



20 January 2021

Sustainability Reporting

IFRS Foundation Trustees Consultation Paper

Questions for consultation

Question 1

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

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

If sustainability reporting standards should be developed, BusinessEurope believes that in principle, this would be more appropriate at international level, based on existing international reporting frameworks. This could help with the consolidation and convergence of sustainability reporting standards, ensuring a more level-playing field for companies operating globally. It could also help to increase the global comparability and transparency of reports, where this is necessary, feasible and desirable. When this is the case, at the very least, companies should have flexibility to report on the sustainability information considered material/relevant, taking account of their specificities.

The diversity between companies means that ensuring comparability is not always possible, even within sectors. Today, companies are spending significant resources preparing non-financial reporting, partly because the lack of harmonized and globally accepted standards often leads to duplication of reporting in some areas and potential gaps in others. A global set of internationally recognized sustainability reporting standards would have value if it ensured more cost-efficient reporting and helped to remove duplicating or contradictory reporting requirements.

From a European perspective, the current NFRD already provides an EU 'standard' for non-financial reporting, even with differences in some requirements regarding national implementation, as with other EU directives. The NFRD prescribes topics for companies to report on, allowing for reporting on more specific topics based on materiality. It prescribes aspects on which companies must report and where to report whilst leaving necessary flexibility to adapt to different sectors, business models, stakeholders, tailored to the company's practices/activities.

European companies have benefitted from this flexibility to develop and mature sustainability reporting. The EU Taxonomy Regulation introduces new non-financial reporting obligations on companies covered by the NFRD. It prescribes companies to disclose the proportion of their turnover, CAPEX and, if relevant, OPEX that is environmentally sustainable.

Considering that European companies and the European economy are part of the global economy, and that many of the relevant issues are global by nature, we strongly believe that



European initiatives should to the largest extent possible be aligned with international accepted frameworks having respect for their difference in purpose, approach and audience. In view of this, a global set of internationally recognized sustainability reporting standards, building on existing frameworks/standards, would in principle be more appropriate than different regional or national reporting frameworks.

We also believe that the IFRS Foundation is in a good position to function as a focal point for this consolidation and potentially expand the standard setting activities into this area, drawing on the expertise and knowledge from international standard setting and reporting in the financial area whilst fully acknowledging the differences between financial and non-financial reporting. Therefore, in principle, the IFRS Foundation's efforts to drive international convergence in this area could be beneficial.

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?

If the IFRS Foundation were to develop international standards for sustainability reporting, we believe this would be a suitable approach to ensure an appropriate governance. If this approach is taken, the IFRS Foundation would need to ensure the right competences. It is also important to ensure coherence with the approaches for financial reporting. At the same time, whilst more companies are now linking some aspects of financial and non-financial information, this is not the case for all. Therefore, the focus should be on providing a framework for those that wish to move in this direction.

The aim should be to support companies on how selected non-financial information can be presented together with financial information, where relevant for the key stakeholders of the financial reports, i.e. investors. Where the intended users of the standards are aligned and a more holistic approach is chosen by the company, the IFRS Foundation could enhance the possibilities to drive consistency and interconnectivity between the financial and the non-financial (including sustainability) sections of the reporting. Where appropriate and feasible, this would facilitate a better and more targeted overall reporting. At the same time, companies should retain the possibility to report other non-financial information separately. From a European perspective, we note that the NFRD has a broader coverage, but we believe that a focused user audience for the IFRS Foundation initiative will prove beneficial in drafting the actual standards, having respect for the fact that the other users of sustainability reporting will be, and should be, catered for by other initiatives/standards as we expect will be the case in the EU.

Where the user audience is the same, it is also natural that the governance structure of the IFRS Foundation could be used, and should be used, to achieve further consistency. The governance structure also supports the necessary oversight and accountability given the mandate that the IFRS Foundation already administers in the area of financial reporting. We believe that NFI-standards should also benefit from oversight and accountability to both the public and private bodies. The current IFRS structures are well established, supported and respected by capital markets. These structures should be adapted to cater for non-financial standard setting as well and we believe this is best achieved with an aligned user focus. The due processes established by the IFRS Foundation and the IASB should also prove to be beneficial for non-financial standard setting and should contribute to high-quality standards.



Question 3

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

We believe the list is already very comprehensive and we have not identified major gaps in the success factors.

We believe that the SuccessFactors indicated as a) and b) are essential for the long-term success of this initiative. To achieve this, the IFRS Foundation will have to revisit the scope indicated in the Consultation Paper and provide a more long-term strategy and roadmap. As we have indicated above, retaining a focus on capital market users, at least in the short- and mid-term, will enable a new Board to better align the non-financial / sustainability reporting with the financial reporting and thus build on the critical success factor indicated as f) in paragraph 31.

However, the IFRS Foundation should broaden the scope in terms of topics included and the materiality approach, where these clearly impact on capital market users. Thus, we believe the initiative should cover double materiality (so also including the entity's impact and dependencies) and broader topics than climate, even though climate may be a top priority. We would also like to point out that, in parallel with a focus on climate, the SSB should prioritize a conceptual framework for their standards.

It should be noted that the points listed in c), d), e) and g) are all important pre-requisites for enabling a standard setting initiative and success in these areas are thus important as well.

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, we believe the IFRS Foundation could and should make use of the network. However, we note that endorsement mechanisms (and the regulatory environment) are different in non-financial reporting compared to financial reporting, even in those cases where the same stakeholders are in place. It will therefore be important for the IFRS Foundation to identify the differences and expand their network and processes to cater for those differences. In this context, close dialogue with existing initiatives would prove to be a valuable source of information. We also strongly encourage the IFRS Foundation to enter into a dialogue with key stakeholders, including international organizations and regional policy makers, to understand both how they can support adoption and consistent implementation as well as what endorsement mechanisms they are looking for. This is an area where further work is needed, and it also depends on the scope of the standards.

Question 5

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

Today, there are a number of initiatives from international organisations and in the marketplace. We believe that a global standard setter would need to have a close relationship with the most recognised frameworks and standards, for instance through dedicated advisory panels as well as strategic working relationships with the general



accepted non-financial reporting frameworks (if these are not fully integrated into the new SSB).

Whilst part of the mandate would be to facilitate consolidation or convergence of the diverse initiatives, it would be important to find the right balance between consolidation (including in the market) and the added value that different frameworks with different user focus provide, in terms of content, approach and governance. We have noted the intent of IIRC and SASB to merge as well as the statement of intent to work together issued by IIRC, SASB, CDP, CDSB and GRI. We welcome this and hope that the IFRS Foundation and their potential SSB can benefit from and leverage this as the basis for a single set of global sustainability standards.

We would also encourage the IFRS Foundation to establish working relationships with ongoing regional initiatives like the exploratory work currently being carried out by the EU in regard of a potential set of non-financial reporting standards catering for the NFRD, but also international initiatives like the International Platform for Sustainable Finance.

We believe that the IFRS Foundation should understand the diversity in terms of intended users and the approach taken in the different frameworks. Where some frameworks are essentially reporting frameworks, other initiatives focus more on impact than reporting. It should also be noted that several existing initiatives might be seen as strategic partners, where the SSB may focus on the reporting aspects while the existing initiatives retain the focus on the more fundamental. We could for instance envisage that the SSB would provide guidance on how to report on relevant SDG's, whilst setting the Strategic Development Goals themselves would not be part of the SSB mandate.

We would also like to note, that to be able to build on existing frameworks and initiatives, the IFRS Foundation would have to reach agreements both in terms of working methods, exchange of expertise and knowledge, and use of their intellectual property to the extent this is deemed to be the best global solution.

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?

We would like to refer to the answer to the above question, where we have indicated the need to work together with both private sector initiatives, and initiatives enacted by global organizations and jurisdictional initiatives like the current EU initiatives.

We would encourage the IFRS Foundation to approach this by using a “building block” approach, identifying areas where the initiatives would have similar coverage to that expected by the IFRS Foundation and on the other hand initiatives going beyond the expected scope of the IFRS Foundation initiative. This approach should also facilitate and enhance the dialogue with the existing jurisdictional initiatives as this would enable for instance the EU to identify the building blocks under the NFRD that are within the IFRS Foundation's scope and the building blocks remaining outside the scope and thus areas where local (regional) standards are needed. With this approach, the IFRS Foundation and the existing jurisdictional should reach consensus on their respective roles and tasks, hopefully avoiding overlapping work, duplication etc.

Therefore, while we in principle would have a preference for international standard setting both in the field of financial and non-financial reporting, with one single set of



global corporate reporting standards relevant for the capital markets, there will likely be a timing mismatch also regarding European initiatives. The sustainability agenda in Europe is accelerating at an unprecedented speed and central to both EU policy making and the regulatory agenda. Any EU reporting standard(s) would have to be consistent with the EU legislation and regulatory requirements to facilitate not only the compliance with the legislation, but also companies' transition, and the support financial market participants can offer. Thus, we support EFRAG in assuming the role of European standard setter.

This also implies, that should the IFRS Foundation move towards becoming the global standard setter also in the field of non-financial reporting directed at the capital markets, we would envisage strong working arrangements between EFRAG and the Sustainability Standards Board under the IFRS Foundation from the beginning and a possible "convergence project", should the global standards meet (part of) the EU ambitions and be considered fit for compatibility with the EU legislative environment at least for the narrow user segments envisaged under the IFRS Trustee initiative.

Such a process should ensure that companies and financial institutions with international presence do not have to report under two sets of standards. Neither should EU companies reporting under the EU standard be required to switch from one to another in a short period of time, requiring double investments and adjustments of processes and IT systems. Such working arrangements could be replicated with other jurisdictional initiatives that are subject to similar level of independence, transparency, due process and public interest angle.

We would also like to encourage the IFRS Foundation to use well-known international frameworks (including frameworks used in jurisdictional initiatives) as the starting point to increase the chance of success and to build harmonization and consolidation of existing initiatives into the core processes from the beginning.

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?

As we have outlined in the answer to question 2 and 3, we agree with the defined or intended user group outlined in the consultation paper, but we believe that the scope of topics as well as the approach to materiality should be broader. The capital markets have moved beyond simply looking at financial materiality, and thus a set of Non-Financial Reporting Standards would need to reflect this.

Therefore, we support the prioritization of climate but the SSB should in parallel prioritize a conceptual framework for their standards having regard for (and outlining) a broader materiality concept (catering for the double-materiality approach, considering the dynamic materiality outlined in the statement of intent referred to above as well as reflecting materiality approaches outlined in for instance the EU initiatives) and a broader scope of topics. The EU Taxonomy Regulation is for instance covering a broader range of environmental objectives, including biodiversity, water, circular economy, and pollution control. Given the differences in financial and non-financial reporting, in particular the fact that materiality of non-financial aspects differs greatly from one company to another, the topics should be general and principles-based, rather than detailed/prescriptive.



We also strongly encourage the SSB to issue or develop a roadmap for their standard setting plan to enable increased acceptance and uptake globally. From a preparer and user perspective, being able to plan ahead are important aspects as they will all need to change and adapt their processes.

We would also encourage the SSB to take the work done by the Task Force on Climate-related Financial Disclosures (TCFD) into account when starting their work on a climate-related reporting standard.

Question 8

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

We believe that the SSB should start with climate but broaden the scope of topics (but not on intended users). As mentioned before, broader environmental factors such as biodiversity, water, circular economy and pollution control could also be considered in the longer term. It is important to understand that these risks will vary depending on the industry and region, as well as change in time. Therefore, a focused definition of climate-related risks is impracticable.

A number of these aspects (as well as the detailed discussions) should be dealt with when outlining the conceptual framework. Therefore, a narrower definition may be useful when initially working on a narrow climate related reporting standard whilst work on the conceptual framework is being carried out in parallel.

The strength of the IFRS Foundation is the focus on establishing global standards relevant for the capital markets – and being able to ensure coherence with existing financial reporting. Therefore, we would not advise the IFRS Foundation to broaden the scope in terms of intended users as this is highly political and to a certain extent also driven by regional and/or jurisdictional priorities and thus difficult for a global standard setter to fully embrace. We believe that the IFRS Foundation and their SSB would already have a full plate with the narrow user definition, but broader scope in terms of materiality and topics. We also believe that an IFRS Foundation based SSB could be highly beneficial to drive more consistent reporting.

Question 9

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

The definition outlined in paragraph 50 is too narrow. We do agree with the capital market focus (investors and other market participants), but as we have indicated above, investors also have a double-materiality perspective in today's world. Therefore, the SSB would need to broaden their materiality concept, but we also believe that the clearly identified user group will enable the SSB to manage the complexity of the task and we also believe it would better connect to the current focus of the IASB.

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?



Non-financial information should not necessarily be treated in the same way as financial information, in particular regarding the need for assurance/auditing, as the nature of the information is different. While financial reporting in general provides quantitative information, which can be clearly defined and measured, the meaning of non-financial reporting is not always evident. It often depends on qualitative information and context, which despite the possibility in some cases to have a standardised approach (e.g., emissions control), makes it very difficult to have a standardised measurement across CSR activities. Therefore, the standard setter would need to assess what parts of the reporting would naturally be auditable (if any), and what parts would not. These considerations should be conducted on an ongoing basis and like the financial reporting standards, this should be reflected in the guidance embedded in the standards.

We do not believe that the SSB should set audit requirements as this is not within their mandate. We believe these discussions are relevant when discussing endorsement in different jurisdictions. The mandate of the SSB is to consider the auditability/verifiability of the information (including the possible level of assurance or possibility for certification), but not necessarily be limited by this. An important aspect in this regard is also the cascading effects in the value chains, as preparers of the information are also users of information provide by participants in their value chain. We especially note that different elements of the reporting have different characteristics. There is for instance a large difference between historical scope 1 CO₂-emissions and the expected impact of future biodiversity policies.

From the capital market participants' perspective, assurance requirements would also need to be linked to the importance and relevance of the specific information and the capital market participants' own regulatory requirements. It should also be noted that other (more specialized) assurance providers may provide equally relevant information/value to the users and the preparers. Therefore, we do not believe the SSB should set audit requirements, but they should consider the auditability/verifiability of the information included.

Question 11

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

BusinessEurope welcomes the initiative from the IFRS Trustees. In view of the many different reporting requirements that exist for companies operating globally, we find it in principle more appropriate to consolidate NFI-standards at a global level to align thinking and support many of the global challenges we are facing. We encourage the IFRS Trustees to move forward with this work, taking into account the comments made above, but would like to highlight the need for a more detailed roadmap in order to ensure that regional / jurisdictional initiatives can be aligned with the global consolidation of initiatives.
