NYENRODE
BUSINESS UNIVERSITEIT

To: The Trustees of the IFRS Foundation
Via email: commentletters@ifrs.org

Breukelen, the Netherlands, 30 December 2020

Reference: Comments to the Consultation Paper on Sustainability Reporting, as approved by the IFRS Foundation Trustees on 17 September 2020.

Dear trustees of the IFRS Foundation,

With this letter we provide comments to the Consultation Paper on Sustainability Reporting. These comments are written by corporate reporting scholars from the Center for Corporate Reporting, Finance & Tax at Nyenrode Business Universiteit, Breukelen, the Netherlands.

René Orij*, Ruud Vergoossen and Ries Breijer

*corresponding author: r.orij@nyenrode.nl

Comments to the Consultation Paper on Sustainability Reporting

By René Orij, Ruud Vergoossen and Ries Breijer of Nyenrode Business Universiteit,
30 December 2020.

General commentary

We believe the timing of the publication of the document is fundamentally spot-on, as a reaction to societal demands, as well as to changed attitudes towards sustainability in the corporate sector and in the financial markets. On the other hand, we think the substantiation of the need for sustainability reporting within the document itself is not fully convincing, neither are the objectives of sustainability reporting made clear to the reader, nor the dilemmas facing alignment of the multiple objectives. Also, there is no clarity regarding the multiple audiences.

The search for relevant and purposeful sustainability reporting has been prevalent in [a specific branch of] accounting research during the last 30 years, but this research has been ignored in the consultation paper. We support this consultation, which may have to be changed into a pre-consultation, as this document may need further substantiation with relevant scholarly literature. We give some brief input for this.

Worthwhile mentioning is, that we take a European (EU) perspective.

Executive summary

In our view there is a need for a set of internationally recognised standards for sustainability reporting. But primarily there is a need for common understanding of the objectives of sustainability reporting, the objectives of existing initiatives, and how these can be aligned in a way that multiple objectives of sustainability reporting can be reached. Those objectives of sustainability reporting, as we summarize them, are somewhat conflicting, as they are related to different audiences: 1) to measure sustainability performance towards sustainable development, 2) to provide useful information for the financial markets, and 3) to support accountability mechanisms of companies towards (non-financial) stakeholders and society. The position of sustainability reporting in the world and the role of the very many standards in the field of non-financial reporting is unclear. Also, there is no consensus on what the objectives of sustainability reporting should be, such as we describe.

Regarding the current focus and the strengths of the IFRS Foundation, we agree to the proposed contribution to the objective of providing decision-useful information to providers of financial capital. But we also propose to clearly support the objectives with no direct relationship with the financial markets, through the creation of a generally accepted conceptual framework on stainability reporting. The latter can be achieved in close cooperation with other standard setters with expertise on double materiality, connectivity, and sustainable development.

We think that the approach of the IFRS-SSB should be aimed at two main issues:

1. To support the design of a sustainability reporting system, initially by the design of a conceptual framework for sustainability reporting. There may be a need for expertise to develop this within the setting of the IFRS Foundation. The linking pin can be developing a broad approach to stewardship, adding environmental and social perspectives. Concretely, this can be done by adding the UN's Sustainable Development Goals (SDGs) and double materiality for all stakeholders. And further, to add the principle of connectivity of non-financial and financial reporting to improve relevance and decision-usefulness.
2. To support the international recognition of sustainability reporting standards and to co-create international consensus on the objectives of sustainability reporting, including the assignment of the roles to the multiple existing initiatives and their differing objectives. In this perspective, IFRS Foundation can take the lead in sustainability reporting for the financial markets, and the translation of sustainability information into financially relevant information, while connecting to financial information.

We suggest the following 'high-level option':

The issues that need to be addressed in our view can be approached through a Sustainability Standards Board (SSB). The SSB can be established under the governance of the IFRS foundation, and become a standard setter working with existing initiatives and building upon their work (option c).

Short introduction

Our input for the consultation is provided by a generic argumentation on objectives and audiences of sustainability reporting, intertwined with the main question, nr. 1 raised in the consultation paper, followed by the answers to the other ten questions. We address the answer to question 1 - on the need of sustainability reporting standards - in a discussion about its objectives, with input from the European Union (EU) Non-financial reporting directive 2014/95/EU, scholarly articles and other initiatives on sustainability reporting. Consensus on objectives is central to the need of sustainability reporting, but these are not clearly addressed in the consultation paper. A discussion on the role of the IFRS Foundation (question 1a), is held along the lines of the existing conceptual framework for reporting, and additional ideas for a prospective conceptual framework for sustainability reporting.

The objectives and main challenges regarding corporate sustainability reporting

We apply the following statements by the EU Non-financial reporting directive, as our starting point, in which objectives are mentioned [where non-financial information or CSR is written, sustainability information can be read]:

"Indeed, disclosure of non- financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection."

"[….] in order to take account of the multidimensional nature of corporate social responsibility (CSR) and the diversity of the CSR policies implemented by businesses matched by a sufficient level of comparability to meet the needs of investors and other stakeholders as well as the need to provide consumers with easy access to information on the impact of businesses on society"

"Investors' access to non-financial information is a step towards reaching the milestone of having in place by 2020 market and policy incentives rewarding business investments in efficiency under the roadmap to a resource-efficient Europe". (all texts from EC, 2014, p.1).

From the text of the EU directive (EC, 12014) we can deduce the goals of non-financial reporting, and its assumed equivalent CSR reporting: 1) to support sustainable development 2) to provide information to the financial markets and 3) to provide information to non-financial stakeholders and 4) to provide information to society for a societal purpose. [what may be unclear, is the remark about consumers, as the EU presumably simplifies the position of citizens into consumers only].

Objective 1: Sustainability reporting & sustainable development

Sustainable asset allocation may support sustainable development (Miralles-Quirós et al., 2018). Information is crucial for efficient asset allocation (Roychowdhury et al., 2019). But there is no clear scientific proof that transparency and sustainability reporting relate to stronger sustainability performance by companies (La Torre et al., 2018). Most of the research on SDGs in the field of accounting is aimed at reporting, and not on performance itself. These may even differ, walk the talk, or do not walk the talk (García-Sánchez et al. 2019).

SDG-aimed research characterizes reporting of SDGs in different ways: as involvement (Van der Waal & Thijssens, 2020), or as compliance (Miralles-Quirós et al., 2018). The latter provides blurry outcomes to information users because involvement nor compliance with SDGs undoubtedly lead to sustainability performance itself. We even see widening information asymmetries, when sustainability reporting quality and sustainability performance run apart (García-Sánchez et al., 2020).

Thus, not only sustainability reporting quality needs attention, but additionally sustainability performance is important to users of information. As reporting may not directly relate to performance, benchmarks on performance may be needed for the objective of sustainable development. A set of widely recognised sustainability reporting standards may lead to better sustainability metrics, as the system cannot function well without these, such as the UN's SDGs, promoted for corporate use by UN Global Compact (UNGC, 2020).

So, there may be a need for performance benchmarks to really support sustainable development, combined with reporting standards. The new EU taxonomy on sustainability may provide food for thought (European Commission, 2020). UNCTAD (2019) provides input for benchmarks.

Objective 2: Sustainability reporting & useful information for investors

The relevance of corporate sustainability information to the financial markets has been made clear in many scholarly publications, initially as an extra source of information that enhances the usefulness of related financial information (Barth et al. 2017) in an integrated manner, and consequently to allocate capital better (Khan et al., 2016). The International Integrated reporting Council (IIRC, 2013), has been able to create an approach to relate non-financial information to financial information. This approach is the so-called 'connectivity' between capitals (Grassmann et al., 2020). Connectivity is a mechanism to relate non-financial to financial information to establish relevance of non-financial information, and ultimately to increase decision usefulness.

There are also counterthoughts on usefulness of sustainability information to the financial markets (Slack & Tsalavoutas, 2018) due to culture in the financial markets or unclarities around measurement (Busch et al. 2016). Also, the unclarities on materiality of sustainability information is disturbing the development of a strong reporting system (Cerbone & Maroun, 2020). The lack of consensus on the objectives of collecting and reporting about sustainability leads to blurry reporting and use of sustainability information.

Objective 3: Sustainability reporting & accountability towards stakeholders and legitimacy in society

Companies also apply sustainability reporting to communicate with a broader societal audience, particularly stakeholders (Orij, 2010). For both audiences, accountability is a mechanism to create the right to demand information from companies (O'Donovan, 2002). When the audience is society at large, we can use the concept of organisational legitimacy – the organisation being legitimised by society to exist. Gray et al. (1988) discuss several theoretical angles related with accountability toward stakeholders and society. A large bundle of literature has followed this publication in the direction of alternative objectives of sustainability reporting. The research that followed Gray et al. (1988), and many other is too extensive to summarize here, or it may me with the brief phrase that sustainability reporting matters to the corporation-society relationship.

The major difficulty for sustainability reporting for non-financial stakeholders and society is the primacy that investors have in the provision of information that corporations provide. In

other words: information that is useful for investors may not be beneficial to non-financial stakeholders and society.
In view of Gray et al. (1988), also three objectives of sustainability [CSR] reporting exist, 1) discharge of accountability, 2) CSR as an extension of financial reporting to investors and 3) enhance the corporate image. They also suggest the existence of a middle ground, the overlap between the goals, but also parts that do not overlap. For example, discharge of accountability to investors differs from discharge of accountability to non-financial stakeholders. We ignore corporate image-building here, as we see no reason to regulate this, except to support the 'walk the talk' argument in case companies reporting differs from underlying sustainability performances.

Reporting standards with the objective to get discharged in relationship with accountability to non-financial stakeholders, is not part of the expertise of the IFRS. And on the other hand, GRI already provides a set of internationally recognised sustainability reporting standards, that focus on accountability towards stakeholders.

<u>Objectives and audiences of sustainability reporting & existing initiatives</u>
Each of the objectives of sustainability reporting are not easily reached, but also the combination of the objectives has its challenges, in case of a single set of reporting standards. As sustainability reporting has (at least) three objectives, and multiple audiences. There are very many international initiatives for sustainability reporting – La Torre et al. (2018) mention 30 initiatives that created sustainability reporting frameworks, of which nine are appropriate to comply with the one of the main obligatory regulations in this field, the EU non-financial reporting directive. Those initiatives have differing objectives. The single-issue initiative of the Task Force on Climate-related Financial disclosures (TCFD) is not one of those nine.
Below we mention the objectives of three of those initiatives, and they are presumably the three most widely used frameworks. GRI's framework is the single most widely used framework for sustainability reporting globally, according to KPMG 2020[1]:

[1] We are currently researching the use of these frameworks among European companies. These three are the most widely used, without providing further evidence here. Most companies use multiple frameworks.
We can also support the KPMG-data: GRI is the largest in Europe. Worthwhile mentioning is the recent strong growth of SDG-reporting.

A. Global Reporting Initiative (GRI) states: “The GRI Standards create a common language for organizations – large or small, private or public – to report on their sustainability impacts in a consistent and credible way. This enhances global comparability and enables organizations to be transparent and accountable” (GRI, 2020). They further state: “The Standards help organizations understand and disclose their impacts in a way that meets the needs of multiple stakeholders. In addition to reporting companies, the Standards are highly relevant to many other groups, including investors, policymakers, capital markets, and civil society.”
B. The IIRC (IIRC, 2013) states: “The purpose of this Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them.” “The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. It therefore contains relevant information, both financial and other.”
C. Global Compact /SDGs state (UNGC, 2020): “Corporate sustainability starts with a company’s value system and a principles-based approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. Responsible businesses enact the same values and principles wherever they have a presence, and know that good practices in one area do not offset harm in another. By incorporating the Ten Principles of the UN Global Compact into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success.”

We summarize those objectives and audiences in the table below.

	Objective	**Audience**	**Unique contribution to objectives of sustainability reporting (as described above)**
Sustainability reporting by IFRS (according to consultation paper)	Decision usefulness.	"investors and an even broader audience" (consultation document)	Decision usefulness for investors.
Sustainability reporting by GRI (GRI, 2020)	"understand and disclose […] impacts in a way that meets the needs of multiple stakeholders" (GRI, 2020)	Multiple stakeholders. "Including investors, policymakers, capital markets, and civil society (GRI, 2020)"	Provision of information to non-financial stakeholders and society, leading to accountability towards stakeholders and society (legitimacy).
Integrated reporting by IIRC (IIRC, 2013)	"to explain […] how an organization creates value over time. It therefore contains relevant information, both financial and other" (IIRC, 2013)	Providers of financial capital.	Integration of financial and non-financial information through, amongst others, connectivity.
Global Compact / Reporting of / involvement with SDGs (UNGC, 2020)	Sustainable development and "long-term success". (UNGC, 2020)	People and planet.	Sustainable development.

The table above only shows three initiatives, their objectives, audiences, and uniqueness. None of the three existing initiatives covers all three of the objectives of sustainability reporting, which we suggested. All of those contribute to single objectives, although they cover non-financial or sustainability information in a broader sense. With the information we synthesize our suggestions for the follow-up of this consultation, a conceptual framework for sustainability reporting.

The IFRS Consultation paper provides a consideration of a broader audience, related with the double materiality principle. The IFRS foundation may have to confer with other initiatives with more experience on this matter, such as GRI. GRI covers most objectives provided here.

We also address ‘connectivity’, as is suggested by the IIRC (2013). Further, cooperation on SDGs is needed for the objective of sustainable development. Also, Integrated Reporting has its specific attribute of connectivity, that provides insights on the connection between non-financial information and financial information. Relevant issues are discussed below.

Double materiality

GRI has its widely used materiality analysis (Moratis & Brandt, 2017), comparable with the double materiality of the EU NFRD (EC, 2019, p. 4), in the supplement on reporting of climate-related information (EC, 2019). There it is written:

“The reference to the company’s “development, performance [and] position” indicates financial materiality, in the broad sense of affecting the value of the company. Climate-related information should be reported if it is necessary for an understanding of the development, performance, and position of the company. This perspective is typically of most interest to investors”.

“The reference to “impact of [the company’s] activities” indicates environmental and social materiality. Climate-related information should be reported if it is necessary for an understanding of the external impacts of the company. This perspective is typically of most interest to citizens, consumers, employees, business partners, communities and civil society organisations. However, an increasing number of investors also need to know about the climate impacts of investee companies in order to better understand and measure the climate impacts of their investment portfolios.”

The texts on double materiality by the EC focus on climate issues but can be applied broadly. The double materiality principle is an interesting solution regarding concerns of lower quality of reporting for non-financial stakeholders on sustainability issues.

Connectivity / interconnected reporting

The connectivity between non-financial information and financial information has been promoted by IIRC. We believe connectivity can serve as a translation mechanism towards relevance. Increased relevance may lead to increased decision usefulness. The FRS foundation could collaborate with the IIRC to create methods to establish connectivity.

The connectivity issue has not been designed in detail by IIRC, nor has it a clear definition on how it can be performed (IIRC, 2013). Also, the EU directive on non-financial information requests this connectivity, their words, creating references to amounts mentioned in the financial statements.

Accountancy Europe (2020) suggests something similar, using different wording, on a different level, which is relevant for this consultation: "The financial and non-financial standard setters would share a *conceptual framework for connected reporting,* ensuring an interconnected standard setting approach that focuses on long-term value creation and stakeholder needs.". In our view, interconnected standards need to contain clear standards on connectivity.

Sustainable Development Goals

Regarding the coverage of all the suggested objectives, the contribution of sustainability reporting standards to sustainable development is only clearly covered in Global compact / SDGs. The SDGs can be defined as performance indicators for sustainable development. These may serve as KPIs, and possibly benchmarks, as most sustainability reporting does not surpass involvement, instead of contribution to sustainable development. Benchmarks on sustainability performance can be drawn up with the use of UNCTAD's (2019) 'Guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals'.

KPMG (KPMG, 2020) found that most global corporations already connect their businesses with the SDGs in their corporate reporting. Empirical research on how this is done may contribute to further development of SDG-reporting within the context of sustainability reporting.

Comparability

We support the aim of consistency and comparability, although this is not central to any of the existing initiatives. But if globality deals with international comparability, and if this is a main driver of this standard-setting, a global set of sustainability standards is needed. Comparability is supposed to enhance usefulness (IFRS, 2015). In case of financial reporting, it is argued in academic research that benefits of IFRS adoption are likely to arise from comparability (Christensen et al. 2015). It is suggested that comparability through internationally recognized financial reporting standards mandating a uniform set of accounting standards improves financial statement that in turn attracts greater cross-border investment."

For non-financial reporting for non-financial stakeholders there is no clarity, whether comparability is necessary. Orij (2010) finds that national cultures relate to the level of non-financial disclosures, so national differentiation is necessary. The latter suggests that international comparison is less needed on societal issues.

Current status of IFRS & Sustainability reporting

IFRS, and particularly the conceptual framework for financial reporting, does not explicitly relate to sustainability reporting nor sustainable development (Palea, 2018). An indirect relation through stewardship can be established. A dictionary explains stewardship as "the act of taking care of or managing something, for example property, an organization, money or valuable objects" (Oxford Learner's Dictionary, 2020).

Stewardship & Sustainability reporting

Stewardship is also not explicitly part of the IFRS conceptual framework (Pelger 2020), but indirectly through decision usefulness. Pelger (2020) based his view on Gjesdal (1981). Stewardship by Gjesdal is seen as a control issue - control of the company's financial resources, also taking care of those - while Dumay et al. (2019) suggest a broader view on resources, multiple resources. The multiple-resources view is similar to the six capitals of the IIRC (IIRC, 2013): financial, manufactured, intellectual, human, social & relationship and natural.

Stewardship is not mentioned in the consultation paper but can be the perspective for a successful approach to design standards for sustainability reporting. In case stewardship will be used for this purpose a supportive definition is needed. The definition should assure a broad perspective on stewardship, of at least financial, environmental and social perspectives combined. We argue that also accountability needs to have a prominent position within stewardship, as is described by Dumay et al. (2019).

An environmental approach to stewardship may support the objective of sustainable development. This can be achieved by a clear link with the SDG, and through adding environmental materiality. Further, a social approach to stewardship through double [triple?] materiality, adding social materiality.

Summarizing the suggestions for a conceptual framework for sustainability reporting

In case sustainability reporting is seen as enhancing the relevance of financial accounting information, or being relevant to investors by itself (Lamberton, 2005), the decision-usefulness of sustainability information is important to investors, for example while presented in an integrated form (Barth et al., 2017). But surely, enhancing decision-usefulness of corporate reporting is not the only objective of sustainability reporting.

Like our own ideas, Lamberton (2005) suggests a sustainability reporting conceptual framework with a short list of similar objectives of sustainability accounting and reporting: 1) measurement of sustainability performance toward sustainable development, 2) provide decision-useful information, and 3) support (non-financial) stakeholder and societal accountability.

We follow Lamberton (2005) in his suggestions of qualitative attributes. Attribute ‘relevance’ is connected to the objective of usefulness of information, and not to the non-financial objectives of sustainability information. Comparability as a qualitative attribute of sustainability reporting is not clearly related to any of the objectives but is seen as a generic attribute of quality, possibly enhancing relevance. ‘Transparency’ is also mentioned, which could reduce the gap between reporting quality and sustainability performance, the ‘walk the talk’ argument. An important measurement issue is measuring of performance towards sustainability / sustainable development.

Finally, we suggest principles underlying the conceptual framework.
First, stewardship should be part of a new conceptual framework for sustainability reporting - with a broad stewardship definition - financial, environmental, and social. Stewardship stands for taking care of the main resources of companies and being held accountable for that. Second, connectivity is another principle, connecting financial and non-financial reporting and enhancing relevance and decision usefulness. Third, double materiality, adding financial and social issues to determining materiality.

Our answers to 'Questions for Consultation'.

Question 1:

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

Our answer to question 1: We believe there is a need for a global set of internationally recognised sustainability reporting standards, as we described in our discussion on objectives and audiences. We suggest the initial design of a conceptual framework for sustainability reporting.

Question 1a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?
1b) If not, what approach should be adopted?

Our answer to question 1a: IFRS Foundation should initially design a conceptual framework for sustainability reporting. As described by Lamberton (2005), there are similarities between the current view on qualitative attributes of sustainability reporting and those of general-purpose financial reporting, as prescribed by IFRS. Particularly the objective of provision of decision-useful information can be enhanced by sustainability reporting. The 'translation' of this information into economic units may relate to the strengths of IFRS, including knowing what investors need to know.

Based upon Lamberton's 2005 suggested conceptual framework, and following our prior arguments, we propose the following issues to be considered with the development of a conceptual framework for sustainability reporting:

- Objectives of sustainability reporting
    1) to measure sustainability performance towards sustainable development,
    2) to provide useful information for the financial markets
    3) to support accountability mechanisms of companies towards (non-financial) stakeholders and society.
- Principles underpinning the sustainability reporting framework
    - Broad definition of stewardship (financial, environmental, and social),

    - Connectivity between nonfinancial and financial information to increase relevance and decision-usefulness,
    - Double materiality of both financial and non-financial issues,
- Recording & measurement towards sustainability / sustainable development.
    - SDGs or similar measurements as KPIs in reporting and benchmarks, possibly to be determined per industry per country.
- Qualitative attributes of sustainability reporting framework
    - Relevance
    - Transparency
    - Comparability.

We suggest cooperation with existing initiatives on specific topics.

- With UN Global Compact on SDGs, and UNCTAD for benchmarks on SDGs.
- With GRI and the EU on double materiality.
- With IIRC on connectivity.

The IFRS Foundation can take the lead on the objective of decision usefulness for the financial markets.

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?

Our answer to question 2: We are in favour of one global standard setter that has considerably authority and support worldwide, as the IFRS Foundation has in the field of financial reporting. A SSB under the governance structure of the IFRS Foundation could be an appropriate model. However, in order to obtain the necessary authority and support it is necessary to cooperate constructively with other initiatives as GRI, IIRC and Global Compact / SDGs.

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) achieving a sufficient level of global support from public authorities, global regulators, and market stakeholders, including investors and preparers, in key markets;
Our answer: At the current stage, particularly focusing on cooperating with existing initiatives, but we also see the European Union's regulations as a logical starting point, as is done in the prior parts of our contribution. We are aware of our own EU-centred perspective.

(b) working with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting;

Our answer: We strongly recommend cooperating with other [regional] initiatives.

(c) ensuring the adequacy of the governance structure;
Our answer: See our answer to question 2.

(d) achieving appropriate technical expertise for the Trustees, SSB members and staff;
Our answer: Achievement of additional appropriate technical expertise is necessary, and we believe cooperation with existing initiatives must lead to this.

(e) achieving the level of separate funding required and the capacity to obtain financial support;
Our answer: We believe that cooperation with existing initiatives and regulators to create consensus on the sustainability reporting standards is supportive of obtaining financial

support.

(f) developing a structure and culture that seeks to build effective synergies with financial reporting;

Our answer: A structure and culture that seeks to build effective synergies with financial reporting is a necessity, as relevance of sustainability increases, if connectivity between the reporting schemes is established. A structure can be developed, but a culture is hard to create. Societal developments may drive this changes in culture.

(g) ensuring the current mission and resources of the IFRS Foundation are not compromised.

Our answer: Following form our previous answer, we believe there is a connection between sustainability reporting and financial reporting, that enhances the quality of financial reporting.

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?

O**ur answer to question 4:** We suggest unconditional use of stakeholder relationships to aid adoption and consistent application of SSB standards globally.

Question 5

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

Our answer to question 5: As written in our initial analysis, we believe that depending on the objectives of the reporting, existing initiatives could take the lead on different topics.

IFRS can take the lead while creating standards for the financial markets, and creating relevance of non-financial information, while connecting this information with financial information. IIRC connectivity can support this.
SDG-reporting can be developed in cooperation with Global Compact and GRI.
Double materiality can be developed in cooperation with GRI and the EU.

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?

Our answer to question 6: As we describe in our initial analysis, central to the process of developing sustainability standards is the cooperation with existing initiatives and the EU jurisdiction, as well as the consensus on definitions, objectives and audiences of sustainability reporting.

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?

Our answer to question 7: We are not aware of any corporate reporting study aimed at this issue. In our opinion this is a strategic decision.
We think sustainability reporting is in essence a wide-ranging concept, and there is no such thing as differences of relative weighting of importance of sustainability issues. But we expect timeliness of development and implementation of climate-related standards having the greatest potential of broad acceptance and compliance due to its saliency. On the other hand, initial commitment to a broad definition is needed, but the development can be carried out in a later stage.
A focus on climate-related deporting requires close cooperation with TCFD.

Question 8

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

Our answer to question 8: as with question 7, this regards a strategic decision. We assume a climate-related reporting and its risks as the most salient topic within the range of environmental topics, although many environment topics are (ultimately) closely related to the climate.

Question 9

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

“For 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. Therefore, a gradualist approach is recommended. If established, the SSB would initially focus its efforts on the sustainability information most relevant to investors and other market participants. Such information would more closely connect with the current focus of the IASB. “

Our answer to question 9: we agree on the proposed sequence of initial focus of the SSB on sustainability information most relevant to investors and other market participants. However, objectives of sustainability reporting for other audiences differ and may conflict with those of market participants. For credibility purposes a strong commitment is needed towards the other audiences of sustainability reporting to also include their needs.

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?

Our answer to question 10: the answer to this question may need a full scholarly study. We would like to address some of the major issues.

Information is more useful, when audited, but investors should be aware of the expectation gap (Geiger, 1994). There are concerns, as expressed by Adams & Evans (2004) about accountability in social reports, which is threatened by a lack of completeness of reporting, and the lack of credibility of reports. On the other hand, information asymmetries get smaller, when sustainability reports have been assured (Cuadrado-Ballesteros et al., 2017).

Question 11

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

Our answer to question 11: We do not have any other comments.

References

- Accountancy Europe, *Follow up paper on interconnected standard-setting*, June 2020.
- Adams, C. A., & Evans, R. (2004). Accountability, completeness, credibility and the audit expectations gap. The Journal of Corporate Citizenship, 14, 97–115.
- Barth, M. E., Cahan, S. F., Chen, L., & Venter, E. R. (2017). The economic consequences associated with integrated report quality: Capital market and real effects. Accounting, Organizations and Society, 62, 43-64.
- Busch, T., Bauer, R., & Orlitzky, M. (2016). Sustainable development and financial markets: Old paths and new avenues. Business & Society, 55(3), 303-329.
- Cerbone, D., & Maroun, W. (2020). Materiality in an integrated reporting setting: Insights using an institutional logics framework. The British Accounting Review, 52(3), 100876.
- Christensen, H. B., Lee, E., Walker, M., & Zeng, C. (2015). Incentives or standards: What determines accounting quality changes around IFRS adoption?. European Accounting Review, 24(1), 31-61.
- Cuadrado-Ballesteros, B., Martínez-Ferrero, J., & García-Sánchez, I. M. (2017). Mitigating information asymmetry through sustainability assurance: The role of accountants and levels of assurance. *International Business Review*, *26*(6), 1141-1156..
- Dumay, J., La Torre, M., & Farneti, F. (2019). Developing trust through stewardship. *Journal of Intellectual Capital*.
- European Commission (EC) (2020), EU taxonomy for sustainable activities.
- European Commission (EC) (2019), G Guidelines on non-financial reporting: Supplement on reporting climate-related information.
- European Commission (EC) (2014), Directive 2014/95/EU, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.
- García-Sánchez, I. M., Hussain, N., Khan, S. A., & Martínez-Ferrero, J. (2020). Do Markets Punish or Reward Corporate Social Responsibility Decoupling?. Business & Society.

- Geiger, M. A. (1994). Investor views of audit assurance: Recent evidence of the expectation gap. *Journal of accountancy*, 60.
- Gjesdal, F. (1981). Accounting for stewardship. Journal of Accounting Research, 19(1), 208-231.
- Global reporting Initiative (GRI), 2020, "The global standards for sustainability reporting".
- Grassmann, M., Fuhrmann, S., & Guenther, T. W. (2019). Drivers of the disclosed "connectivity of the capitals": evidence from integrated reports. Sustainability Accounting, Management and Policy Journal.
- Gray, R., Owen, D., & Maunders, K. (1988). Corporate social reporting: emerging trends in accountability and the social contract. Accounting, Auditing & Accountability Journal, 1(1), 6-20.
- IFRS, 2015, Project Principles of Disclosures Paper topic Comparability of disclosures.
- International Integrated Reporting Council (IIRC) (2013), The International Integrated Reporting Framework, International Integrated Reporting Council, London.
- Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. The accounting review, 91(6), 1697-1724.
- KPMG (2020), The KPMG Survey of Sustainability Reporting 2020, https://home.kpmg/xx/en/home/insights/2020/11/the-time-has-come-survey-of-sustainability-reporting.html
- La Torre, M., Sabelfeld, S., Blomkvist, M., Tarquinio, L., & Dumay, J. (2018). Harmonising non-financial reporting regulation in Europe. Meditari Accountancy Research.
- Lamberton, G. (2005, March). Sustainability accounting—a brief history and conceptual framework. In Accounting forum (Vol. 29, No. 1, pp. 7-26).
- Lehman, G., & Morton, E. (2017, December). Accountability, corruption and social and environment accounting: Micro-political processes of change. In Accounting Forum (Vol. 41, No. 4, pp. 281-288). Taylor & Francis.
- Miralles-Quirós, J. L., Miralles-Quirós, M. M., & Nogueira, J. M. (2019). Diversification benefits of using exchange-traded funds in compliance to the sustainable development goals. Business Strategy and the Environment, 28(1), 244-255.

– Moratis, L., & Brandt, S. (2017). Corporate stakeholder responsiveness? Exploring the state and quality of GRI-based stakeholder engagement disclosures of European firms. *Corporate Social Responsibility and Environmental Management*, *24*(4), 312-325.
– O'Donovan, G. (2002), Environmental Disclosures in the Annual Report: Extending the Applicability and Predictive Power of Legitimacy Theory, *Accounting, Auditing and Accountability Journal*, vol. 15, no. 3, pp. 344-371.
– Orij, R.P. (2010), "Corporate Social Disclosures in the Context of Culture and Stakeholder Theory", *Accounting, Auditing and Accountability Journal*, vol. 23, no. 7, pp. 868-889.
– Oxford Learner's Dictionary (2020, www.oxfordlearnersdictionaries.com
– Palea, V. (2018). Financial reporting for sustainable development: Critical insights into IFRS implementation in the European Union. Accounting forum (Vol. 42, No. 3, pp. 248-260).
– Pelger, C. (2020). The Return of Stewardship, Reliability and Prudence–A Commentary on the IASB's New Conceptual Framework. Accounting in Europe, 17(1), 33-51.
– Roychowdhury, S., Shroff, N., & Verdi, R. S. (2019). The effects of financial reporting and disclosure on corporate investment: A review. *Journal of Accounting and Economics*, *68*(2-3), 101246.
– Slack, R., & Tsalavoutas, I. (2018). Integrated reporting decision usefulness: Mainstream equity market views. In Accounting forum (Vol. 42, No. 2, pp. 184-198).
– United Nations Global Compact (UNGC) (2020), www.unglobalcompact.org/what-is-gc/mission/principles
– UNCTAD (2019), Guidance on Core Indicators for Entity Reporting on Contribution Towards Implementation of the Sustainable Development Goals, https://unctad.org/system/files/official-document/diae2019d1_en.pdf
– Van der Waal, J. W., & Thijssens, T. (2020). Corporate involvement in Sustainable Development Goals: Exploring the territory. Journal of Cleaner Production, 252, 119625.