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30 December 2020

IFRS Foundation Consultation Paper on Sustainability Reporting

Dear Madam

Dear Sir

Thank you for producing your detailed Consultation Paper on Sustainability Reporting.

The secretariat of the United Nations Economic Commission for Europe (UNECE) supporting the UNECE Expert Group on Resource Management (Charlotte Griffiths and Harikrishnan Tulsidas), the Chair of the Expert Group on Resource Management (David MacDonald) and the Chair (Sigurd Heiberg) and other members of the Commercial Applications Working Group of the Expert Group on Resource Management have all reviewed the Consultation Paper and prepared a collective response. Our responses to the questions asked are appended at the end of this letter (see pages 3-7).

In summary, we have the following comments:

(1) We believe the IFRS Foundation should be involved in setting global sustainability standards since it is critical that they cohere with financial reporting requirements and that they be capable of audit and verification.

(2) The IFRS Foundation, in our view, should not define these standards alone. Setting them will require the collaboration/consent of many jurisdictions and stakeholders, including many not commonly represented in financial reporting and investment decisions, as sustainability affects all human inhabitants of the world and reflects their values as well as scientific understanding regarding the processes of climate change and environmental degradation in general.

(3) While the initial focus should be on the most salient aspect of substantiality, that is, the contribution of greenhouse gases (GHGs) to global warming, the standards should simultaneously develop pathways for dealing with broader global environmental impacts, e.g. GHGs, local pollutants/environmental damage (e.g. particulates, groundwater), and social conditions, all as detailed in the UN Sustainable Development Goals (SDGs).

(4) Sustainability reporting for resource exploitation processes, including minerals and fossil fuels development, subsoil injection and storage, renewable energy projects, water utilization as well as recovery of anthropogenic (secondary) resources represent unique challenges. Simple reporting of the instantaneous GHG emissions or society impacts are not sufficient. Consideration needs to be made of the full life cycle costs and benefits of projects which may span many decades as part of their initial investment.

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(a) The United Nations Economic Commission for Europe (UNECE) and its Expert Group on Resource Management (EGRM) would be natural collaborators for the IFRS Foundation since UNECE is addressing sustainability across the range of resources. EGRM has produced several tools which can be used to measure the sustainability impacts of resource projects. UNECE has substantial official and public mandates to do so. UNECE stands ready to work with the IFRS Foundation on this important task.

(b) The United Nations Framework Classification for Resources (UNFC) is a classification which is focused on the project level since this is where the most basic measures of the sustainability of economic activity can be judged for resource development and for the use of anthropogenic materials in the circular economy. Projects represent the key decision point for enterprises that engage in them and for the jurisdictions that approve them. The project level is therefore also the level at which accountability, quality assurance and quality control can be afforded and applied. While the classification handles projects at the high level of granularity that certain applications require, aggregated reports may be appropriate for some applications, including at the enterprise and jurisdictional levels. UNECE urges the Foundation to develop standards that apply at the project, enterprise, and jurisdictional levels.

Yours faithfully

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Chair
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UNECE Secretariat to the UNECE Expert Group on Resource Management
Responses to Questions

Question 1.
Is there a need for a global set of internationally recognized 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? 
Answer to question 1.
There is clearly a need for a single global set of internationally recognized sustainability reporting standards.

The IFRS Foundation is well positioned. It is important that there be a single internationally accepted standard. Only when projects and portfolios can be compared and contrasted based on internationally accepted standards covering not only financials/economics but also physical, social and environmental metrics, can stakeholders find useful information for their decisions based on comparable data.

For activities, including activities in extractive activities, renewable energy, and anthropogenic material use, it is important to secure coherence with financial reporting to meet stakeholders’ needs. The experience of the IFRS Foundation in developing financial reporting standards and cooperating with other international bodies is in our view the principal and essential benefit that the IFRS Foundation may bring. Sustainability reporting however, goes a long way beyond financial reporting. Overseeing this will clearly need the appropriate expertise and experience.

In this regard acceptance of the United Nations Framework Classification for Resources (UNFC) as a project and resource classification system would contribute toward consistence and comparability.

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? 

Answer to Question 2:  
Yes, but given the urgency of the task and the quite different nature of this reporting, care must be taken that the right governance structure is tailored for the task in hand. The support for sustainability as articulated in the UN Sustainable Development Goals (SDGs) will only work if decision makers and policymakers, use not only common financial standards, but also common sustainability reporting standards. We believe the likelihood of global adoption would be greatly enhanced with the IFRS Foundation working in close collaboration with UNECE.

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)? 

Answer to Question 3:  
Paragraph 31 reads:  
“31 The Trustees have provisionally chosen to further develop the SSB option, on the condition that it would meet the following requirements for success. The Trustees consider these requirements essential for success:  
(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;
(e) achieving appropriate technical expertise for the Trustees, SSB members and staff;
(f) achieving the level of separate funding required and the capacity to obtain financial support;
(g) developing a structure and culture that seeks to build effective synergies with financial reporting; and
(h) ensuring the current mission and resources of the IFRS Foundation are not compromised.”

We refer also to our response to question 11.

While the work must be founded on project level information, success may be measured at the aggregated enterprise and issuer level, and less at the underlying project level.

Our comments in the response below relate to the reporting of activities that are structured in the form of projects (in the sense of engineered and formally managed activities) that provide tangible input to enterprise and issuer level reports.

The comments below refer to the subparagraphs of paragraph 31 as set out above:

(a) Sustainability reporting will need to relate to the UN Sustainable Development Goals (SDGs) and the Paris Accord on climate change. Global support will require close cooperation with the United Nations. We recommend close consideration of the United Nations Framework Classification for Resources (UNFC) that UNECE has developed via the Expert Group on Resource Management (EGRM). UNFC, which aims to serve capital allocation in addition to policy formulation, government resource management and industry’s business process management, has a mandate for global application from the United Nations Economic and Social Council (ECOSOC). UNFC is bridged to classifications in common use for financial reporting of petroleum and mineral activities and aims to support activities to reach the SDGs and the ambitions of the Paris Accord. UNFC is currently developed for activities in renewable energy, petroleum, minerals, including coal and nuclear fuel resources, anthropogenic resources and injection projects, principally for CO2 storage. Application to groundwater is under development. UNFC allows investors and preparers to communicate the effects of central sustainability related conditions such as:

- The environmental, social and economic framework conditions favouring or impairing the future development and operation of the projects.
- The stage of technical implementation from conception through exploration, concept design, detailed design, construction, operation, modification and abandonment.
- The level of confidence in estimates of the project metrics of relevance to the reporting, and to the decisions to move the projects to the next level of implementation.

(b) Linking sustainability reporting to UNECE’s normative resource management instruments helps provide global consistency. The global mandate under which application of UNFC operates and the relationship that exists to other reporting systems through the UNFC bridging documents facilitates global communication with public authorities, global regulators and stakeholders. This facilitates the transition to sustainability reporting. Complexity will be reduced by requiring coherence between physical and financial accounts.

(c) Coherence between sustainability reporting and financial reporting will require cooperation between the IFRS Foundation and the United Nations who bring many standard setters together in the Expert Group on Resource Management. The governance pattern that applies to financial reporting should be honoured and preserved through such cooperation.
(d) By working with the UNECE Expert Group on Resource Management, the SSB will have access to global expertise.

(e) Funding is a constraint also for the United Nations. It needs to be addressed. It affects the level of effort available, and thus the scope that can be managed.

(f) Sustainability reporting needs to be coherent with financial reporting and with national statistics to serve the United Nations, governments, management, partners and investors adequately. To develop synergies with financial reporting is not only desirable but a necessity.

(g) We believe that the development of sustainability standards by the IFRS Foundation will not compromise its mission. UNECE would be pleased to work with the IFRS Foundation in pursuing this important task.

Question 4:
Could the IFRS Foundation use its relationship with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?

Answer to question 4:
The IFRS Foundation could use its relationships to good effect.

To attain the SDGs and meet the climate ambitions will require international organizations like the UN and governments to set the appropriate framework conditions that permit industry to deploy their best capabilities in manners that the capital market can finance. From its relationships with the capital market, the Foundation is in a good position to help secure this and form the appropriate basis for SSB reporting.

Adoption is the likely the largest challenge for SSB standards for having a significant positive impact on SDGs. Making SSB standards part of the already globally excepted and widely adopted financial standards is likely to be the best roadmap to succeed. For sustainable reporting, the experience of the IFRS Foundation in cooperating with multiple stakeholders may prove even more important than it is for managing financial reporting standards. The system should be co-created and fully supported by the UN.

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

Answer to question 5:
The UNECE Expert Group on Resource Management offers to cooperate with the SSB to achieve this for resource development and the use of anthropogenic materials.

Question 6:
How could the IFRS Foundation best build upon and work with existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?

Answer to question 6:
The IFRS Foundation has already a strong basis for working with existing jurisdictional initiatives when it comes to consistent financial reporting which is an important part of sustainability reporting. Other important global jurisdictional and quasi-jurisdictional initiatives are the United Nations instruments required to reach the SDGs and the climate ambitions in the form of conventions, normative instruments and agreed ambitions. The United Nations is providing relevant normative in instruments, notably the UN Framework Classification for Resources (UNFC) and the System for National Accounts (SNA), including the System of Environmental-Economic Accounting (SEEA), that references UNFC.
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?

Answer to question 7:
The IFRS Foundation should preferably begin with the largest/most widely recognized “challenges to sustainability”:

(a) GHG emissions that directly affect global climate.
(b) Local pollution (particulates, toxins, other) that have concentrated effects in nearby locations.

As a matter of principle, it also should include some initial “social” aspects. They are almost by definition local.

The approach taken will need to allow later expansion to sustainability accounting respecting a broader spectrum of the SDGs to avoid the need for redoing the initial efforts of addressing the most critical challenges when other aspects are incorporated.

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

Answer to question 8:
Reference is made to our response to question 7. Climate-related risks must be assessed as a priority as they may be imminent and require both mitigation and adaptation actions soon. Consideration of a broader set of environmental factors, including urban pollution, deficiencies in securing affordable and sustainable health, energy and raw material services and manage social and international tension etc. need also to be considered as next priorities.

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

Answer to question 9:
Paragraph 50 reads:
“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.”

See our response to Question 7. We support a gradualist approach. It will be important to establish coherence between the sustainability information of most relevance to investors and other market participants early and then expand this with the same degree of rigor for the next items on a prioritized list of actions.

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?

Answer to question 10:
It will be important to assure that information disclosed by different parties and for different activities can be compared and contrasted. This requires quality assurance, control and auditability. The IFRS Foundation is well positioned to secure this. In addition, the ordinary mechanisms available for quality assurance and quality control of industrial activities will be available. In this environment, the
requirements for qualification of evaluators may be detailed as is commonly done for financial reporting in the minerals and petroleum industries.

**Question 11**

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

**Answer to question 11:**

In summary, we have the following comments:

1. We believe the IFRS Foundation should be involved in setting global sustainability standards since it is critical that they cohere with financial reporting requirements and that they be capable of audit and verification.

2. The IFRS Foundation, in our view, should not define these standards alone. Setting them will require the collaboration/consent of many jurisdictions and stakeholders, including many not commonly represented in financial reporting and investment decisions, as sustainability affects all human inhabitants of the world and reflects their values as well as scientific understanding regarding the processes of climate change and environmental degradation in general.

3. While the initial focus should be on the most salient aspect of substantiality, that is, the contribution of greenhouse gases (GHGs) to global warming, the standards should simultaneously develop pathways for dealing with broader global environmental impacts, e.g. GHGs, local pollutants/environmental damage (e.g. particulates, groundwater), and social conditions, all as detailed in the UN Sustainable Development Goals (SDGs).

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