IFRS Foundation Consultation Paper on Sustainability Reporting

Comments to be received by 31 December 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?

Yes, for years there has been an outcry for globally recognised and standardized sustainability standards – not only from the sustainability profession that often has to comply with multiple standards at the cost of double work but also from investors and data researchers that urge to no longer compare apple and oranges. With the emerging regulation in the ESG world, it is a perfect time to start treating non-financial and sustainability information the same way financial information has been treated for a long time. It is DWS' believe that the IFRS Foundation is ideally placed to play a major role in this endeavour given its long trusted role and reputation in financial standards, the existing organisational and governance structure and connectivity to major stakeholders and governments worldwide as well as longstanding experience in implementing financial standards. IFRS standards are applied globally which might make it easier to anticipate an extension of a familiar system rather than to comply with an unfamiliar standards system. Additionally, IFRS offers advantages for investors when comparing companies around the world and an inclusion of sustainability standards could expand this benefit to sustainability and non-financial information. Ultimately, this could serve better investment decisions and evaluation purposes on risks and opportunities related to E-S-G.

Question 2
Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?

Yes, the same approach and governance compared to the IASB should be used. This is the main advantage of the IFRS Foundation and our reasoning to answer question 1 with yes. When compared to the IASB and FASB cooperation, the key point will be the cooperation and best possible alignment with major sustainability standards players (the Big 5) in the market to strive for the best alignment approach possible. Even if the IFRS cannot succeed merging standards with these players, it is highly desirable that there is assistance for future SSB users to align standards. Similar to how IFRS users can easily align to US GAAP. Also the impact of regulation such as the European NFRD 2.0 should be considered. Furthermore, an alignment to the financial reporting standards will be a key success factor. This should be best feasible under the same governance and oversight from DWS' perspective. In addition, the same guiding principles for measurement and quantification of non-financial information as for financials should be required (where feasible).

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)?

The listed requirements in paragraph 31 seem holistic from an organisational inside perspective, however, with sustainability standards the outside perspective will play a major role. As such, DWS believes the following are additional success factors:

1. **Upcoming national and international regulation** e.g. NFRD 2.0, European Sustainable Finance Action Plan,: all regulation that will affect sustainability reporting standards should be analysed and ideally an impact assessment on a potential standard should be conducted or mandated (e.g. to a Big 4)
2. **Current market development and mergers & acquisitions**: dialogue with respective organisations should be engaged, e.g. IIRC and SASB which plan to join forces, the Big 5 sustainability standards setters, rating agencies especially those with recent mergers e.g. Morningstar and Sustainalytics, S&P and RobecoSAM
3. **Dialogue with the latter i.e. rating agencies should be encouraged**: raters and research houses have been one major stakeholder that have long urged for standardized and comparable sustainability and non-financial information. Yet, other sustainability standards and regulators often seem not to have considered their opinion to a full extent.
4. **Quantification and monetarisation of sustainability and non-financial information**: instead of further qualification, one of the greatest differentiation potential could come with quantification/monetarisation standards.
5. **Rate of speed**: in order to make a change, the IFRS Foundation should embark on this journey sooner than later to use the momentum and be ahead of the regulation implementation or at least at the same time.
6. **Use already existing knowledge**: use available experiences from already existing standard setters while considering the complete corporate reporting system to ensure an holistic view
7. **Ensure user acceptance**: Investigate how / where to implement the sustainability and non-financial reporting requirement into the existing corporate reporting and draft standards with regard to the respective solution.

   7.1. If additional sustainability and non-financial reporting requirements are best placed in the Management Report, a detailed alignment to existing requirements for the Management Reporting needs to be ensured otherwise an integration will not be feasible.
   7.2. If additional sustainability and non-financial reporting requirements are best placed in the Financial Statements, the possibility to extend existing IFRS needs to be checked, e.g. additional reporting requirements on financial instruments could be included into IFRS 7.
   7.3. If additional sustainability and non-financial reporting requirements are best placed in a separate section, double reporting of information needs to be avoided e.g. based on possible references to the financial statements or the management report.
   With an emerging trend to shift to Integrated Reporting, the latter should be avoided from a DWS perspective.
8. **Ensure holistic and complete view**: Consider both, guiding principles for qualitative information requirements as well as standards for measurement and quantitative information. The respective qualitative and quantitative reporting requirements should be translated into a taxonomy e.g. comparable to IFRS taxonomy, the emerging taxonomy under the EU Sustainable Finance Action Plan, etc.
9. **Ensure the possibility of widespread application** by offering industry specific sustainability and non-financial reporting frameworks. Industry specifications need to be considered similar to the approach for IFRS e.g. IFRS 4 which is characteristically applied by insurance companies or IFRS 9 which is characteristically applied by financial institutions.

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, as DWS believes that the IFRS Foundation's relationships are very valuable and can support application of SSB standards globally. IFRS ensures the comparison between several entities and jurisdictions as required by investors and regulatory bodies. As such, it would be in IFRS Foundation's power to extend the fulfilment of these requirements to sustainability and non-financial information. In Europe, the strong connection to EFRAG could be leveraged. For further information, please also refer to answers in question 3.

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

In DWS' view, IFRS should reach out to the global players in Sustainability Reporting, i.e. the Big 5 as well as the major international institutions responsible for financial and non-financial reporting. E.g. a close cooperation between SSB and SASB could be established as for IASB and FASB. In addition, the SSB could take an advisory function to regulators. Regulators could refer to sustainability standards by SSB the same way as in the past with IFRS, e.g. EBA guidelines for FinRep. The rate of speed will be decisive here. For further information, please also refer to answers in question 3.

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?

In DWS´ opinion, IASB has successfully pushed the legal acceptance of IFRS reporting by several jurisdictions. This has been another reason for answering question 1 with yes. The best approach would be similar to IFRS reporting standards.

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?

DWS confirms that climate-related disclosures have gained the strongest momentum but we disagree that this is why there should be preference to developing these. In the sustainability world, there is a high interconnectivity between environmental, social and governance aspects. Many environmental and social infringements have only been possible due to weak governance practices e.g. oil spills and human rights violations. Human security and natural disasters are closely linked. Failing governance to protect biodiversity can lead to human rights violations. As such, one cannot exist without the other and neither should a sustainability reporting standard. Governance is essential for a company to ensure responsible individual and corporate behaviour and protect companies with regard to sustainability as explained above as well as to the financial perspective, e.g. from financial crime or to ensure shareholder´s rights.

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

In DWS' view, there should not be only a focused risk definition but also broader environmental factors such as water, waste and biodiversity as well a focus on the opportunities that stem from ESG aspects similar to the TCFD requirements that require both risk and opportunity disclosures. There should be clear guidance what a potential standard is referring to, e.g. when defining climate risk does that mean transitional risk, physical risk, is an exogenous or endogenous factor causing the risk, etc. As outlined in Q7, the focus should not be only on environmental factors but consider social and governance factors as well and clear definition will be key for a standardized and comparable approach. Reporting requirements per se should always consider broader aspects than only the negative side and cover risks and opportunities to generate a balanced view in order to provide investment decision potential.

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

DWS understands the IFRS approach to defer from the concept of double materiality since it has caused confusion and missing specifications in the sustainability profession. However, the materiality is the key concept that lies the basis for what a company has to report on in the first place. As such, DWS recommends to seek a dialogue with SASB and rating agencies that both provide reporters with a pre-defined list of topics that have been researched and found to be material for a specific sector. This approach would support alignment and standardisation.

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?

DWS is a strong believer that sustainability and non-financial information should be treated the same as financial information to be credible, increase quality and strengthen the use of disclosures in internal decision-making, as a remuneration element, etc. As such, we plead in favour of assurance and to consider this fact when developing the standards in question. Regarding the type of assurance, it will strongly depend on the standard. In case of quantified or monetarized information, preference should be given to reasonable assurance whereas principle-based information will not be suited for reasonable assurance and might thus only be subject to limited assurance.

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

The proposal to initially focus on the sustainability information most relevant to investors and market participants (paragraph 50) and to broaden the scope afterwards (paragraph 51) might create the risk of recommending or endorsing a standard based on reduced complexity which is not fit for purpose for dealing with holistic sustainability issues.

The definition of "most relevant to investors and market participants" might be difficult as different regions / industries might face different social, governmental and environmental sustainability issues and hence have different priorities. In addition, the focus on investors and market participants might create a biased view only adapting an investor-oriented approach to materiality without considering e.g. environmental and non-government requirements or other relevant stakeholders.