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Comments on Questions Asked by the IASB in the Consultation Paper on Sustainability Reporting¹

Higher School of Economics (HSE) appreciates the opportunity to respond to the International Financial Reporting Standards (IFRS) Foundation Consultation Paper on Sustainability Reporting published in September 2020.

A working group of the Intellectual Capital Committee at Higher School of Economics², consisting of 7 academics, have contributed to the current comment letter. This document includes reviews of relevant academic literature and expert views on the areas related to the questions posed in the Consultation Paper.

We believe that within our support through extensive collaboration, HSE would have an opportunity to assist the IFRS Foundation in understanding and facilitating its role in Sustainable Reporting within various regions.

Our Committee fully supports the establishment of a Sustainability Standards Board (SSB) under the IFRS Foundation with consideration of the existing experience in sustainable reporting gained by various concerned organizations.

¹ This comment letter has been developed by a working group within the Higher School of Economics, Russia, including Irina Khvostova, Alexey Makarov, Marina Pomorina, Elena Ryabova, Maria Shtefan, Olga Volkova, and Anna Vysotskaya.

² Higher School of Economics in the global ranking "QS - World University Rankings by subject" (TOP-150), 2020 in the subject area of Accounting and Finance. HSE is also #126 in "THE World University Rankings by subject" (Russian Universities) in the subject area of Business & Economics, 2020

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?

1. From our point of view, there is an urgent need in a global set of internationally recognised sustainability reporting standards. It is important that such relatively new set of standards be consistent with the existing one. This can be effectively done by involving the same body in standard-setting process and by following the same commonly known procedures.

2. From our perspective, we can conclude that attention to non-financial reporting and sustainability over the past decade increased dramatically. In Russia investors and other types of stakeholders are intensively involved in the discussions of the lack of and the need for sustainable development.

3. However, we have noticed that across the number of countries, including Russian Federation, there is a tendency for struggling for consistent, comparable and reliable non-financial information communicated by companies (see, for example, Maas and Liket, 2012). One of the reasons for that is that investors want to obtain relevant non-financial information and are “ready” to understand how a company creates long-term value and how it contributes to the needs of society.

4. Furthermore, another observation refers to the fact that there are hundreds of frameworks currently used by various countries and none of them fully explains their choice, nor covers the full width of sustainable reporting.

5. Therefore, we strongly believe that existing IFRS Foundation track record and expertise in standard-setting, along with its relationships with global regulators and governments around the world, could be useful for setting sustainability reporting standards

6. Paragraph 22 discusses three different options for how the IFRS could approach sustainability reporting and the main aim of those is to “reduce complexity in global sustainability reporting”.

We consider that in developing countries absence of the unique set of standards and rules on sustainable reporting led to the complexity and comparability issues. Therefore, three possible options are viewed to be useful in terms of overcoming complexity and achieving comparability challenges.

7. On the basis of an academic literature review, Tsagas and Villiers (2020) summarised the results on standards and metrics overload, as follows (pp. 8–10):

‘...A number of studies have provided comparative overviews of non-financial reporting in the public sector. These studies highlight potential for inconsistencies across the different reporting regimes...

...Some commentators observe that much of the existing mandatory non-financial reporting and CSR standards are unlikely to address investor or stakeholder concerns. Such commentators call for more contextual and comparable information to be required by future non-financial and CSR reporting standards...’

In sum, we believe there should be a strong matching in terms of existing standards, metrics and forms of reports.

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?

8. Our view is that SSB as a lone standard setter in terms of sustainability reporting might not be able to cope with all the challenges and will lead to the vanishing of extended experience and expertise gained by other bodies. We assume that the ideas underlining the standards of sustainability reporting are very comprehensive and too important for the society and humankind to be an issue of the alone professional body.

9. According to the declared by IFRS Foundation mandate “to develop a single set of high-quality, understandable, enforceable and globally accepted accounting standards³” we assume that IFRS Foundation and financial reporting standards must be a part of the wide agenda aimed at the development of disclosure standards for all aspects of sustainability from carbon accounting to the local communities’ impact issues.

10. Therefore, the most effective form of the operating role for the IFRS Foundation in sustainable reporting might be to initiate the establishment of a professional, non-government, and public bodies’ coalition for the reconciliation of the various versions of existing standards. In such form, IFRS Foundation would be able to leverage and adapt the standard-setting process, due process procedures and network and promote the consistent use and application of the new sustainability-reporting standards and contribute to international collaboration, cooperation and coordination among sustainability-reporting bodies, governments, regulators and other stakeholders to achieve further convergence. Within consistency purposes, such bodies as GRI (Global Reporting Initiative), TFC (Task Force on Climate-related Financial Disclosures), CDP (Disclosure Insight Action), etc., might maintain the same or similar values and goals as the IFRS Foundation.

11. Thus, we agree with the statement in Paragraph 28: “...the IASB and its staff could collaborate with the SSB; their expertise could be used to develop research synergies...”. We also believe that global standards for sustainability might be aligned with other standards and might be created with the regard to the existing expertise of other concerned organizations.

Question 3

³ <https://www.ifrs.org/about-us/who-we-are/>

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) achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets;
- (b) working with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting;
- (c) ensuring the adequacy of the governance structure;
- (d) achieving appropriate technical expertise for the Trustees, SSB members and staff;
- e) achieving the level of separate funding required and the capacity to obtain financial support;
- (f) developing a structure and culture that seeks to build effective synergies with financial reporting; and
- (g) ensuring the current mission and resources of the IFRS Foundation are not compromised.

12. We agree that it is necessary to establish the list of requirements in order to achieve success in terms of the global sustainable reporting standard development. In our opinion, this is primarily reflected in points (b), (c) and (g). We do not deny the advisability of including all the other requirements specified in paragraph 31 to the list. At the same time, we associate its content with considering “success” as an already achieved state not as “success requirements”. We believe that success might only be achieved if appropriate initial conditions are created.

13. In addition to the points mentioned above, we suggest specifying paragraphs (d) and (e), as follows:

(d) ensuring appropriate technical expertise for the Trustees, SSB and IASB members and staff (adding IASB is important in line with the point (f) on developing a structure and culture that seeks to build effective synergies with financial and nonfinancial reporting);

(e) securing the separate funding required and the capacity to obtain financial support; (to eliminate «the level»).

14. We believe that requirements stated in (a) and (f) relate mostly to purposes, and less to the requirements. Therefore, we would recommend representing those in a separate paragraph. Thus, we suggest splitting paragraph 31 into 2 parts: “Initial conditions required for success” and “SSB Objectives”.

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?

15. We agree with the IFRS Foundation ability to develop an appropriate framework for sustainable reporting. Recent tendencies indicate the need to develop consistently applied global sustainability-reporting standards. Possible risks associated by some stakeholders on the contradiction with created by other frameworks and standard-

setting bodies might be effectively overcome through establishing the collaboration between those organisations. At the same time there is a threat that it might be difficult to establish one without certain expertise and lack of such collaboration, in its turn, might end up with total chaos which is more and more often reported by various stakeholders.

16. In paragraph 39 the stated issue relates to the risk that “‘bottom up’ cooperation among regional initiatives or existing standard-setters alone would not be sufficient to realise the goal of establishing even a basic set of standards”. At the same time, numerous researchers refer to the problem of the readability of sustainable reports in various countries. For example, Adhariani and du Tout, 2020, conclude that “the sustainability reports published by Indonesian listed companies had a low level of readability”. We assume that lack of consistent set of sustainable standards may lead to decreasing the usefulness of reporting in decision-making process.

17. We therefore support the idea of the IFRS Foundation initiative to develop sustainability reporting globally recognised standards. We also agree that the global initiative should cooperate with regional initiatives to achieve global consistency and comparability which can be most effectively reached due to existing relationships and experience in consistent application of standards.

Question 5

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

*“If you want to go fast, go alone. If you want to go far, go together.”
African Proverb.*

18. We would like to point out that it is important to bring existing experience and groups together as will help to build on effective collaboration and will allow to achieve better results in terms of existing global issues within sustainable development.

19. As stakeholders of this process we should stand together in order to achieve better sustainable development. Therefore, it is highly recommended to all bodies and concerned organisations (along with the local ones) to establish strong collaboration and to work on building better world through the maintaining an appropriate comprehensive sustainable reporting framework to follow globally.

20. We would like to stress that the Governmental bodies is often recognised as the main “initiator”, as well as the “consumer” of companies' activities results in the field of sustainable development. The standards of the interaction between businesses and Governmental bodies in the area of environmental and social projects implementation began to develop initially in the field of public-private partnership (PPP). Under the Institutions implementing PPP projects we see Banks and Governmental Development Institutions, both international (World Bank, IFC, ect.) and national. Therefore, we think that integration of the existing World Bank approaches and SSB in terms of the development of reporting standards for sustainable development seems to be extremely relevant.

21. We should also point out the important initiatives of the International Organization of Standardization (ISO) in the field of sustainable development. Within those, ISO develops the concept of quality standards for organizing production processes, taking into account social responsibility of the companies. We believe it is important to use the provisions of ISO 14001 Environmental Management System (EMS) when defining sustainability reporting standards.

22. Another important area of the integration we see in the harmonization of the risk management standards provisions (e.g., ISO 31000: 2018, COSO, FERMA) with the existing reporting standards on sustainable development.

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?

23. We believe that IFRS Foundation might start the dialogue with the existing initiatives on sustainable reporting as soon as possible in order to provide stakeholders with the required tools. It is also important to highlight the role of adequate analysis and research that should be carried out in order to assess the existing practices and to choose the most appropriate existing approaches and/or accomplish those with the global set of sustainability standards. We would like also to point on the importance of building an appropriate system for evaluating the quality of the existing sustainability reports.

We thus consider that IFRS might allocate a distributed council with the representatives in various parts of the world in order to bring the local initiatives on the broader stage of discussion.

24. We believe that it is important to use both - national initiatives and best practices of the companies in order to develop a global solution to the sustainability disclosures.

Question 7

If the IFRS Foundation were to establish an SSB, might it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?

25. A climate-first approach in developing financial disclosures seems to be a generally logical in light of the global scale of climate change, which is significantly associated with greenhouse gas (GHG) emission. At the same time, we should note the following:

- firstly, there is a wide range of fundamental reasons causing an increase of GHG emissions. Among those are: the structure of national economies, technological and socioeconomic drivers (Stern N, 2007; Liang, 2014). Therefore, it seems impossible to consider them separately;

- secondly, we assume that not only disclosure of climate-related information needs improvement in terms of the consistency and comparability (see paragraph 41).

26. There is a large number of recent literature research on the issues of the operational and strategic effectiveness and environmental factors which is based on the analysis of the corporate environmental responsibility – CER, as on the measure of Corporate social responsibility - CSR (Barnett, Salomon, 2006, Montabon et, al, 2007; Yu, Zhao, 2015, Saeidi S. P. et al., 2015). However, typical measures of CSR such as Kinder, Lydenberg, Domini (KLD) index or regional indexes do not reflect the environmental consideration good enough (Aguinis., Glavas, 2012). For example, Perrault and Quinn (2018) show that the interests of “secondary stakeholders” — notably the natural environment – are in less priority in KDL dataset in comparison with “primary” stakeholders such as employees and shareholders.

27. Thus, there is an urgent need to improve the consistency and comparability in sustainability reporting in a broader sense to make CER policies more comparable and in order to enrich the research of their relationship with corporate financial performance. Companies will also benefit from more general reporting because they already bear the burden of increasing costs of selecting effective tools for measuring environmental performance for compliance with regulatory and public pressures (Stern, 2007; Barnett, Salomon, 2006).

Question 8

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

28. Based on the comments to the Question 7 we believe that climate-related first concept is unlikely to achieve the SSB goal in the long term. At the same time, the problems of reducing greenhouse gas emissions and related indicators can be used as a basis for working out the principles of disclosing information in non-financial reporting, developing a system of assessment criteria (metrics) of environmental risks and their harmonization with the existing financial reporting principles and developing new models of financial reporting.

29. We suggest that SSB might consider a broader definition of environmental factors and climate-related factors related to them. As part of the above factors, it is advisable to highlight:

- Environmental pollution (air, water and earth)
- Composition and level of technological emissions, ranked by classes
- Environmental management system (see HR-considerations in Daily, Huang, 2001)

30. We also warn about the confusion between “Sustainability Reporting” and Corporate environmental responsibility (CER) as a measure of Corporate social responsibility CSR (Montabon et, al, 2007). Corporate social responsibility is usually considered in the context of corporation sustainable development models, so clients can

expect broader scope of non-financial information including social performance, human resources management etc. from “sustainable” reporting.

Question 9

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

31. We have some concerns about the approach to materiality in paragraph 50. The “materiality” is a core concept underlying the basic principles of accounting, financial reporting and auditing (e.g., Edgley, 2014). From the other hand, this concept remains the most arguable one as it is often referred to as something being quite challenging to measure and determine. Within sustainable reporting the concept of ‘materiality’ has been adapted relatively recently. Thus, in terms of sustainability, ‘materiality’, as per the research published by Hahn & Kühnen, 2013, assumes that information must be filtered and guaranteed and supported by the decisions or various business activities which are able to impact the society and the environment.

32. Within the declared planned focus of the SSB on sustainability information as the most relevant to stakeholders we should admit the importance of considering a broader approach to materiality in comparison to what is now used in financial reporting. As academics we cannot ignore the importance of further exploration of the factors that affect the perception of the materiality concept in sustainability reporting.

Therefore, our suggestion concerns the relationship between the existing approaches to materiality and those adopted within IFRS Framework. We think this question has to be addressed by IFRS Foundation in order to provide stakeholders with clear understanding and further guidance.

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?

33. We see a voluntary basis for the solution for the problem of the sustainability information audit or external assurance. Different jurisdictions might have different legislation on the sustainability issues with different degrees of rigorousness and different approaches to the companies’ responsibility and the modes of governmental bodies’ controls.

34. If a company is a subject of a strong legislation and the implementation of national laws and is the subject of state control, the user can be assured that the information disclosed is reliable. In this sense, it seems appropriate to place a notification of compliance with the related local, national, or international norms as a part of the sustainability reporting. It seems to be enough for the companies which operate and/or are registered within the jurisdictions with strong sustainability legislation rules along

with the severe responsibility for its violation.

35. At the same time, the IFRS Foundation and other concerned organizations dealing with the sustainability issues might collaborate with the governments of different countries in order to accelerate the progress of sustainability legislation and enforce the companies' sustainability liabilities controls. While the main objective of the audit is viewed to be providing opinion about Company's financial performance (ISA 200 «The main objectives of the independent auditor and the audit in accordance with ISA»), the sustainability report deals mostly with disclosing the quality of non-financial information,

36. Therefore, in our opinion sustainability reports should not be audited on the same basis as financial ones. However, the external assurance of the sustainability report is advisable. Auditor's report on the quality of sustainability information could reduce the risks of incorrect management decisions. The Global Reporting Initiative and the Accountability Institute share the similar view by determining the external assurance (verification of data)⁴.

37. We can also observe that the demand for assurance services for non-financial information is considered to be relatively low due to the costs associated with such service (Adams and Evans, 2004; Michelon et al., 2019; O'Dwyer et al., 2005; 2011). Moreover, the development of conceptual approaches for assessing the quality of non-financial information is required.

Question 11

38. Regarding additional questions, we would like to raise educational and training issues with the regard to sustainable reporting. Having a specific experience in teaching IFRS after those were adopted globally, we therefore are concerned about the future of teaching programs and modifications required in this field in order to provide future graduates with competitive skills. IFRS Foundation might start educational initiative within the sustainability standards board (SSB) or, at least, have a deliberative representative committee associated with the issues raised.

⁴ <https://www.accountability.org/standards/aa1000-accountability-principles/>

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30 December 2020



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