

## **Comment Letter in response to the Consultation Paper on Sustainability Reporting**

Thank you for the opportunity to comment on the Consultation Paper.

In our response, we first provide an overview, comprising a diagrammatic summary of our conceptual framing and our use of terminology. We regard this overview as critical. Debates around sustainability reporting are often partial and confused, with concepts and terms being used in different ways to mean different things. Our overview, which is an adapted version of the 'nested box' presentation in IMP et al. (2020a), is an attempt to provide a clear frame of reference.

In the remainder of the letter, we respond to each of the consultation questions in turn.

We would, of course, be happy to expand upon any of the issues raised in the letter.

We are delighted that the IFRS Foundation is proposing to take this critical step, and we are very strongly supportive of the overall direction of travel.

**Richard Barker**

Professor of Accounting, Saïd Business School, University of Oxford

**Robert Eccles**

Visiting Professor of Management, Saïd Business School, University of Oxford

**31 December 2020**

## Overview

The diagram below represents three levels of corporate reporting.

Level 1 is the most developed in current practice. It comprises the financial statements, including the associated notes. The primary audience for this form of corporate reporting is investors. The standard setter is the IASB. Information is material in this context if its omission would affect investors' evaluation of the financial statements; we therefore refer to Level 1 reporting as having Financial Statement Materiality.

Level 1 provides information to investors that is useful, but limited. In the application of the IFRS Conceptual Framework and reporting standards, amounts recognized in the financial statements must satisfy the definition of elements, as well as the criteria for recognition and (sufficiently certain) measurement. As the Conceptual Framework itself notes, the balance sheet does not purport to capture the economic value of financial capital.

It follows that, while Level 1 is financially material, not all financially material information is provided at Level 1. This is why Level 2 is important, and why the IFRS Foundation is consulting on the creation of a Sustainability Standards Board (SSB).

Level 2 reporting includes corporate disclosures that go beyond the financial statements and that are relevant to the determination of enterprise value. These are currently neither standardized nor mandatory. While such disclosures are financial, in that they are material to providers of financial capital, they are also in practice much more varied and wide-ranging than financial statement information. They can be quantitative ('metrics') or qualitative ('narrative') and, if the former, either expressed in monetary or non-monetary terms.

Reporting at Level 2 falls within the objective of general-purpose financial reporting, as stated in the Conceptual Framework, which is "to provide financial information about the entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity." Information is material in this context if its omission would affect investors' financial evaluation of the reporting entity (the determination of enterprise value). We therefore refer to Level 2 reporting as having Financial Materiality.

The IFRS Foundation has to-date focused almost exclusively on providing financially material information at Level 1 only, with its Management Commentary being the primary (though minor) exception. This disposition is evident both in the Conceptual Framework, which is concerned almost exclusively with amounts recognized in the financial statements, and in the

conventionally accepted role of the IFRS Foundation, which is to set financial accounting standards.

Yet there has been an increasing demand for Level 2 reporting. This arises in two respects, both of which concern the limitations of financial statement data in providing financially material information. The first is the rise of the knowledge and service economy, and the associated importance of intellectual capital and other intangibles. The second is increasing awareness of the environmental and social impacts of corporate activity, and of the implications of these impacts for enterprise value creation. The term 'sustainability' has come to be applied as a catchall for these multiple, disparate, financially material issues, and so reporting on them can be described as 'sustainability-related financial disclosure'.

It follows that financial reporting is made up of two components: the financial statements (and notes), where the standard setter is the IASB; and sustainability-related financial disclosure, where the (proposed) standard setter is the SSB. Level 1 is a subset of Level 2, because information reported in the financial statements is a subset of information reported (primarily) for the benefit of investors. Since investors are providers of financial capital, disclosure designed for their use is termed financial reporting.

While it is straightforward to argue that the IFRS Foundation's current mission extends to Level 2, in other words to include all financial reporting, the same cannot be said for Level 3.

**Corporate Reporting**

---

*LEVEL 3*  
*Societal Materiality*

---

Content: Non-Financial  
Reporting

Standard setter: to be  
confirmed

**Financial Reporting**

---

*LEVEL 2*  
*Financial Materiality*

---

Content: Sustainability-  
Related Financial Disclosure

Standard setter: SSB

---

*LEVEL 1*  
*Financial Statement*  
*Materiality*

---

Content: Financial  
Statements inc. Notes

Standard setter: IASB

Level 2 is a subset of Level 3, because information reported for the benefit of investors is a subset of information reported for the benefit of society as a whole. The difference between Level 2 and Level 3 is ‘non-financial reporting’, which comprises information that is not financially material, because it is perceived not to be relevant to the determination of enterprise value. This type of disclosure targets stakeholders other than investors. The question here for disclosure is how the reporting entity affects the sustainability of the systems within which the firm operates (‘the planet’s life support systems’, ‘society’, ‘communities’, etc.). Level 3 reporting provides disclosure of impacts that are not (yet) relevant to determination of enterprise value but are significant for anyone using corporate reporting to assess a firm’s total contribution to sustainable development. Note that the catchall term ‘sustainability’ is also applied at Level 3. ‘Sustainability reporting’ therefore includes both sustainability-related financial disclosure (Level 2) and ‘non-financial reporting’ (Level 3).

It should be noted that Level 2 includes information that simultaneously serves the needs of both investors and other stakeholders; for example, the reporting of an entity’s carbon emissions provides important information to investors, because it defines the scale of the challenge faced by that entity in transitioning its business model to net zero, but simultaneously it provides important ‘public interest’ information, because it reports on environmental impact. To the extent, therefore, that investors are concerned with the same sustainability issues that are material to society at large, the gap between Level 2 and Level 3 becomes smaller. Equally, the principle of ‘dynamic materiality’ implies that, if the corporate sector increases the extent to which it internalizes its external effects, then Level 2 becomes a larger subset of Level 3.

Accordingly, the need for Level 3 (non-financial) regulation and standards is defined to be over and above the sustainability-related financial disclosure provided by IFRS standards (IASB and SSB). The logical order is the following. The IASB sets standards for the reporting of the financial statements (Level 1). The SSB set standards for sustainability-related financial disclosure, which is incremental to Level 1 information. Taken together, the IFRS Foundation is the standard setter for financial reporting, in other words for financially material information. To the extent that financial reporting does not meet the needs of society as a whole, in other words if the demand for information at Level 3 exceeds that at Level 2, then there is also a need for non-financial reporting, and for a standard setter in that regard. We argue that responsibility for non-financial reporting properly belongs with governments, and not with the IFRS Foundation. This reporting would be incremental to, and not duplicative of, the information already provided by the IFRS Foundation at Level 2. It therefore does not correspond directly to (for example) the EU’s Non-Financial Reporting Directive, which requires disclosure of all of a reporting entity’s impacts, rather than those incremental to sustainability-related financial disclosures.

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

Yes, in our view there is a need for internationally recognised sustainability reporting standards. We actually see this as comprising two distinct needs, for standards applicable to sustainability-related financial disclosures (Level 2), and also for standards applicable to non-financial reporting (Level 3). As we discuss below, we see a Sustainability Standards Board (SSB) within the IFRS Foundation meeting the first of these two needs, and we see responsibility for the second residing elsewhere (see also Barker et al. 2020).

A demand for Level 2 reporting is increasingly being voiced by investors, who have long struggled with the different approaches that companies are taking to reporting on their sustainability performance. This issue is becoming more pressing as sustainability matters become increasingly material in evaluating enterprise value. BlackRock and others are turning up the volume in voicing this dissatisfaction:

*BlackRock chief Larry Fink has warned that the world's largest asset manager will take a "harsh view" of companies that fail to provide hard data on the risks they face from climate change ... "We want better transparency and better understanding," Mr Fink told the Financial Times ... "What we are seeking is better information to have better judgment." (FT, 2020)*

Some of the leading proponents of sustainability reporting themselves acknowledge that the landscape is both complex and incomplete. CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB) are agreed (citing stakeholder outreach) that "... a consistent message ... (is that preparers and users alike) are, to varying degrees, confused and frustrated by the current state of the reporting landscape. Many ... expressed their perception that the relationships, interconnections and alignment between the Participants' frameworks and standards are not well articulated to the market" (CRD, 2019, p.9). This is in sharp contrast with financial reporting, where IFRS is mandated and supported by more than 140 countries worldwide.

For investors to give due consideration to sustainability performance, they need reliable and comparable data, just as they have in IFRS financial statements. Imagine a world where investors had to rely upon multiple depictions of corporate financial performance, with companies themselves able to pick and choose what to report on, how to measure and disclose, and whether or not to have their data audited. Such is the position currently with sustainability reporting, where there is not just a lack of information but to a degree also active

*misinformation* (Cho et al., 2015). In addition, the reporting of sustainability information that is unreliable, insufficient, or incomparable fuels the growth of misinformed, ‘greenwashed’ markets in asset management, credit ratings and ESG ratings. While there is extensive sustainability reporting in practice (KPMG, 2020), supported by several standardising initiatives with global reach and growing acceptance (such as GRI and the Task Force on Financially-related Climate Disclosures [TCFD]), current practice falls short of anything comparable with mandatory IFRS reporting, supported by jurisdiction-specific auditing and enforcement regimes. There is not, at present, a global set of internationally recognised, mandatory sustainability reporting standards at either Level 2 or Level 3.

A reasonable presumption is that effective sustainability disclosure would enable investors to be better informed, and be the basis of a dialogue and engagement, in principle improving capital allocation decisions by both companies and investors (Weil et al. 2013; Leuz and Wysocki, 2016; Christensen et al, 2019; Hombach and Sellhorn 2019). There is an efficiency gain on offer here, because unsustainable development ultimately manifests unavoidably in adverse economic outcomes (Arrow et al., 1995; Heal, 2016; Helm, 2015), and the less effective the information disclosure, the greater are the hidden future losses (IPBES, 2019). While meeting this demand for information does not necessarily imply a need for reporting standards, it is economically efficient for companies to follow common guidance on reporting, rather than for each to attempt to invent the wheel, or to be faced with multiple choices among different reporting frameworks. A standardized approach would an efficient reallocation of the resources that companies are already committing to a variety of forms of sustainability reporting. Companies also want to be able to compare themselves to their competitors on sustainability performance, just as they do for their financial performance. Such an approach is efficient also for users of corporate reporting, in comparing companies to one another.

**Question 1 (a): If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?**

Yes, in our view the IFRS Foundation is uniquely well placed to set high-quality standards for sustainability-related financial disclosure (Level 2). Moreover, it can do so with appropriate urgency, given its existing global reach and recognized standard-setting authority. We do not, however, support the IFRS Foundation taking responsibility for setting non-financial reporting standards (Level 3). This would this divert the IFRS Foundation from its mission “to develop standards that bring transparency, accountability and efficiency to financial markets around the world.” It would also involve inappropriate, direct engagement in public policy. Responsibility for determining societal materiality requires democratic legitimization, which the IFRS Foundation cannot presume to hold.

The reason for needing an expansion of standard-setting activity is that the IFRS Foundation has so far limited its interpretation of its mission to information provided through the financial statements (Level 1). The Conceptual Framework is thereby effectively silent on information that is material to investors but that fails to meet the definition of financial statement elements and the criteria for recognition (Barker and Teixeira, 2018). While it is possible that some sustainability-related disclosure can be required by current IFRS (Anderson 2019), such information is marginal at best in relation to the range of (Level 2) sustainability matters that are financially material yet not related directly to amounts recognized in the financial statements. Sustainability-related financial disclosure arguably therefore fills an important gap in the IFRS Foundation’s delivery of its mission.

Our reasons for supporting a role for the IFRS Foundation are the following, which are based not least upon the track record of IFRS (Camfferman and Zeff, 2015).

- *Alignment with existing IFRS.* A conceptually coherent approach is required for financial reporting. This requires alignment between financial statement information (Level 1) and sustainability-related financial disclosure (Level 2). As the standard setter for Level 1 disclosure, the IFRS Foundation is the organization best placed to ensure this alignment.
- *Global standards.* Meeting the information needs of investors across the world requires a standard-setting body that is international in composition and outlook, and that has the recognized ability and network to carry on a truly global dialogue. The IFRS Foundation’s distinctive strength in this regard is evidenced in its unique track record of obtaining international buy-in to IFRS, and in its relationships with investors, companies, governments, regulators and other capital market authorities globally.
- *Robust governance.* The IFRS Foundation has proven credibility and accountability, based upon effective governance, oversight and due process.
- *Expertise in standard-setting.* The IFRS Foundation is unique in its institutional experience in drafting mandatory international corporate reporting standards, which includes its capacity to translate those standards into multiple global languages.
- *Legitimacy.* The IFRS Foundation is the recognised authority with respect to setting international financial reporting standards. These are currently used “for all or most domestic publicly accountable entities (listed companies and financial institutions) in 144 jurisdictions around the world” (CP, para 19). This legitimacy means the IFRS Foundation is best placed to achieve global mandatory adoption, a status that has so far been elusive in sustainability reporting. In this regard it has ‘convening power’. It would be in a position to select the ‘best of the best’ from the extensive knowledge, experience, published materials and stakeholder engagement that has been achieved already by organisations such as CDP, CDSB, GRI, IIRC, SASB and TCFD.

The IFRS Foundation's unique institutional legitimacy can be contrasted with alternative mechanisms for setting sustainability standards (Barker and Eccles, 2018). This contrast supports the argument above for the role of the IFRS Foundation.

One such mechanism is for governments to give legislative backing to existing reporting models. Yet, it would be highly unlikely that governments would want to be in a position of "picking the winner" amongst the different NGOs currently working on sustainability reporting, let alone figuring out what combination of their work would be most appropriate. There is also the risk that different governments might pick different winners. At best, such an approach would perpetuate the current landscape, which is characterized by costly inefficiency and the absence of an accepted global standard. There are costs here for investors, in seeking to make data comparable and in making poorly informed asset allocation decisions, and also for corporations, in having to provide information according to different standards and guidelines for different purposes. In contrast, the IFRS Foundation could offer itself to these governments as the obvious way forward, complementing its existing role in financial reporting.

An alternative narrative is that of 'market forces', the argument being that if investors really want sustainability information, then companies would, more or less willingly, provide it. A difficulty here is that market evolution typically takes time, and that it does not easily reach the degree of comparability and across-the-board application that we have come to regard as necessary. Moreover, while voluntary standards are not an uncommon market outcome, it is typically market *failure* to which *mandatory* standards can be understood as a response (Bromwich, 1985; Christensen et al., 2019). Legislation and regulation was accordingly critical in establishing IFRS as a global standard (Camfferman and Zeff, 2015). Something similar is required to expedite mandatory sustainability reporting, and also to best ensure that standards are designed to serve the public interest of well-informed capital markets, and not the private interests of market participants. Mandatory standards also better enable strict enforcement, which itself is required to 'translate' high quality standards into to high quality information (Christensen et al., 2013).

**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?**

The answer to Q2 is secondary (though closely related) to the answers to Q1 and Q1a, because it is concerned primarily with the internal organization of the IFRS Foundation, rather than with the more important question of what role the Foundation should play in setting global sustainability standards.

The central issue here is which approach would most expeditiously achieve high quality, internationally recognized, sustainability-related financial disclosure standards.

On this issue, we support the IFRS Foundation’s proposed approach, to create a separate SSB. The IASB and the SSB would operate within a common governance structure, and there would be shared learning and conceptual alignment in working through the development of a conceptual framework approach that would guide each board independently, while also providing consistent principles to both (Accountancy Europe, 2019; Barker and Teixeira, 2020; IMP et al., 2020b). At the same time, the separation between the two boards would enable each to manage its own agenda, at its own pace, and with appropriate levels of expertise. Such an approach recognizes that the IASB’s work continues to be important and should be not compromised. It also recognizes that setting standards for sustainability-related financial disclosure is a task that is comparable in scale to setting standards for financial statements, but which differs substantially in content.

There are at least three other candidate structures for a global standards board, yet none of these offers a credible pathway that is fit for the task of “consistency and global comparability in sustainability reporting”. We explore below each pathway, in decreasing order of likelihood that it will be followed.

The first is that the European Union creates a standards board as part of a broad sustainability initiative that includes the revised Non-Financial Reporting Directive (NFRD) and the EU Taxonomy. The European Commission has mandated that the European Financial Reporting Advisory Group (EFRAG) establish a European Lab Steering Group to establish a task force to undertake preparatory work for possible EU non-financial reporting standards in a revised NFRD. If this pathway to standard-setting is followed, it would have the significant advantage of being backed by the EU’s political legitimacy, political momentum and financial resources.

A risk with such an approach is that it would conflate Level 2 with Level 3, and that it would be detached from IFRS. From a societal perspective, an important concern here is one of capital market ‘capture’ of the practice of sustainability reporting, marginalizing the public interest in the process (Milne and Gray, 2013). Yet the major, and probably overwhelming, disadvantage of this approach is that EU standards would inevitably be seen as European, not global.

There is little doubt that investor demand for sustainability reporting is global. The implied pathway to globalization for the EU is to establish European standards, and then to have these adopted by other jurisdictions. Yet standards that are too closely associated with governmental control, in any given jurisdiction, are unlikely to be attractive to governments in other jurisdictions. This is especially the case if those standards are constructed as a source of

competitive advantage, since that purpose is inconsistent with the aim of achieving global standards; both aims cannot be pursued simultaneously (de Cambourg, 2019). And so, just as the U.S. FASB's national standard-setting approach was not attractive to the EU at the time of IFRS adoption, so too an EU model is very unlikely to be attractive to major jurisdictions internationally. This is especially important for countries such as Brazil, China, India, Russia and the USA, whose buy-in will ultimately be essential in securing effective global sustainability reporting.

In contrast, an SSB would be established as a global model from the start. While this would of course require jurisdictional buy-in, those jurisdictions can be reassured by what the IFRS Foundation has already achieved in this regard with the IASB in all major jurisdictions outside the United States. Indeed, as was the case with financial reporting under IFRS, legislative endorsement within Europe would itself be a critical step towards the realization of the IFRS Foundation's global sustainability standards.

It is hard to overstate the importance of globalisation in this context because planetary boundaries are not regional, and their breach is an acute concern for economic activity in all parts of the world. To the extent that investors and companies alike operate globally, standards *must* be global in order to be most effective. A focus on the performance of European companies, and of the European economy, is of limited benefit in addressing system-level issues such as carbon emissions, natural resource depletion and problems of social sustainability, such as from income inequality.

The second candidate structure for a global standards board is that a group of NGOs, which collectively embodies much of the necessary expertise on sustainability reporting, comes together as a single organization. The evidence here is that progress is very difficult to achieve. To illustrate, it is now six years since the Corporate Reporting Dialogue (CRD) was created "to promote greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements." Yet, in spite of having this agreed structure for collaboration, each of the reporting NGOs has continued to develop its own approach. In response to the emergence of the TCFD, for example, the CRD worked to explain alignment between the TCFD recommendations and each of their individual approaches, but it did not take the opportunity to consolidate and simplify those approaches (CRD, 2019). This should not be surprising, given that the NGOs are mission-driven organizations, with deeply committed founders, staff members, supporters, and funders. In addressing the issue of 'one global solution', the CRD itself "concluded that such a trajectory could not be completed within the CRD given its composition and remit ... (and) Besides, the Participants believe in the complementarity of their frameworks and standards and see highest value in better explaining how they work together" (CRD, 2019, p.30).

It should be noted that on November 24 the IIRC and SASB announced an intention to merge and form the Value Reporting Foundation, and CDSB has expressed interest in joining as well. This begs the question of GRI, which we address in Q11. Putting that aside, even if all three of these organisations quickly became a single highly functioning one, and incorporated the work of the TCFD as well, there would still be a second major obstacle. Such an organisation, in contrast with the IFRS Foundation, is not recognized as a legitimacy authority in setting global standards. This absence is the greatest barrier to adoption for any reporting NGO, which none has been able to overcome.

These obstacles would be avoided by having the IFRS Foundation establish the SSB. The SSB would be a new organization, able to select and synthesize from 'the best' of the range of available alternatives. The Value Reporting Foundation can helpfully facilitate this work. It would also enable the critical benefit of alignment with IFRS. In contrast, the approaches of each of reporting NGOs are not just different from one another, they are different from that of the IASB. It would be best placed to achieve global legitimacy already. And in addition it would have the advantage of extensive, directly relevant experience of international standard setting. This is not just a question of technical competence but also of institutional knowledge and experience in engagement with the relevant stakeholders for financial materiality; this matters because a tacit understanding of what 'works' in given institutional settings is itself an important component of the efficacy in practice of mandatory standards (Christensen et al., 2019).

The third, and least likely path, is that the U.S. Securities and Exchange Commission (SEC) could decide to set sustainability standards, either directly, through the Division of Corporation Finance, or indirectly through the Financial Accounting Foundation. This runs into the same obstacle faced by the EU, that adoption of U.S. standards by other major jurisdictions would be highly unlikely. Moreover, in this case the obstacle is most likely even more difficult to overcome. The United States has its own version of financial accounting standards, and its sustainability standards would almost automatically be perceived, and rightly so, as created in only a U.S. context, subject to U.S. political control, not aligned with IFRS financial reporting, and thus unlikely to be acceptable for adoption in the rest of the world. The converse, however, would be less problematic. In contrast with the prevailing situation in financial reporting standards, where IFRS and U.S. GAAP remain distinct, there is no equivalent to U.S. GAAP for sustainability reporting, and so a greater likelihood that the US. would eventually look to the SSB for its own sustainability reporting, especially so if this is demanded by the major asset owners and asset managers. Given the global nature of sustainability issues, the dynamics here are similar to those in the Paris Agreement, to which the U.S. now appears resolved to return.

All of that said, the advantage of an SEC-led approach is that a significant number of the world's largest listed companies would then be required to report on sustainability information. The mandated Management Discussion and Analysis (MD&A) would be a ready place for communicating this information. Having the SEC mandate rigorous sustainability reporting to a set of standards would certainly be a very strong signal to the rest of the world. Should the SEC decide to do this, it is likely that it would be able to obtain the necessary financial resources given its funding model.

Of course, it should be recognized that the SEC has given no indication that this is an item on its agenda (albeit that this may change with the incoming Administration). While the SEC has made some progress in this direction with recent pronouncements regarding reporting on human capital and more fulsome reporting during COVID-19, these are incremental steps compared with the active sustainability agenda of the EU.

**Question 3: Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirement for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?**

We comment below on each of the seven 'essential' requirements for success listed in paragraph 31. We would also stress the importance of having a widely understood, realistic and concretely itemized plan for how and when jurisdictions and companies can transition from their current, diverse situations. It is important not to understate the progress that has already been made towards the development of global sustainability reporting standards, even though progress in adoption has been very uneven across companies and jurisdictions.

***a. achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets;***

We agree with this requirement, and we would add that the Trustees should not require anything like a consensus. As was the case with IFRS, it would be sufficient in the first instance to move ahead with a reasonable assumption that the standards would be adopted in at least some key markets (Camfferman and Zeff, 2015).

As a point of clarification, we note that 'preparers' conflates two distinct stakeholder interests. The first is that of the company itself, and the associated cost-benefit assessment in providing sustainability information to investors. The second is that of the company's directors, whose fiduciary duties increasingly require that they understand, use, and are held accountable for sustainability performance metrics.

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

We agree with this requirement; see our answer to Q6.

**c. *ensuring the adequacy of the governance structure;***

We agree with this requirement. There is likely to be a need to adjust somewhat the composition of the Monitoring Board and the Trustees, to provide appropriate oversight of both the IASB and the SSB. Yet the need for change here is not great, and one of the benefits of the proposed SSB is that its governance structure is in effect already in place, and already supporting standard-setting in global capital markets. The reason for requisite change being modest is that technical knowledge will reside within the SSB, its technical staff and its working groups, while the governance role of Monitoring Board and Trustees is similar to that required for the IASB. This is especially the case if there is a shared conceptual framework, including adherence to financial materiality.

**d. *achieving appropriate technical expertise for the Trustees, SSB members and staff;***

We agree with this requirement, and we note the critical role of existing NGOs working on sustainability reporting in providing directly relevant technical expertise.

We would add the need to distinguish different types of expertise at different levels of the organization. As described above, in answer to Q3c, the role of the Trustees is not one of technical expertise as such, but is instead concerned with governance, funding, and so on. In exercising their due process oversight role, the Trustees should have a good understanding of the kind of outreach the SSB needs to do, and so should (for example) be able to form a view on the proper composition of the expert groups mentioned below. Members of the SSB itself must have technical expertise, along with experience in the process of setting standards, and sufficient understanding of financial reporting to be able connect the work of the SSB with that of the IASB. This would be in addition to having a reasonable geographical and constituent balance, whereby the SSB would probably have a similar size and composition to the IASB. Yet the technical expertise would ideally concern sustainability reporting at a high level, rather than being in-depth knowledge of one domain area within sustainability. This is for two reasons. First, each domain area within sustainability reporting is sufficiently complex that the burden of knowledge and experience cannot fall narrowly on individual board members. Second, domain

areas differ significantly from one another, such that specific knowledge of (for example) carbon emissions or biodiversity might be highly relevant when associated standards are being drafted, but redundant when the board is addressing issues such as income and gender equality or human rights. Instead of technical expertise residing with the board itself, the need is to operate in the same way as the IASB when it addresses technically specialist agenda items. This would mean establishing project-specific expert groups, as illustrated by the examples of the Management Commentary Consultative Group, the Expert Advisory Panel on Fair Value Measurement, and the Insurance Working Group (and indeed by working groups that the IASB formed for standards of a certain level of complexity). Meanwhile, the Trustees and the IASB could usefully consider ways in which standing groups can serve the needs of both the IASB and the SSB, helping to ensure overall coherence across financial and sustainability standards. This would include the high-level strategic advice that characterises the work of the IFRS Advisory Council, as well as advice from structured stakeholder bodies such as the Capital Markets Advisory Committee, the Global Preparers Forum and the Emerging Economies Group. The capacity of the IFRS Foundation to employ existing bodies in this way, and to add project groups as needed, applying established protocol for doing so, illustrates the distinctive strengths outlined in response to Q1a.

***e. achieving the level of separate funding required and the capacity to obtain financial support;***

We agree with this requirement. On the sources of the funding that will be required, we would expect both public and private sources, as is the case with the IASB. On the former, the introduction of the SSB would give added momentum to the IFRS Foundation's encouragement of national contribution schemes, aimed at achieving a more stable funding platform that reduces perceived threats to independence. On the latter, we note three sources of private funding that could perhaps be developed further. The first is from the U.S., which is currently only a modest source of funding for the IFRS Foundation – not surprisingly, given the presence of U.S. GAAP – but that could be much more significant if the SSB became seen as the provider of truly global standards for sustainability-related financial disclosure. The second is the world's largest asset managers, which are increasingly demanding better sustainability reporting, and which can therefore reasonably be expected to contribute to their cost. And the third source is an increased income from the major accounting firms (and from other service providers in sustainability assurance),

whose interest in standards for sustainability-related financial disclosure would be similar to that currently for IFRS.

We note that, where contributions can be expected to increase from existing sources of funding, it is likely to be important that a degree of independence is maintained between IASB and SSB. This is because the existing funding of the IASB should be shielded from the expansion of activity in creating the SSB.

We note that the current income of the IFRS Foundation (from the 2019 accounts) is around £31m, of which around one-third is earned from publications. On the assumption that the SSB would require the same proportion of external funding as the IASB, and that (conservatively) the SSB would operate on a similar scale to the IASB, the need for outside funding is no more than £20m. In the bigger picture, this is a modest amount. Moreover, there is already considerable funding of the various NGOs engaged in sustainability reporting, the reallocation of which would in principle become possible over time on the creation of an SSB. In addition, the SSB would be a very attractive employer for technical staff working on specific projects, and on that basis it could expect to secure funded secondments from external organisations.

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

We agree with this requirement, which the IFRS Foundation would be well placed to achieve given the shared governance structure that is proposed, along with the potential for a common conceptual framework, shared use of consultative standing bodies and stakeholders being able to engage with a single organization that spans standards for both financial statements and sustainability-related financial disclosure.

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

We agree with this requirement, and we see no reason why the autonomy and effectiveness of the IASB would be compromised given the careful structure that both separates its activities from those of the SSB and ensures effective governance and funding of both bodies.

Moreover, there is a strong case that the proposed SSB is in line with the IFRS Foundation's current mission, and that *not* going down this path would itself be to compromise this mission. In the absence of global sustainability standards, investors are exposed by being uninformed with respect to significant risks and opportunities faced by the companies in which they invest. Resolving that information gap is entirely consistent with a mission "to develop standards that bring transparency, accountability and efficiency to financial markets around the world." It would arguably undermine the IFRS Foundation's pursuit of its mission if it neglected this issue, and especially so if this either perpetuated the current situation of a fragmented reporting landscape, or else if it led to the development of an alternative sustainability-related standard setter to the IFRS Foundation, rather than a coherent structure that brings together all of financial reporting within one organisation.

In this regard, we note that the IASB's Conceptual Framework 'jumps' from the ambition to provide useful information to investors to an effective presumption that such information is best provided by financial statements alone (Barker and Teixeira, 2018; IMP et al., 2020b). There is a conceptual gap which lies in the difference between information that is material with respect to the financial statements and that which is more broadly material to investors' decision-making. It is this gap that defines the need for the SSB within the mission of the IFRS Foundation, and which makes the remit of the SSB categorically different from that of the IASB. It is hard to overstate the importance of this issue in understanding why and how the SSB complements the IASB in delivering the mission of the IFRS Foundation.

**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, the IFRS Foundation's relationships with its stakeholders are critically important, not least because standards for sustainability-related financial disclosure would be a natural extension of its existing relationships with governments, regulators, investors, corporations and others. The strength of the IFRS Foundation's relationship with IOSCO is a critically important case in point.

Existing organizational structures and information channels that can be utilized include the Advisory Council, the Capital Markets Advisory Committee, the Global Preparers Forum, the Emerging Markets Group, and established relationships with investors, corporations, accounting firms, governments, regulators and national financial reporting standard setters. The IFRS Foundation additionally has formal relationships already with CDP, CDSB, GRI, IIRC and SASB, which operates through the IASB's membership of the Corporate Reporting Dialogue. If

the SSB is created, then its relationship with the existing reporting NGOs will have commonalities with the IASC's with the 'G4+1', and also with that of the newly-formed IASB with previously autonomous national standard setters (Zeff, 2012); again there is relevant experience here on which to build.

With each standard that the SSB develops, there will be specific holders of expertise and/or special interests, indeed some with vested interests that might be threatened by new standards. There are therefore new stakeholder relationships to develop, yet even here the IFRS Foundation has considerable expertise and experience in working with new stakeholder groups, with recent examples including experts in the leasing and insurance sectors. Critical in this regard, of course, is that the SSB and its technical staff must be equipped with the domain knowledge to engage effectively with sustainability-related expertise that is not currently within the purview of the IFRS Foundation.

A new stakeholder group, which is likely to be important, is that which is concerned with the environmental and social impacts of corporate activity. Members of this group range from sustainability NGOs to the World Bank, and across United Nations bodies from the International Labour Organization to the U.N. Global Compact and the U.N.-supported Principles for Responsible Investment. These institutions are likely to be valuable sources of expertise on how and why sustainability impacts are material to investors.

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

Several of the leading initiatives in sustainability reporting have committed to 'work together towards comprehensive corporate reporting' (IMP et al., 2020a; Eccles, 2020). The recent merger of IIRC and SASB illustrates progress, and we are also encouraged by the recent statement from CDP, CDSB, GRI, IIRC, SASB and others, which provides the clearest statement to-date on a pathway to make collaboration possible (IMP et al., 2020b). While there is much here that remains to be determined and decided, the 'open door' is that the IFRS Foundation should build on the work of these initiatives for an effective transition from current practice.

While there is much here that remains to be determined and decided, there is mutual interest in the IFRS Foundation's proposal to create an SSB. This is most obvious for CDP, CDSB, IIRC, SASB and TCFD, which all share with the IFRS Foundation a financial materiality lens (Level 2). In addition, and as we explore below, there is also mutual interest with GRI, which uniquely maintains a societal materiality lens (Level 3). It is also likely, of course, that some of the technical staff members in these organizations will want to join the staff of the SSB. In general, recruiting a strong team would not be problematic for the SSB.

The IFRS Foundation can, and should, also draw upon other valuable initiatives, ranging from the TCFD to the foundational work of organisations such as the International Standards Organisation, the U.N. Global Compact, the Principles for Responsible Investment (PRI), the World Business Council for Sustainable Development, the Capitals Coalition and the International Business Council (IBC)/World Economic Forum (WEF). (Note that the plethora of organizations in the sustainability reporting space highlights both the absence of a recognized single source of legitimate authority, and the pressing need for a global standard setter with institutional legitimacy.)

Keeping in mind that rigorous due process takes time, but that there is an urgent market demand for sustainability reporting, a practically helpful mechanism would be something similar to the 2005 target transition date, which was set for the IASB by certain key adopting jurisdictions. Prior to the SSB's equivalent of that target transition date, an interim agreement could make best use of existing frameworks and standards, enhancing their adoption by leveraging the legitimate authority of the SSB. It would be possible to develop a format for companies to claim adoption with extant standards issued by reporting NGOs, as interim compliance with the SSB, prior to the issue of the SSB's own set of standards from the target transition date onwards.

**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?**

The most important work being done here, discussed in our answer to Q2, is within the EU, including the NFRD and the EU Taxonomy. There is demonstrable urgency of political will here, and the EU is assuming a leadership role. Moreover, just as the EU played a critical role in ensuring global endorsement of IFRS, so too it is essential for the IFRS Foundation and the EU to work together in the area of sustainability reporting. On the one hand, the EU's support could be invaluable in establishing the IFRS Foundation as the international standard-setter for sustainability-related financial disclosure. On the other hand, the IFRS Foundation could be invaluable in assisting the EU in building on the 'single materiality' of IFRS, in order to best meet the needs of EU citizens for corporate reporting that satisfies 'double materiality'.

In our view, the greatest contribution that the EU could make to corporate reporting, in the context of the global challenges of sustainability, would be to support the formation of an SSB under the IFRS Foundation, while also initiating and engaging in activities that are complementary to the SSB, including regulating (Level 3) standardized disclosures that are beyond financial materiality but in the public interest, and by also extending the requirement for sustainability reporting beyond the IFRS Foundation's scope of listed entities. The opportunity here for the IFRS Foundation is to build on its deep institutional links across

European countries and with the EU itself. There is a win-win here, but the onus is on the IFRS Foundation to offer a credible case that it can achieve standards for sustainability-related financial disclosure with the urgency and quality that the EU is itself currently seeking to achieve and that, not least with EU help, it could realise this achievement on a global scale.

Specifically, the IFRS Foundation might seek support from the EU in the following ways.

- Recognition that if the EU adopts SSB standards, they will be incorporated in EU law, in a similar manner to IFRS.
- Recognition that the role of the SSB parallels that of the IASB in seeking to better inform capital markets and the dialogue between investors and companies. In turn, this requires that the EU itself undertakes the critical role that falls to government in requiring non-financial reporting (Mohin and Eccles (2020)).
- Support in the ‘transition phase’ during which the SSB would have only just started to develop and issue standards. This would include flexibility in the development of EU sustainability reporting, building in new SSB standards as they emerge, while taking care to maintain and develop extant sustainability reporting as appropriate.
- Willingness to work with an evolved EFRAG or similar expert body which (although not a standard setter) will have the expertise of a standard setter. This can provide valuable critical challenge and input to the work of the SSB, while also being essential in the mechanism of EU endorsement.
- Funding of the SSB; see our answer to Q3.

In other jurisdictions, the task for the IFRS Foundation is somewhat more straightforward, because there is more of a vacuum in legislation that requires sustainability reporting standards. In this regard, the adoption of IFRS sustainability-related financial disclosure standards, by individual jurisdictions, is a much more straightforward task than the previous adoption of IFRS, because the latter required a costly transition from already embedded national financial accounting 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?**

Yes. We support an initial focus on climate-related reporting (Barker, 2019), though we stress the importance of being clear on the rationale for this prioritisation. Specifically, we identify three issues.

- *Legitimacy.* Climate-related impacts have become increasingly relevant to enterprise value, and there is a high level of investor and intergovernmental agreement (e.g., via the 2015 Paris Agreement) on issues ranging from the presence of climate-related corporate risks and opportunities, to the transition to net-zero business models. In the light of this consensus on financial materiality, setting standards on climate-related financial disclosure can legitimately be located within the IFRS Foundation. We also note, however, that issues of climate change are not unique in this regard, and that (for example) other elements within the UN Sustainable Development Goals (SDGs) are also the basis of consensus on issues within a much broader set of sustainability goals, including, for example, a longstanding international legal agreement on human rights (Ruggie, 2013).
- *Practicality.* Climate-related reporting is among the most developed areas of sustainability reporting practice (e.g., CDP, CDSB, and TCFD), making it an obvious foundation for an expeditious launch of sustainability-related financial disclosure standards. Carbon emissions are already widely measured, according to the generally accepted Greenhouse Gas Protocol (GHG Protocol, 2004). They are commensurable in that carbon emitted from any source has the same impact as from any other source. They have a well understood relationship with climate change, and with specific science-based targets, which helps greatly in enabling consensus on what to report. They are also relatively straightforward to audit.
- *Materiality.* Within the remit of the IFRS Foundation’s role in providing material information to investors, climate-related reporting is a priority issue. Note the logical flow here. There is a priority information demand from investors, and therefore a priority issue for the IFRS Foundation. It is instead *not* the case that climate change has been imposed by the IFRS Foundation as the highest priority issue for society and, therefore, the priority for the IFRS standard-setting agenda. These different logical flows are very closely related, of course. Climate change is arguably the greatest issue of our time and, because the corporate sector is a major contributor to global warming, corporate transition to net zero is a major imperative for public policy. Associated with this, the corporate sector itself is greatly exposed to the effects of climate change, and its expected transition path to net zero affects investors’ evaluation of financial risk and return. While sustainability-related financial disclosure standards issued by the IFRS Foundation would therefore align considerably with the public interest, the role of the Foundation in issuing those standards concerns financial materiality.

We stress that starting with climate-related issues does not downplay the urgency for the SSB of setting standards on other financially material sustainability issues; it is instead simply a practical recognition that something must come first. To illustrate, there is growing investor

concern over the issue of income inequality, both as a source of economic dislocation in itself, and also indirectly in that tackling climate change interacts with addressing income inequality. Indeed, consideration of climate-related issues inevitably raises other issues of sustainability, which become even more critical if the threat of climate change is not averted. The poorest countries in the world would be those most badly affected, the already cataclysmic loss of biodiversity would accelerate, while flooding, extreme weather events and reduced access to water would cause unprecedented and unmanageable levels of migration. All of these effects will have economic consequences for the corporate sector. This reinforces both the priority of climate-related reporting and the associated urgency in extending beyond climate-related reporting.

We note an important consideration for (Level 2) financial reporting, which is that climate-related reporting is necessarily much broader than simply reporting carbon emissions. In order to be sufficiently tailored to the decision-making processes of both investors and corporates, a need arises for connection with business operations and capital allocation decisions, which allows consideration of the exposure of the reporting entity to climate-related risks and opportunities. A reporting standard addressing these issues would necessarily be broader, more subjective and more accommodating of an ‘eyes-of-management’ approach than a relatively straightforward standard on carbon emissions. Yet, and as illustrated very well in IMP (2020b), the work of the TCFD would provide the SSB with a comprehensive starting point. The TCFD’s 11 recommendations extend far beyond the reporting of carbon emissions metrics and targets alone. In its latest update to the Financial Stability Board (FSB), the TCFD surveyed expert users and there was strong agreement that the single most important recommendation for investment decision-making was the impact on the business and strategy of climate-related risks and opportunities (TCFD, 2020). And, as the work of the Transition Pathway Initiative (TPI) and others makes clear, strategic and business model considerations, including possible transition pathways to a decarbonised world and the associated investment spend needed, have become central to the investor and company dialogue (TPI, 2020).

There is no reason in principle why the SSB’s project timeline would be held up by addressing both external impact (e.g., carbon emissions) and dependency (e.g., climate-related risk to a company) in a single standard. This is a matter of project management, for example running a carbon emissions project and also a project on climate change risks and opportunities, both within an initial climate change agenda for the SSB. Moreover, and as illustrated by IMP et al. (2020b), a single standard of this type, embracing all of the TCFD’s four pillars of disclosure on governance, strategy, risk management, and metrics, would provide a template for further sustainability-related financial disclosure standards.

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

We are not persuaded of the need for ‘a focused definition of climate-related risk.’ One reason is that clarity with respect to financial materiality is itself sufficient to determine the scope of financial reporting standards. A second reason is that ‘climate-related’ is not easily defined, and attempts to pin it down are unlikely to be productive. It is hard to establish a well-defined distinction between ‘climate-related risk’ and broader environmental factors, given the interdependencies which exist. For example, deforestation is exacerbated by climate change which, in turn, further contributes to global warming. Resource scarcity contributes to deforestation as forests are destroyed for harder-to-get natural resources. Deforestation, along with a number of other factors, contributes to the loss of biodiversity and ecosystem services, again having an exacerbating impact on climate change.

The difficulty in a tight definition applies also to ‘sustainability’. Yet setting standards on specific issues that are ‘climate-related’ or ‘sustainability-related’ is not conditional upon tight definitions of those broad terms, in the same way that ‘financially material’ disclosures can in general be determined on a case-by-case basis. As discussed in our answer to Q7, the one aspect of climate-related risks and opportunities that can be defined tightly is carbon emissions, which enables a form of reporting that shares the comparable and auditable rigour of an accounting standard. Yet we also concluded in answering Q7 that the reporting of climate-related risks and opportunities calls for a much broader approach, and it is here where we question the benefit from consuming valuable time in the search for a definition.

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

We have stated above our view that the IFRS Foundation should set standards for sustainability-related financial disclosure (Level 2), but not for non-financial reporting (Level 3). In other words, it should adopt single, financial materiality, and it should *not* extend to double, societal materiality. On this basis, our recommendation is that the SSB should remove the word ‘initially’ from the penultimate sentence of paragraph 50 and adopt the following approach.

*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.*

We stress that this approach, while narrower than double materiality, would nevertheless dramatically increase the sustainability-related disclosures required by the IFRS Foundation. In

existing financial reporting, IFRS financial statements apply element definitions, recognition criteria and measurement methods to determine current financial position and historical financial performance. It is only to a limited extent that sustainability-related information is captured in the financial statements themselves, as a result of *past* events, for example in provisions for the clean-up costs of contaminated sites (IASB, 2020). Yet sustainability reporting is increasingly important to investors in understanding a reporting entity's ongoing capacity to generate enterprise value, in other words likely *future* events. In that regard, historical earnings are useful to investors to the extent that they have 'predictive value', whereby the past can serve as a guide to the future. In the case of sustainability issues, however, the concern is precisely that current business models are *not* predictive of future business models. With climate change, for example, the scientific predictability of global warming points to an expected discontinuity. It is obvious that business must transition significantly and quickly to net zero carbon, and that information relating to climate change is therefore needed to supplement the financial statements, because past financial performance does *not* serve as a guide to future performance. Instead, and because a corporation's 'license to operate' rests upon effectively navigating the transition to a sustainable business model, expected future cash flows depend partly upon performance on environmental factors. These include such things as commitments on carbon emissions, freshwater depletion and deforestation, and on social factors such as equality across gender or race, income disparities, or respect for human rights in the supply chain. If a company's business model involves operating in environmentally sensitive areas and activities, and if the economics of that business are thereby sensitive to potential fines, tighter regulation, consumer pressure and other risks, then information on those environmentally sensitive operations is material to investors. Sustainability-related financial disclosure is therefore useful to investors, even though it does not directly relate to amounts currently recognized in the financial statements, but instead includes a variety of different metrics, largely concerned with externalities arising from the reporting entity's current business activities (Unerman et al., 2018).

All of this fits with the adoption of financial materiality in the IFRS Conceptual Framework. Jurisdiction-specific capital-market regimes generally see it this way too. The U.S. Supreme Court, for example, considers information material "if there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by a reasonable investor as having significantly altered the total mix of information made available" (TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438, 1976).

In contrast, the notion of 'double materiality' recognises that the interests of investors could differ from those of society at large; the frame of reference here is not enterprise value but instead (for example) the impact of the company on the achievement of the Sustainable

Development Goals (Adams et al., 2020). Yet, even here, the notion of ‘dynamic materiality’ relates to information shifting between materiality categories. The introduction of environmental legislation might create liabilities in the financial statements (financial statement materiality), whereas previously there had only been the risk to investors that such legislation might come into force (financial materiality). Growing social pressure for companies to be made accountable for their contribution to global warming might shift the reporting of carbon emissions from the realm of societal materiality into that of financial materiality. It is for this reason that financial materiality is increasingly important in practice.

Financial materiality is consistent with, and therefore arguably a fulfilment of, the existing mission of the IFRS Foundation. The same is not true for societal materiality, which would represent a significant extension of, and departure from, the IFRS Foundation’s current remit. Moreover, this extension would face the following challenges.

- *Legitimacy*: The appropriate mandate for public policy is held by democratically legitimized governments, and not by a private standard-setting body. It is not for the IFRS Foundation to determine what is in the public interest. While the IFRS Foundation is recognised globally as a standard setter for capital market information, it is not currently recognised as a legitimate authority for public policy.
- *Heterogeneous information demand*: Investors’ information needs can be regarded as relatively homogeneous across global capital markets, while there is likely to be heterogeneity in national sustainability policy and legislation. Such heterogeneity implies geographic variation in public-interest sustainability standards, which would make it inherently problematic for the IFRS Foundation to set global standards. Instead, the IFRS Foundation can provide ‘baseline’ global reporting, onto which individual jurisdictions can add reporting requirements to meet their specific needs.
- *Focus*. A single set of standards, set with the dual purpose of informing both investors and broader society, is likely in practice to fall short of the specific information demands of either of those constituencies. Viewed from an investors’ perspective, information is best provided by a coherent system of financial reporting, in which both financial statements and sustainability-related financial disclosure are designed with a single audience in mind, and based upon a single lens of financial materiality. Moreover, the presumption in a ‘gradualist approach’ is one of (somehow) making a transition from financial materiality to societal materiality. This would be a more significant shift in the IFRS Foundation’s mandate than that from interpreting financial materiality more broadly than the provision of financial statements; this is because it would change the audience for corporate reporting.

- *Efficiency and expediency:* In addressing sustainability, the obvious organizational priority for the IFRS Foundation, in terms of agenda and workflow, is to progress from Level 1 to Level 2. Yet the time and effort required here should not be underestimated. A ‘gradualist approach’ is therefore problematic. By addressing Level 2 before Level 3, the risk would be one of considerable delay in producing standards for Level 3 if the IFRS Foundation took on responsibility for societal reporting. Much better would be for the IFRS Foundation to focus on providing material information to investors, and for standard-setting at Level 3 to be determined elsewhere (Mohin and Eccles, 2020).

Very importantly, we are not arguing here that financial materiality matters and that societal materiality does not. It is essential to have additional corporate reporting requirements, that are not informationally useful to investors, but that serve a role – perhaps a critical one – in public policy, or otherwise in meeting society’s environmental and social sustainability goals. This is especially because public policy on environmental and social issues is often concerned with addressing ‘tragedies of the commons’, where rational individual actions sum to irrational social outcomes.

But these are matters which, by their very nature, are likely to be best resolved at a governmental level. Our point is that the solution to this problem is not to compromise the mission of the IFRS Foundation. Instead it lies in locating institutional responsibility appropriately. We believe that it would be a fundamental mistake to expect the SSB to be responsible for the entire range of sustainability issues. We equally believe that it would be a fundamental mistake to not recognize the importance of having other organizations that complement its work. We discuss this further in our answer to Q11.

**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?**

Issues of audit and enforcement are critical in practice for the effectiveness of mandatory standards, making consideration of these issues very important in guiding the work of the IFRS Foundation, not least in evaluating whether a standard will lead to relevant and representationally faithful information at reasonable cost.

Similar to the IASB, the SSB should not require or assume audit, but work to keep its standards in line with evolving practices in sustainability assurance, in order to best fulfill its mandate of standards leading to decision-useful information. It is reasonable to presume essentially the same distinction as holds for IFRS, where information included in the financial statements and notes are relatively straightforward to audit under well-established procedures, but additional

disclosures of a more subjective and/or forward-looking nature are more challenging. To illustrate, the reporting of carbon emissions is amenable to the same degree of audit rigour as amounts recognised in the financial statements, given the long-established greenhouse gas protocol (GHG, 2004), while more general disclosures regarding governance and risk management are not yet auditable in the same way. Moreover, if sustainability disclosures are going to reach the intended purpose, audit approaches and requirements as well as enforcement mechanisms will have to evolve (quickly) along with the related reporting requirements. It will not be acceptable to judge auditability solely based on what audit firms are currently willing and able to do. Without 'positive assurance' on sustainability information, which must be the goal, it will never have the required same level of credibility as financial information.

Companies might raise the issue that this degree of assurance rigour will be more costly than the minimal amount, if any, that is spent for assuring sustainability information today. This price sensitivity is understandable in the context of the lack of standards that have global credibility and application. There is the eternal conundrum that while investors ultimately absorb both a company's internal and external auditing costs, it is the company that writes a check to the audit firm. If there is strong support from the investment community for sustainability reporting standards, as we believe there will be, it should also be willing to pay these costs. In the end, they are a tiny fraction of a company's total costs and a small price for investors to pay in order to make better informed investment decisions.

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

The Consultation Paper has created a very constructive debate regarding the issue of double materiality and whether that should fall within the remit of the proposed SSB. We have addressed that above. We have also addressed the issue of which other organizations the proposed SSB should collaborate with, particularly the main sustainability reporting NGOs.

What we have not addressed are the organizational implications of our suggested approach to the materiality question. Just to say again, we do not believe the SSB should start with or evolve into addressing issues of double materiality. It should stay focused on the sustainability issues for enterprise value creation that matter to investors. The environmental and social impacts of a company's operations, products and services that do not (at least yet) matter to investors should not be in the domain of the SSB's work. The simple reason is that the standard setting process in which the IFRS Foundation has established expertise and legitimacy is anchored in meeting the information needs of investors. To attempt to satisfy double materiality would be to dilute and divert the Foundation from its core purpose and capability.

The organization that does have capabilities that are focused on environmental and social impacts is the Global Reporting Initiative, which was established in 1997. An important question, therefore, is what role would there be for GRI if the IFRS Foundation establishes an SSB? While this question is not concerned directly with the structure of the IFRS Foundation, it matters greatly for how an SSB would fit into a broader architecture for sustainability reporting. It is therefore important in ensuring that the purpose and distinctive contribution of an SSB is understood in context and that, as a result, it is both more fully supported and more effective in its designated role.

We have identified already that there is a need for sustainability reporting over and above that which an SSB would provide (Level 3, non-financial reporting). We have also set out the importance of this need. It follows that there is an important role for GRI. In addition, there is a need to recognize that the context for GRI would be changed through the creation of an SSB.

Today, GRI effectively performs two functions, and in so doing it differs organizationally from the IFRS Foundation.

- First, GRI sets standards by means of a broad, multi-stakeholder engagement process. This is done through the Global Sustainability Standards Board (GSSB). This function is analogous to that of the IASB and the IFRS Foundation, with the GSSB setting standards and GRI enabling this activity by raising funds. The GSSB is, however, underdeveloped in relation to the IASB. It is relatively young, having been established in 2015, and issuing its first standards in 2016. Its governance structure has not yet developed a strength or credibility on a par with that of the IASB. And while its standards enjoy worldwide adoption, they remain primarily voluntary and generally without statutory backing (KPMG, 2020). There are parallels here with the IASC, in the days before it was re-invented as the IASB.
- Second, GRI is at heart a mission-driven organization, with roots in advocacy, which works directly with companies in encouraging them to adopt sustainability reporting, and derives an important source of funding through education and guidance directed at encouraging sustainability reporting. This function has no direct analogy within the IFRS Foundation and creates a potential conflict, much as if the IFRS Foundation were to offer an advisory service to companies on how to adopt IFRS.

Our view is that, in parallel to the creation of an SSB, the GSSB should evolve into a separate entity outside of GRI. An independent GSSB on a secure financial footing, and with strong institutional support, would be a 'natural' partner to the SSB. The remainder of GRI would continue as an advocacy and enabling organization, playing a critical role in the worldwide

adoption of public interest sustainability reporting. By separating the two current functions of GRI in this way, the GSSB would gain the independence that it needs to fulfill its critical mission.

Much as was the case in the transition from the IASC to the IASB and IFRS Foundation (Camfferman and Zeff, 2015), the opportunity arises here to elevate the GSSB to operate on a different level, and to enhance its legitimacy and effectiveness accordingly. In the case of the IFRS Foundation, the ambition to elevate beyond the IASC was symbolized and secured by the appointment of globally respected Paul Volcker as the first Chair. A similarly bold statement could be made in the case of the GSSB.

A 'new' GSSB would also need a more secure funding model, and one which gives it the institutional legitimacy commensurate with its role, just as was the case for the newly formed IASB. In terms of funding, this could come from similar groups that fund the IFRS Foundation. Alternative models could be funding from governments, given the public interest remit of the GSSB, and also from multilateral organizations, such as the United Nations and the World Bank.

The EU could potentially be hugely influential and powerful in this regard. While we recognize that the EU is exploring the option of creating its own set of standards, we believe that this would potentially undermine the purpose of sustainability reporting, by the same logic used above in our discussion of the SSB. The GSSB needs to be a GSSB, not an ESSB. The EU's leadership role will be most effective if it creates the possibility for a GSSB and then becomes the first jurisdiction to incorporate its standards into legislation.

To be clear, we see the SSB as establishing the baseline for the work of the GSSB. The SSB's process should be grounded in an investor focus, developed within the established governance process of the IFRS Foundation, and addressing sustainability issues on which there is broad capital market consensus. Double materiality concerns social and environmental impacts over and above these single materiality considerations of capital markets. It is the critical increment from single materiality reporting to double materiality reporting that should be the domain of the GSSB. Investors and companies would have the opportunity to provide input on issues identified by the GSSB. But they would be one of a wide range of stakeholders relevant to the GSSB's broad remit of environmental and social impacts.

There would of course need to be some form of structured and formal collaboration between the SSB and the GSSB, so that a rigorous approach is taken to addressing dynamic materiality. We do not have a prescriptive view of what that should be, nor whether there should be some form of shared governance. But, for example, there could be some shared membership between the IFRS Monitoring Board and a GSSB 'Oversight Board'. This would inform the specifics regarding the 'elevation' of the GSSB as described here. What is most critical is that

the GSSB has institutional support and legitimacy comparable to that of the SSB. Their missions are related but they are different. Both are essential for creating a comprehensive, global system of sustainability reporting. Having clarity about the differences as well as the most effective way to collaborate will help ensure the success of both organizations.

## References

- Accountancy Europe (2019), *Interconnected Standard Setting for Corporate Reporting*. Brussels: Accountancy Europe.
- Adams, C., P. Druckman and R. Picot (2020). *Sustainable Development Goals Disclosure (SDGD) Recommendations*. ACCA, Chartered Accountants ANZ, ICAS, IFAC, IIRC and WBA.
- Amel-Zadeh, A. and G. Serafeim (2018). Why and how investors use ESG information: Evidence from a global survey. *Financial Analysts Journal*, 74(3), pp.87-103.
- Anderson, N. (2019). *IFRS Standards and climate-related disclosures*. London: IFRS Foundation.
- Arrow, K., Bolin, B., Costanza, R., Dasgupta, P., Folke, C., Holling, C.S., Jansson, B.O., Levin, S., Mäler, K.G., Perrings, C. and Pimentel, D., 1995. Economic growth, carrying capacity, and the environment. *Science*, 268: 520-521.
- Barker, R., R. Eccles and G. Serafeim (2020). 'The Future of ESG is ... Accounting?' *Harvard Business Review*, Online: 4 December.
- Barker, R. and Teixeira, A. (2018). Gaps in the IFRS Conceptual Framework. *Accounting in Europe*, 15(2): 153-66.
- Barker, R. (2019). *The urgent priority of carbon accounting*, Saïd Business School, University of Oxford.
- Barker, R., and Teixeira, A. (2020). Are Integrated Reporting and IFRS competing frameworks? In C. de Villiers, P.-C. K. Hsiao, and W. Maroun (Eds.), *The Routledge Handbook of Integrated Reporting*. London: Routledge.
- Barker R. and R. G. Eccles (2018). *Should FASB and IASB be responsible for setting standards for nonfinancial information?* Green Paper of the University of Oxford Saïd Business School.
- Bromwich, M. (1985). *The Economics of Accounting Standard Setting*. Englewood Cliffs, NJ: Prentice Hall.
- Buijink, W., T. Sellhorn, T. and A. Wagenhofer (2019). Special Issue: Regulation of Corporate Disclosure. *Schmalenbach Bus Rev* 71: (131–136).
- CRD (2019). *Driving Alignment in Climate-related Reporting*. London: the International Integrated Reporting Council.
- de Cambourg, P. (2019). *Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe*. Paris: Autorité des Normes Comptables.
- Camfferman, K., and Zeff, S. (2015). *Aiming for global accounting standards: The International Accounting Standards Board, 2001-2011*. Oxford: Oxford University Press.

- Cho, C.H., M, Laine, R, Roberts, and M, Rodrigue (2015). Organized Hypocrisy, Organizational Façades, and Sustainability Reporting. *Accounting, Organizations and Society*, 40(1), 78-94.
- Christensen, H, L. Hail and C. Leuz (2013). Mandatory IFRS Reporting and Changes in Enforcement. *Journal of Accounting and Economics*, 56: 147-177.
- Christensen, H, L. Hail and C. Leuz (2019). *Adoption of CSR and Sustainability Reporting Standards: Economic Analysis and Review*. European Corporate Governance Institute - Finance Working Paper No. 623/2019.
- Eccles, R., I. Ioannou, I. and G. Serafeim (2014). The impact of corporate sustainability on organizational processes and performance. *Management Science*, 60(11), pp.2835-2857.
- Eccles, R. (2020). Crunch Time: Global Standard Setters Set the Scene for Comprehensive Corporate Reporting. *Forbes*, 8 October.
- Eccles, R., I. Ioannou, and G. Serafeim (2014). The Impact of Corporate Sustainability on Organizational Processes and Performance. *Management Science*, 60(11): 2835–2857.
- FT (2020). *Larry Fink rules on the best global standards for climate risk reporting*, London: Financial Times, 20 January.
- GHG Protocol. (2004). *A corporate accounting and reporting standard (Revised ed)*. Switzerland, USA: Author.
- Heal, G. (2016). *Endangered Economies*. New York, NY: Columbia University Press.
- Helm, D. (2015). *Natural Capital*. New Haven, CT: Yale University Press.
- Hombach, K., & Sellhorn, T. (2019). Shaping corporate actions through targeted transparency regulation: A framework and review of extant evidence. *Schmalenbach Business Review*, 71(2): 137-168.
- IASB (2020). *Effects of climate-related matters on financial statements*. London: IFRS Foundation.
- IMP (Impact Management Project), WEF (World Economic Forum) and Deloitte (2020a). *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting: Summary of alignment discussions among leading sustainability and integrated reporting organisations: CDP, CDSB, GRI, IIRC and SASB*.
- IMP, WEF and Deloitte (2020b). *Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard: CDP, CDSB, GRI, IIRC and SASB*.
- IPBES (2019). *Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services*. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors). Bonn, Germany: IPBES secretariat.
- Leuz and Wysocki, (2016). The Economics of Disclosure and Financial Reporting Regulation: Evidence and Suggestions for Future Research. *Journal of Accounting Research*, 54(2): 525-622.
- Milne, M. J., & Gray, R. (2013). W(h)ither ecology? The TBL, the GRI, and the institutionalisation of corporate sustainability reporting. *Journal of Business Ethics*, 118,13–29.
- Mohin, T. and R. Eccles (2020). We mustn't miss this crucial moment to create a global Sustainability Standards Board. *Responsible Investor*, 26 November.
- Ruggie, J. (2013). *Just Business: Multinational Corporations and Human Rights*. New York: W.W.Norton & Company.

- TCFD (2020). *Task Force on Climate-related Financial Disclosures 2020 Status Report*.  
<https://www.fsb.org/wp-content/uploads/P291020-1.pdf>
- TPI (2020). *TPI Position Paper on the efforts towards Comprehensive Corporate Reporting by CDP, CDSB, GRI, IIRC and SASB*. London: Transition Pathway Initiative.
- Unerman, J., Bebbington, J. and O'Dwyer, B. (2018), Corporate reporting and accounting for externalities. *Accounting and Business Research*, 48(5): 497-522.
- Weil, D., Graham, M., & Fung, A. (2013). Targeting transparency. *Science*, 340(6139): 1410-1411.