

Mr Erkki Liikanen
Chair
Trustees of the IFRS Foundation
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Canary Wharf, London E14 4HD
UNITED KINGDOM

22 December 2020

Dear Erkki,

IFRS Foundation Consultation Paper on Sustainability Reporting

The Australian Financial Reporting Council (FRC), Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) are pleased to provide our joint comments on the IFRS Foundation's *Consultation Paper on Sustainability Reporting* issued in September 2020.

In formulating these comments, we sought and considered the views of Australian stakeholders. This included:

- discussions with approximately 20 organisations across a range of stakeholders including users/analysts, large corporate entities (both finance-focus and broader environmental, social and governance (ESG) teams), professional accounting bodies and academic staff; and
- attendance at various forums organised by other Australian bodies on the topic.

There is a demand for global harmonisation and better disclosure in this area of corporate reporting. We commend the IFRS Foundation Trustees for their initiative to take on a leadership role in shaping sustainability reporting standards and welcome the consultation to clarify the extent of its participation in an area commonly regarded as beyond financial reporting. In our opinion, the IFRS Foundation is well placed and able to leverage off its success in developing IFRS as a global set of high-quality financial reporting standards to play a role in setting sustainability reporting standards and expanding its standard-setting activities into this area. The active involvement of the IFRS Foundation is particularly important as the decisions that users of general purpose financial statements make are likely to be informed or affected by sustainability reporting matters.

We concur with the observation in the Consultation Paper that the demand for better disclosure of sustainability information is urgent. Consequently, we think there is a pressing need for an organisation to emerge as a global leader with respect to reporting sustainability information – especially with regards to climate-related information. As such, we would encourage the IFRS Foundation to make decisions as to how it will proceed as a matter of immediacy.

We recognise that for the IFRS Foundation to achieve its goals, there are several challenges that must be successfully managed, including critically, being able to secure a sufficient level of upfront global support from governments and established organisations responsible for existing sustainability initiatives. We think this is necessary to mitigate the concern that the proposed global standard-setting body will otherwise just add to the current complexity in reporting. We comment further on this, and other requirements for success, in our detailed responses included in the Appendix to this letter. Regardless of the outcome of this consultation, we would encourage the IFRS Foundation to

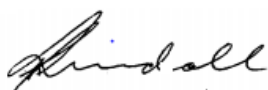
continue its efforts to improve the link between general purpose financial reporting and sustainability reporting.

If you have any questions regarding this letter, please contact any of the signatories or Nikole Gyles, AASB Technical Director (ngyles@asb.gov.au).

Yours sincerely,



Bill Edge
FRC Chair



Dr Keith Kendall
AASB Chair



Prof. Roger Simnett
AUASB Chair

APPENDIX A – Responses to questions raised in the *Consultation Paper on Sustainability Reporting*

Question 1 — A global set of sustainability reporting standards
<p>Is there a need for a global set of internationally recognised sustainability reporting standards?</p> <p>(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?</p> <p>(b) If not, what approach should be adopted?</p>

We strongly agree that there is a need for a global set of internationally recognised sustainability reporting standards. Our outreach identified support amongst all stakeholder groups for a global set of sustainability reporting standards as a way of improving transparency, consistency and comparability between entities. Many commented on the current complexity in having many different frameworks, which can lead to challenges for both preparers (in deciding which frameworks to adopt and in keeping current) and users (in relation to understandability and comparability).

We support and encourage the IFRS Foundation playing a role in setting these standards and expanding its standard-setting activities in this area. We observe that, despite many initiatives, there is yet to be a truly globally accepted set of sustainability reporting standards. From our outreach, we understand this to be due in part to the differing user-focuses of the existing initiatives. Consequently, in defining its role in this regard, it is imperative that the IFRS Foundation must work closely with governments and other key stakeholders to define and agree on the most appropriate mechanism to move toward a global set of internationally recognised sustainability reporting standards. In doing so, the IFRS Foundation should make use of the knowledge and expertise that has been obtained through existing initiatives.

Question 2 — A separate standard-setting body
<p>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?</p>

We are supportive of the IFRS Foundation’s proposal to establish an independent sustainability standards board – separate from financial reporting standard-setting – operating under the governance structure of the IFRS Foundation. We consider this to be the appropriate approach at an international level. However, in our opinion, the ability of such a board to achieve the goals of consistency and global comparability is subject to its ability to successfully manage various challenges to widespread acceptance of the body and its work (see our response to Question 3 below).

We are cognisant that some of our stakeholders hold a different view to us. While all stakeholders considered that there was a need for a global standard-setter to develop sustainability reporting standards, some did not necessarily consider that the IFRS Foundation had put forth a sufficiently compelling case to be the right body to develop global sustainability reporting standards. Some considered that the achievements of the IFRS Foundation with developing international financial reporting standards cannot be leveraged into successes in developing sustainability reporting standards. Others cautioned that the primary driver for the IFRS Foundation assuming a sustainability reporting standard-setting role should not be because there is a demand for a global

standard-setter, but because, for example, the IFRS Foundation wants to be a change-maker in support of the cause of reporting high-quality comparable sustainability information. We encourage the IFRS Foundation to consider these views if it decides to proceed with its proposal to establish an SSB.

Question 3 — Requirements for success
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)?

We agree with the requirements for success set out in paragraph 31 of the Consultation Paper. In particular, we concur that separate funding sources and not compromising the current mission and resources of the IFRS Foundation are necessary requirements for success. We would not want to see the IFRS Foundation’s undertakings in sustainability reporting negatively affect the quality of IFRS Standards issued by the International Accounting Standards Board or any other work of that body. With regards to technical expertise, we would encourage the Foundation to critically consider the composition of the membership of an SSB to manage the potential concerns expressed by stakeholders regarding standards on non-financial reporting topics that have been developed by accountants. For example, the Board composition might include both non-accountants with sustainability experience and accountants with standard-setting and governance experience.

We think that one of the main requirements for success of an SSB is for the Foundation to be able to obtain a sufficient level of upfront global support from the established organisations responsible for existing initiatives – including any regional and jurisdictional public policy initiatives. This is in addition to public authorities, global regulators and market stakeholders including investors and preparers (those stakeholders listed in paragraph 31(a)). In our opinion, to achieve its goals, the IFRS Foundation/SSB will need to be able to:

- work collaboratively with these organisations to consolidate the existing frameworks and standards that currently exist;
- have an agreed plan or roadmap with these organisations as to the long-term existence of the existing initiatives; and
- utilise the appropriate sustainability knowledge and experience of these other organisations.

The concern of our stakeholders is that the work of the proposed SSB will otherwise only add to the existing complexity.

In our outreach, stakeholders raised the following matters as other challenges to developing a set of globally accepted sustainability reporting standards, consistent with high quality sustainability reporting disclosure as being bespoke to the entity:

- the differing information needs of different stakeholder groups, including cross-jurisdiction
- that information needs are likely to differ across industries in a manner different from financial reporting.

Stakeholders also held mixed views as to whether sustainability reporting standards should be prescriptive or principles-based in nature. Also, as with financial reporting standards, the costs of obtaining sustainability information for disclosure should also not place a disproportionate financial burden on entities. We do not consider these matters to be insurmountable deterrents to

developing globally accepted sustainability reporting standards. However, we think that sufficient regard must be given to these concerns upfront and broad agreement in approach sought.

Our stakeholders also observed that the success of an SSB might be tied to its ability to develop standards on climate-related risks in a timely manner (within two years). While we think that the IFRS Foundation must move with urgency with regards to establishing a SSB – if this is the outcome of this consultation – and an appropriate governance structure, while desirable, we do not necessarily share the view that climate-related standards must be finalised quickly; in part, this will depend on how such new suite of pronouncements is envisaged to operate or replace disclosures under existing initiatives (see also our response to Question 9). However, we think that it is important that the IFRS Foundation addresses this concern as part of its plan for developing standards that will be globally accepted. The IFRS Foundation must be able to clearly articulate its vision and purpose of the proposed SSB, including what it considers to be within the scope of ‘sustainability’ beyond climate-related matters, as well as show that it has given due consideration to the steps it needs to take to achieve its goals.

Question 4 — Existing stakeholder relationships
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?

We agree it might be possible for the IFRS Foundation to use its existing relationships with users, preparers, auditors, governments and other stakeholders to aid the adoption and consistent application of SSB standards globally. This is especially so given the public perception of the IASB – and, by extension, the IFRS Foundation – as a neutral body able to bring rigour and transparency to sustainability reporting disclosures.

However, some in our outreach suggested that the IFRS Foundation’s existing relationships may not be wholly relevant. Consequently, we caution that a good communication and support strategy to increase awareness with sustainability stakeholders not traditionally involved in financial reporting will be necessary to facilitate the adoption and consistent application of SSB standards globally.

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

As noted in our response to Question 3, we think it is necessary for the IFRS Foundation’s role in sustainability reporting (whether through an SSB or in some other form) to be supported by the existing major initiatives. In our opinion, if an SSB is established, its work must build upon the work of the existing initiatives, maximising the existing elements of frameworks that are already well developed and adopted by the sustainability reporting community. We think that this would reduce the burden on stakeholders that might have already adopted or otherwise be familiar with existing initiatives, as well as assist with the timeliness of finalising an initial tranche of standards.

Question 6 — Existing jurisdictional initiatives

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

We think that it is important that the IFRS Foundation’s initiative has the support of major governments and their jurisdictional initiatives. It is possible – as is the case for financial reporting and other corporate governance matters – that jurisdictional initiatives might continue to exist alongside any global set of sustainability reporting standards. This might reflect the emphasis that the jurisdiction places on particular information sets beyond that of a global reporting standard.

We observe that the IASB, within the IFRS Foundation’s governance, currently engages with national and regional standard-setters and other regulators in a manner that appears to be working effectively for all parties. These processes and relationships have developed over time. We encourage the IFRS Foundation to consider the IASB’s experiences in developing its strategies in this regard.

Question 7 — A climate-first approach

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?

We support the proposal, if an SSB was established, for its initial work to be focused on climate-related financial information given the existing and growing demand for useful and robust disclosures in this regard, and the potential linkages into the financial statements. However, in our view, having regard to how outreach participants discussed their climate-related disclosures, there may be an expectation gap if the SSB were to limit its climate-related information projects to only those having a potential financial impact, especially if this is not how an entity currently reports its climate-related information.

Most – but not all – of our outreach participants supported a climate-first approach as it is a topical and time-sensitive issue. We note that some of this group, however, indicated a preference for other non-climate-non-environmental topics also to be addressed at the same time.

However, before deciding what projects it should undertake, we think it is important that the IFRS Foundation clearly first establishes the purpose and remit of the SSB, including defining what it means by ‘sustainability’. In our opinion, the SSB’s remit needs to extend beyond addressing climate-related reporting. We note that the feedback we received indicated that our stakeholders generally considered that the purpose of the SSB should be clear and that the remit of the body should not be limited to addressing only climate-related issues but should also address other ESG-related sustainability matters – or, potentially, *all* non-financial reporting topics affecting the annual report. Accordingly, in continuing to define its work in sustainability, we encourage the IFRS Foundation (or the SSB) to develop a work programme or similar strategic plan so that there is a clear understanding at inception of the body as to how the IFRS Foundation/SSB envisages it would evolve beyond developing climate-related standards.

Question 8 — Defining climate-related information

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

We would encourage the IFRS Foundation not to limit the proposed SSB to a narrow definition of climate-related risks. In our outreach, stakeholders largely considered ‘sustainability’ to cover at least the range of ESG matters.

This is not to say that the SSB’s initial projects on climate-related information needs to address broader environmental factors (this will be a matter of resourcing and prioritisation). Rather, we think that the Board should not limit itself to developing only standards on climate-related risks. See also our comments to Question 7. Question 9 — Materiality

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

The feedback we received from our outreach suggested that our stakeholders were generally pragmatic about the SSB adopting a gradual approach to materiality in order to progress the development of SSB pronouncements in a timely manner. However, preparers indicated that reporting both how sustainability issues affect the entity and the entity’s effect on the environment (i.e. on a ‘double materiality’ basis as described in the consultation paper) will continue to be relevant disclosures for their own stakeholders.

Some stakeholders noted that the users of sustainability information will likely be a broader set than the primary users of general purpose financial statements, and also that primary users might also want information about an entity’s measures to safeguard the environment for future generations. In our opinion, while there is a need to balance relevance with timeliness, it is important that the initial tranche of pronouncements issued by the SSB reflects the needs of users of sustainability information to a sufficient extent that preparers could reasonably move on from the frameworks they are currently using. As there will likely be a need for the SSB standards to operate alongside the existing initiatives for a period, stakeholders may see this situation as adding to reporting complexity. We would encourage the SSB to address this matter explicitly through good communication of how their work should be used in conjunction with that of the existing initiatives.

Question 10 — External assurance

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?

In our opinion, reported sustainability information should be subject to some level of external assurance. Given this, any specified disclosure should be developed with auditability of that information in mind, even if, in the short-term, a lower level of assurance is considered acceptable for the information disclosed to be regarded as being reliable and decision-useful. The feedback we have received from stakeholders who are preparers indicated that they already obtain assurance or audit of their disclosed sustainability information to the extent possible, so as to give credibility to that information.

We encourage the IFRS Foundation/SSB to work closely with the International Auditing and Assurance Standards Board to ensure the auditability of any resultant sustainability standards.

Question 11 — Other matters

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

We have no further matters to raise not elsewhere mentioned in this letter.