believes it is optimal for investors, stakeholders and society-at-large alike if there is eventually one standard-setter integrating both mandates. However, it can imagine that IFRS starts with an investor-oriented mandate and later explores integrating the society-oriented mandate and the organisation(s) that have and will drive this mandate.

In addition and importantly, notwithstanding the SDGs, the materiality (and hence priority and urgency) of sustainability issues and the need and/or preparedness to address these in society varies by country, respectively by region with diverse priorities, audiences, and actors as they are context specific.



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)?

We would suggest three additions to paragraph 31:

1. Adding: Having a clear mandate and scope for the SSB (in line with our answer to question 2)
2. Adding: Ensuring active involvement and support from civil society and organisations that have expertise in impact.
3. Adapting 31.c to read "Ensuring the adequacy of the governance structure *in line with its mandate and scope.*"

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, it could and should. Important is that IFRS adds civil society to the stakeholders it considers.

Question 5 How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

Leveraging the work of existing organisations is cost-efficient and outcome effective as there is an urgent need to harmonise, accelerate, and widen sustainability reporting.

To create a standard for investor-oriented sustainability reporting, we recommend IFRS to notably build on the work of SASB/IIRC, CDSB and TCFD which have been working on this topic for some time. For the society-oriented mandate, IEF believes GRI, a mature standard, together with more specialised or innovative initiatives such as CDP, the Value Balancing Alliance, the Capitals Coalition and IEF itself, could be logical partners.

In relation to this question, as well as question 4 and 5, IEF has the following suggestion:

We would suggest that the IFRS creates a Sustainability Standards Panel (SSP) to provide advice to the SSB. Such a panel would have the objective to ensure all relevant perspectives are uncovered, heard and considered. It is the SSB task to consider all perspectives and make decisions.

In such a panel, IFRS could invite existing organisations working on sustainability reporting, representatives from the stakeholder groups (including civil society), experts from academia and practitioners. Such a Panel should have a flexible governance approach. The SSB (and IFRS) will need to find the appropriate governance structure, but it is too soon to determine that. A panel can ensure input from all stakeholders and experts while leaving flexibility about how the SSB wants to formally involve stakeholders in its governance. It would provide the IFRS and its stakeholders a safe space to discuss the preferred, evolving global accounting and reporting standards.



On the one hand, the Panel could continue the consolidation started in, for example, the Corporate Reporting Dialogue. On the other, it could also explore novel concepts in sustainability reporting, such as "double materiality", multi-stakeholder governance, "externalities" and "true pricing" would be considered in such a platform; in the latter areas IEF had particular experience.

Over time, the Panel may evolve into a more formal governance body, remain an advisory body or be dissolved once it is unnecessary.

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?

First, jurisdictional initiatives can be invited to participate in the Sustainability Standards Panel suggested in Question 5.

Second, and related to Question 9, we suggest the IFRS leverages the concept of 'potential materiality.' (It is suggested to read the answer to Question 9 first.)

IEF suggests the IFRS works with jurisdictional initiatives, (other) regulators (as well as investors and other stakeholders it aims to serve) towards a set of disclosures that provides all potentially material information. This set would then jointly contain all disclosures each of the stakeholders the IFRS targets seek. Each regulator can then choose to make a subset of these disclosures mandatory based on their definition of materiality.

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?

It is sensible that the SSB would start by developing climate-related financial disclosures. However, in parallel, we suggest the SSB works on an (investor-oriented) conceptual sustainability reporting framework with a holistic scope. Such a framework would consist of two components:

- An impact component describing the (negative and positive) sustainability impacts of a company on all its stakeholders (including society-at-large), through all forms of capital (as defined in the <IR> Framework) and referenced with the Sustainable Development Goals and ESG standards (as inter alia reflected in national legislations, OECD MNE Guidelines, UN Guiding Principles)
- A dependency component describing the subsequent financial implications of sustainability matters for the investors of a company.

There is no fundamental reason why the SSB should limit itself to climate-related financial disclosures. Biodiversity, water, human rights issues may be equally material (also financially) as climate change for businesses. A holistic sustainability reporting framework will allow the SSB to expand its scope gradually.



Question 8 Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

In line with the answer, to Question 9, the SSB mandate should include all material risks related to sustainability. In addition to climate change, other sustainability topics such as biodiversity, pollution, waste, social inequalities, health, human rights are also financially material for many companies. Whether the SSB should cover all impacts that are material to society depends on the mandate and scope it assumes.

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

We suggest the SSB to be more agnostic about materiality at this point in time.

The reason is that for sustainability topics, what is material becomes relative to the interests, beliefs and preferences of the stakeholder considered. This is evident if the IFRS would target all stakeholders but also if the IFRS targets mainly investors and regulators.

First, with regards to investors, a sustainability topic (be it climate change, biodiversity, gender, or equality) may be intrinsically material to one particular investor because he cares about the impact such topic has on society, while it may be instrumentally material to another investor because he believes it will affect his financial returns, or it may not be material at all to a third investor because he does not believe it will affect his financial returns.

Second, with regard to regulators, as noted in paragraph 8 of the position paper, a sustainability topic may be considered material in case its government wants to regulate this topic using reporting, or not material in case its government does not want to regulate this topic or does not want to do so using reporting.

For this reason, we believe it is problematic for IFRS to take at this point an opinion on the materiality of sustainability topics, as it assumes something about the interests, preferences, and beliefs of the investors it serves, and the political position regulators are expected take on these topics. Also, a focus on financial materiality for sustainability reporting implicitly implies a political choice.

Therefore, we suggest that the IFRS acknowledges the heterogeneity of materiality amongst its stakeholders and uses a concept of 'potential materiality.' If a topic is likely to be material to decision-makers the IFRS targets, the IFRS can deem it to be potentially material to the report's user. In this way, it can establish a set of sustainability disclosures that cover the information that is material to the different users. Businesses and regulators can then choose a subset of these disclosures that they choose to publish voluntarily respectively enforce.

In determining what is potentially material, the IFRS can still choose to limit the set of decision-makers it targets to investors and/or regulators if it wants to have a well-delineated scope. For information



that is considered to be clearly financially material from an investor's perspective, then the SSB can suggest the IASB to include it in the disclosures it stipulates. Hence, by assuming the concept of potential materiality, the SSB can also more clearly delineate its scope vis a vis the IASB.

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, external assurance is important, initially limited assurance be sought, but eventually, reasonable assurance should be desired. For example, in the Netherlands, ABN AMRO Bank and the energy company Alliander have received a limited assurance on the impact statements that provide a quantified and monetised overview of their financial and non-financial impacts on each of their stakeholders, from investors to employees and society-at-large.

Question 11 Stakeholders are welcome to raise any other comment or relevant matters for our consideration

For additional comments, we refer to the cover letter preceding our answers.

