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Subject: IFRS Foundation Consultation Paper on Sustainability Reporting Accountancy Europe comment letter

Dear Mr. Liikanen & the IFRS Foundation Trustees, Mr. White,

We are pleased to respond to the International Financial Reporting Standards (IFRS) Foundation Consultation Paper on Sustainability Reporting (CP).

Accountancy Europe welcomes the IFRS Foundation's CP and considers it as the necessary step towards global sustainability standards. There is demand from users, preparers and the profession for global non-financial information (NFI) standards, which would lead to better corporate reporting and improved market transparency.

We fully support setting up a sustainability standards board (SSB) to address NFI reporting, in parallel with the International Accounting Standards Board (IASB). The SSB would benefit from the global acceptance and applicability, oversight and due process of the IFRS Foundation.

However, we believe that some points we describe hereinafter merit further consideration by the IFRS Foundation.

Setting out a clear vision for interconnected standard setting for corporate reporting

We suggest the IFRS Foundation state the long-term vision in terms of the scope of NFI standards and in terms of enhancing governance and oversight.

In terms of scope, we suggest addressing a broader scope than sustainability topics. NFI, even though lacks a formal definition, should incorporate environmental, social and governance (ESG), value drivers not usually measured in monetary terms and internally generated intangibles.

As a result, the IFRS Foundation, the Monitoring Board and the Advisory Council could be enhanced to include broader stakeholder representation, knowledge and funding.

The IFRS Foundation should consider how to ensure a due process that timely responds to the **urgency** of many NFI topics (e.g., climate change). To this end, the IFRS Foundation could provide a roadmap with intermediary steps to be taken towards achieving the vision.

Interconnected standard setting

Similarly to the Conceptual Framework for Financial Reporting, we suggest the IFRS Foundation to work towards a conceptual framework for NFI reporting to set out fundamental concepts of NFI and underpin NFI standard setting (including the standard on climate) from the start.

Financial and NFI reporting are interdependent and standard setting (i.e., the activities of the IASB and SSB) should be connected as well. Therefore, the Conceptual Framework for Financial Reporting and the NFI conceptual framework could best be linked to one-another by a common conceptual framework for connected reporting. The Management Commentary and the IR Framework provide useful content and could be the starting point for this future framework.

Approach to materiality

Accountancy Europe supports addressing NFI relevant to investors and other market participants in order to enable a better understanding of the impacts on value creation. At a second stage, NFI standards could address the wider impacts a company has on the environment and society.

Collaborating with global and European stakeholders

The IFRS Foundation could collaborate with relevant international organisations (e.g., IOSCO, FSB, relevant UN agencies, etc.) to facilitate the global adoption of NFI standards, which ultimately enhance market transparency.

The IFRS Foundation could also incorporate the work underway in the European Union (EU) towards a common end goal: global NFI standards. A 'building block' approach to NFI standards can be followed. The base block would be a global set of NFI standards to improve market transparency. The EU may supplement with an added block of European specific NFI standards in order to meet EU public policy requirements.

Building upon the work of existing NFI initiatives

We suggest the IFRS Foundation consider the corporate reporting vision shared by the 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).

The IFRS Foundation could cooperate, coordinate and consolidate with these organisations (including their human and financial resources) and their initiatives towards achieving its long-term vision. To this end, intermediate steps can be taken in order not to compromise timely addressing urgent matters (e.g., climate change).

The IIRC and SASB recently announced their intent to merge and create the Value Reporting Foundation (VRF). The CDSB will soon join the conversation as well. Therefore, as a first step, the IFRS Foundation may consider integrating investor focused organisations (e.g., the VRF and the CDSB if it has not merged with VRF by that time), whilst establishing a good cooperation with broader stakeholder focused organisations (e.g., GRI). This would also be in line with the value creation materiality approach and may be faster considering the current remit of the IFRS Foundation.

At a later phase, the IFRS Foundation could consolidate with broader stakeholder focused organisations (e.g., GRI) to address the wider impacts on environment and society and to achieve its long-term vision for a broader NFI scope as well as broader governance and oversight representation.

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We kindly refer to Annex 1 of this letter for our detailed responses.

Please do not hesitate to contact Jona Basha (jona@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,



Olivier Boutellis-Taft

Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1: IFRS FOUNDATION CP – QUESTIONS FOR CONSULTATION

We are pleased to provide below our detailed responses to the questions.

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?*

- (1) Accountancy Europe welcomes the IFRS Foundation's CP and considers it as the necessary step towards global non-financial information (NFI)¹ standards. The market, users, preparers, and the profession have been calling for the harmonisation of NFI reporting initiatives for years and have frequently stated that the IFRS Foundation has a critical role to play to this end.
- (2) Accountancy Europe has been very involved in the NFI agenda. Specifically, we highlight the following related publications:
- Cogito Paper *The future of corporate reporting – creating the dynamics for change* (2015)² explored the state of play of NFI reporting at the time and looked at international standard setters to develop an internationally accepted NFI reporting framework.
 - Call for action: *Enhance the coordination on non-financial information initiatives and frameworks* (2017)³ called for the consolidation of NFI initiatives and suggested the International Accounting Standards Board (IASB) to play a more prominent role.
 - Cogito Paper *Interconnected standard setting for corporate reporting* (2019)⁴ and the respective *Follow-up paper* (2020)⁵ built the case for a global corporate reporting structure achieved by enhancing and reconstituting the IFRS Foundation and the Monitoring Board to accommodate an International Non-Financial Standards Board to set international NFI standards (similarly to the SSB proposed in this CP).

¹ Throughout our response we use the term 'NFI' as the issues we believe need addressing are broader than what the term 'sustainability' encompasses (see paragraphs 8-10 of our response).

² Accountancy Europe (2015), *The future of corporate reporting*, see: <https://www.accountancyeurope.eu/publications/future-corp-rep/>

³ Accountancy Europe (2017), *Enhancing the coordination of non-financial information initiatives & frameworks*, see: <https://www.accountancyeurope.eu/publications/call-for-action-nfi-frameworks/>

⁴ Accountancy Europe (2019), *Interconnected standard setting for corporate reporting*, see:

<https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/>

⁵ Accountancy Europe (2020), *Follow-up paper: Interconnected standard setting for corporate reporting*, see: <https://www.accountancyeurope.eu/publications/follow-up-paper-interconnected-standard-setting-for-corporate-reporting/>

- (3) Therefore, we confirm that there is a need for internationally recognised NFI standards: companies, supply chains, customers, capital markets are global and need a global solution to address global risks such as climate change.
- (4) Internationally recognised standards enhance consistency and comparability and ultimately improve market transparency. Global NFI standards would also reduce costs and complexities related to preparing and analysing NFI reporting for both preparers and users.
- (5) We believe that the CP is timely because:
 - globally there is a market-led initiative to consolidate NFI standards and frameworks (see paragraphs 27 - 33), and
 - in the European Union (EU) work is undergoing towards possible European NFI standards (see paragraphs 22 - 26).
- (6) The IFRS Foundation has a critical role to play in NFI standards: it should coordinate, collaborate and consolidate with these initiatives (see paragraphs 18 – 33 of our response). In addition, the IFRS Foundation is best placed to create an effective link between financial and non-financial reporting.
- (7) For this purpose, we suggest the IFRS Foundation to state the long-term vision in terms of the scope of NFI standards (including topics to address and the materiality approach) and in terms of enhancing governance and oversight.
- (8) In terms of scope, we note the IFRS Foundation uses the term ‘sustainability’ instead of NFI, which is the term used by Accountancy Europe. Based on paragraph 43 of the CP, we understand that the IFRS Foundation is looking only at environmental, social and governance (ESG) factors.
- (9) Even though currently there is no widely accepted term to address encompass all these topics, we suggest the IFRS Foundation to consider using a term that best incorporates ESG reporting, value drivers that are not usually measured in monetary terms and internally generated intangibles (e.g., intellectual property, knowledge, relationships, teamwork, trust, branding, reputation, technology etc). We noted that specifically the latter is not addressed by the CP.
- (10) In addition, as a second step to addressing NFI topics important for enterprise value creation, we suggest the IFRS Foundation expand the materiality lens to also include the wider impacts on society, the environment and people (see paragraphs 41 - 44).
- (11) Furthermore, we suggest the IFRS Foundation work towards ensuring an interconnected approach to standard setting as NFI and financial information inform, are linked and interdependent on one-another (please refer to paragraphs 50 - 53 below).
- (12) On the other hand, we suggest the IFRS Foundation consider how best to enhance its governance and oversight to include broader stakeholder representation and the necessary knowledge both in the Monitoring Board and in the IFRS Foundation. This would allow to address a broadened scope as provided in paragraphs 8 - 11.
- (13) We note that many NFI issues need an urgent solution (e.g., climate change). Therefore, we suggest the IFRS Foundation reflect on how it can ensure a due process that timely responds to the urgency of many NFI topics. It could apply a phased approach to NFI standard setting as noted in paragraph 49 of our response.

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?

- (14) Accountancy Europe fully supports developing an SSB within the IFRS structures because:
- i. The SSB can leverage the global acceptance of IFRS for its NFI standards. Markets, investors, companies and their operations, planetary risks are global. Therefore, NFI standards should be global too.
 - ii. The NFI standard setting should also be overseen and accountable to both public and private bodies. The IFRS governance and oversight are well established, supported and respected by capital markets. Other stakeholders could become part of the transformed IFRS Trustees and the enhanced Monitoring Body to oversee and govern the SSB activities and provide an efficient link to public authorities respectively (see paragraph 54).
 - iii. The SSB can benefit from the IFRS due process to achieve credibility and buy-in from stakeholders and to ensure high quality standards. The IFRS Foundation could consider how the six principles of standard setting (legitimacy, independence, transparency, public accountability, due process, balanced membership) explored in Cogito paper 2017 *Standard setting in the 21st century*⁶ are best met.
 - iv. There is an interdependence between NFI and financial information: company operations impacts to the external world can quickly become dependencies and ultimately affect its financial performance and stability. Therefore, NFI standards and IFRS should be connected, e.g., by a conceptual framework for connected reporting (see paragraphs 50 – 53 below). In addition, the SSB and the IASB should liaise operationally with one another to ensure connectivity in standard setting. This can only be achieved if the SSB and IASB sit under the same governance structure.
 - v. NFI reporting materiality should build upon the current financial materiality lens to include the NFI impacts on value creation, and at a later stage, the wider impacts of a company's operations on people and the environment (see paragraphs 41 - 44).
 - vi. The SSB can benefit from the wide global applicability of IFRS to achieve acceptance of its NFI standards in different legislations. Please refer to our comments in paragraph 18 – 26.
 - vii. It would facilitate the application of one NFI taxonomy, which is crucial for comparability (see paragraph 56).

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)?

- (15) Accountancy Europe agrees with the requirements for success of the SSB as per paragraph 31 of the CP. However, we consider that the following factors are also important for the success of the SSB:
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⁶ Accountancy Europe (2017), *Standard setting in the 21st century*, see: <https://www.accountancyeurope.eu/publications/standard-setting-21st-century/>

- i. a broader stakeholder representation in the Monitoring Board and the IFRS Foundation to adequately address NFI issues (see paragraph 54)
 - ii. a due process that ensures timely NFI standards that address the urgency of global risks and responds quickly to stakeholders' needs
 - iii. an expanded Advisory Council with representatives that have an interest in NFI reporting to provide strategic support and advice.
- (16) Nonetheless, we note that all the above will depend on and should be consistent with the scope the IFRS Foundation sets for its NFI standard setting activities (see paragraphs 7 - 11 of our response). In addition, except for funding, we note that some of these requirements may be achieved over time as the IFRS Foundation advances towards its long-term vision.
- (17) We emphasise that ensuring sufficient funding is of paramount importance for the SSB's work as well as achieving any future vision of the IFRS Foundation. Many players in the market are currently funding different NFI initiatives and would be reluctant to contribute more if the outcomes of all these initiatives are similar. Therefore, it is important to coordinate, consolidate and collaborate with CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB), the International Organization of Securities Commissions (IOSCO) and the NFI project in the EU in order to prevent any overlaps (see paragraphs 18 - 33).

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?

- (18) We suggest the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of NFI standards globally. Internationally accepted NFI standards would improve market transparency and minimise the risk of greenwashing.
- (19) Particularly, we suggest the IFRS Foundation to reach out, collaborate and coordinate with the work underway in the EU and with relevant international organisations in order to facilitate the global adoption and application of standards. These include IOSCO, the Financial Stability Board (FSB), the relevant United Nations (UN) agencies in relation to the Sustainable Development Goals (SDGs) and the Paris Agreement.

Collaboration with other global stakeholders

- (20) IOSCO issued an open response⁷ to the CDP-CDSB-GRI-IIRC-SASB open letter⁸ highlighting that they stand ready to collaborate aiming at convergence between these organisations and the IFRS Foundation initiative.

⁷ IOSCO (2020), *Open response to the open letter from CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) proposing avenues for Working together to meet the needs of the capital markets*, see: <https://www.iosco.org/library/speeches/pdf/20201029-Erik-Thed%C3%A9en.pdf>

⁸ CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) (2020), *Open Letter to Erik Thedéen, Director General of Finansinspektionen, Sweden, Chair of the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO)*, see: <https://29kjob3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Open-Letter-to-Erik-Thedeen-Chair-of-the-Sustainable-Finance-Task-Force-of-IOSCO.pdf>

- (21) IOSCO could facilitate the creation and application of global NFI standards to improve market transparency, as it did 20 years ago with IFRS. However, it is important to determine the scope (i.e., the roles and tasks) of the collaboration between the IFRS Foundation and IOSCO. For example, IOSCO could stock-take all the NFI requirements (including in legislation) across the globe and feed them to the IFRS to ensure that NFI standards produced by the SSB address global requirements.

Collaboration with the EU

- (22) The EU has led the NFI agenda for years and as a result is well advanced. NFI standards in Europe are also considered as an important public policy instrument in coordinating different legislative acts such as the Non-financial Reporting Directive (NFRD)⁹ (currently under revision), the Sustainable Finance Disclosure Regulation¹⁰, and the Taxonomy Regulation¹¹.
- (23) For this purpose, the European Commission (EC) mandated the European Financial Reporting Advisory Group (EFRAG) to undertake preparatory work for the elaboration of possible EU non-financial reporting standards. Amongst other tasks, the project task force set up in EFRAG is looking into mapping current and future EU requirements, assessing NFI initiatives for possible input, building a conceptual framework for NFI and connecting NFI to financial information¹².
- (24) We suggest that the IFRS Foundation acknowledges that European NFI standards are high on the EC's political agenda. Therefore, it is likely that there will be mandatory NFI standards to address the EU public policy requirements earlier in Europe than in other jurisdictions and possibly before global consolidation.
- (25) However, the IFRS Foundation should reach out and collaborate with the EU towards a common end goal: global NFI standards. It is important to clearly specify the respective roles and tasks in this collaboration to avoid inefficiencies such as overlapping work, output and funding, as well as to timely address the urgent issues at hand. The IFRS Foundation and the EU may consider undertaking joint projects to inform both initiatives and improve efficiency.
- (26) A 'building block' approach to NFI standards could address the global nature of these challenges and fit the EU's political agenda. The base block would be a global set of NFI standards, applicable to all companies globally, which will help improve market transparency. The EU may supplement with added blocks of EU specific requirements important for the public policy agenda.

Question 5

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

⁹ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>

¹⁰ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R2088>

¹¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, see: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>

¹² European Reporting Lab @ EFRAG, *Progress report of the project task force on preparatory work for the elaboration of possible EU non-financial reporting standards (PTF-NFRS) – status and preliminary high-level assessment points*, see: <https://www.efrag.org/News/Project-449/Progress-report-published-for-project-on-preparatory-work-for-the-elaboration-of-possible-EU-non-financial-reporting-standards>

- (27) We suggest the IFRS Foundation to reach out to CDP, CDSB, GRI, IIRC, and SASB and consider how best to coordinate and integrate these bodies and their initiatives in achieving its vision (see paragraphs 7-13).
- (28) These NFI framework-and-standard-setting institutions have mapped how their standards complement each-other and together with the IFRS structures may form a global corporate reporting structure¹³. Accountancy Europe has supported¹⁴ this statement and shared the materiality considerations and the global corporate reporting structure vision in the Cogito paper 2019 and the respective Follow-up paper.
- (29) However, both the materiality lens and the global corporate reporting structure are incomplete without the IFRS Foundation. Therefore, the IFRS Foundation may transform and adapt towards achieving the long-term vision of a broadened scope and representation (see paragraphs 7-13 of our response).
- (30) Ultimately, the relevant NFI organisations (including their human and financial resources) could be integrated in the SSB, the transformed IFRS Foundation and the enhanced Monitoring Board. However, in order to timely respond to the demands to urgently address many of the NFI topics (e.g., climate change) intermediate steps as noted below can be taken towards this consolidation.
- (31) Recently, SASB and IIRC announced their intention to merge to create the Value Reporting Foundation (VRF) which would maintain the International Integrated Reporting Framework (IR Framework)¹⁵ and set sustainability disclosure standards for enterprise value creation¹⁶. CDSB announced they will soon engage with the VRF¹⁷ and may potentially join them in the future.
- (32) The IFRS Foundation may initially consolidate the resources (i.e., people and funding) of investor focused NFI organisations (VRF and the CDSB in case the latter has not joined it yet) and establish a good cooperation and collaboration (e.g., with a memorandum of understanding) with broader stakeholder focused NFI organisations (e.g., GRI). This would also be in line with the value creation materiality approach and may be faster considering the current remit of the IFRS Foundation.
- (33) In a second phase, these broader stakeholder focused organisations could be incorporated in the SSB and the IFRS Foundation, in order to meet the long-term vision for a broadened NFI scope and representation (see paragraphs 7-13).

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?

¹³ CDP, CDSB, GRI, SASB, *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*, see: <https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>

¹⁴ Accountancy Europe (2020), *Accountancy Europe welcomes cooperation by sustainability reporting bodies*, see: <https://www.accountancyeurope.eu/good-governance-sustainability/accountancy-europe-welcomes-cooperation-by-sustainability-reporting-bodies/>

¹⁵ International Integrated Reporting Council, *International <IR> Framework*, see: <https://integratedreporting.org/resource/international-ir-framework/>

¹⁶ SASB and IIRC, *IIRC and SASB announce intent to merge in major step towards simplifying the corporate reporting system*, see: <https://www.sasb.org/wp-content/uploads/2020/11/IIRC-SASB-Press-Release-Web-Final.pdf>

¹⁷ CDSB, *The Value Reporting Foundation – What is next for CDSB?*, see: <https://www.cdsb.net/uncategorized/1125/value-reporting-foundation-%E2%80%93-what-next-cdsb>

- (34) As noted in paragraphs 18 – 26 of our response, we suggest the IFRS Foundation to collaborate closely with IOSCO and the related developments in Europe, to ensure a timely global solution, fit for many jurisdictions, including the EU.

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?

- (35) Accountancy Europe agrees that climate change is the most pressing global issue, and that the first standard to be issued by the SSB should be on climate change. In addition, the IFRS Foundation should work in parallel towards a conceptual framework for NFI to provide the principles underpinning the standards (see paragraphs 50 – 53).
- (36) If the IFRS Foundation is looking to firstly develop climate-related financial disclosures, we suggest considering the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)¹⁸, which have gained a good global acceptance.
- (37) However, we suggest the IFRS Foundation clearly state that this is only a first step towards achieving its vision (see paragraphs 7-11) and at a later stage, it will broaden the scope for NFI. We note that climate-related risks are interrelated and interdependent on other NFI issues (e.g., social and environmental) and should not be seen in isolation (see paragraph 39). For example, the entity's operations may impact climate change, however, the entity's performance and development may also be dependent on resources affected climate change.
- (38) To this end, CDP-CDSB-GRI-IIRC-SASB have committed to publish a prototype for a climate standard built from their initiatives in compliance with their vision for a corporate reporting system and to address the 'dynamic materiality'. The IFRS Foundation may collaborate with this initiative and the work underway in the EU as pointed out in paragraphs 22 - 33 of our response when developing these proposals.

Question 8

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

- (39) Accountancy Europe suggests the IFRS Foundation consider that climate-related risks incorporate broader environmental factors (e.g., water and biodiversity issues) and include social aspects (e.g., migration or other social issues from transitioning to sustainability). 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.
- (40) However, in order to underpin NFI reporting, the principles of NFI reporting (e.g., the objective, qualitative characteristics) should be addressed in the (future) conceptual framework for NFI reporting (see paragraphs 50 - 53).

¹⁸ Task Force on Climate-related Financial Disclosures, *Recommendations of the Task Force on Climate-related Financial Disclosures*, see: <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

Question 9

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

- (41) Based on our understanding of paragraphs 50 – 51 of the CP, the IFRS Foundation is suggesting to firstly address issues that are material to enterprise value creation. This includes extending time horizons in order to understand the implications of wider impacts on long-term value creation.
- (42) Resultantly, Accountancy Europe supports the proposed materiality approach for the SSB.
- (43) However, we echo the views of the World Economic Forum¹⁹, the UN Principles for Responsible Investment²⁰ and others that NFI topics are of interest to broader stakeholders than investors. Corporate reporting (NFI reporting and financial reporting) needs to encompass issues that are financially material (as per the financial statements), material for enterprise value creation and include the wider impacts on society, the environment and people.
- (44) Therefore, we suggest the (future) NFI conceptual framework (see our comments in paragraphs 50 - 53) considers a broader-stakeholder approach to materiality (i.e., as per the materiality considerations lens in our Cogito paper, the ‘double materiality’ of the EC²¹ or the ‘dynamic materiality’ of CDP-CDSB-GRI-IIRC-SASB).

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?

- (45) Accountancy Europe notes that NFI should be auditable based on robust processes and global standards in order for the information to be reliable and decision-useful. In addition, we agree that NFI reporting should be assured, with reasonable assurance as the end goal in order to improve reliability²². The NFRD Review Consultation feedback²³ showed a strong support for enhanced audit requirements for NFI in Europe.
- (46) The main bottleneck to NFI assurance is the lack of a globally accepted conceptual framework for NFI and NFI standards. To enable assurance, it is important that reliability is a qualitative characteristic of NFI under the NFI conceptual framework.
- (47) In addition, robust internal processes and controls also enable assurance. That way, the company is confident about the data reported and able to provide appropriate evidence to external parties.

¹⁹ World Economic Forum (2020), *Stakeholder Capitalism: A Manifesto for a Cohesive and Sustainable World*, see: <https://www.weforum.org/press/2020/01/stakeholder-capitalism-a-manifesto-for-a-cohesive-and-sustainable-world/>

²⁰ Principles for Responsible Investment, *What are the Principles for Responsible Investment?*, see: <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>

²¹ European Commission, *Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01)*, see: [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620(01)&from=EN)

²² Accountancy Europe (2020), *Setting up for high-quality non-financial information assurance in Europe*, see: <https://www.accountancyeurope.eu/publications/setting-out-high-quality-non-financial-information-assurance-in-europe/>

²³ European Commission, *Public consultation : Non-financial Reporting Directive*, see: <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive/public-consultation>

- (48) Similarly to the collaboration on financial reporting standards, the IFRS Foundation should work with the International Auditing and Assurance Standards Board (IAASB) and the audit profession in order to create auditable NFI reporting standards.

Question 11

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

- (49) In addition to our comments in paragraphs 7-13 on the scope and vision for NFI standard setting, we suggest the IFRS Foundation to provide a roadmap including the timeline of achieving the vision. The roadmap could address the scope (or content), the phased approach to materiality, the first deliverables (e.g., the conceptual framework for NFI reporting and the first climate-related standard), the gradual transformation of the IFRS Foundation, Monitoring Board, Advisory Council to better address NFI, as well as the phased consolidation with NFI organisations (e.g., firstly the Value Reporting Foundation, afterwards CDSB, and finally GRI).
- (50) We highlight that similarly to the Conceptual Framework for Financial Reporting, there should be a conceptual framework for NFI reporting to set out fundamental concepts for NFI reporting. This conceptual framework for NFI reporting should be available from the start to guide NFI standards (including the first standard on climate). Therefore, we suggest the IFRS Foundation work towards a conceptual framework for NFI and a climate-related standard from the start (see paragraphs 35 – 38).
- (51) Based on paragraph 25 of the CP, the IFRS Foundation wants to ensure the NFI conceptual framework is linked to financial reporting and the IASB. However, it should also be linked the other way around. Therefore, considering that the IFRS conceptual framework is to be kept unaltered in the short-term, this link is best achieved by a common conceptual framework for connected reporting, owned by the enhanced IFRS Foundation.
- (52) The conceptual framework for connected reporting would ensure an interconnected standard setting approach for both the IASB and the SSB and provide an effective link between the current IFRS conceptual framework and the future NFI conceptual framework. This framework should capture concepts such as materiality, connectivity, integrated thinking, impacts and dependencies. The IFRS Practice Statement 1 *Management Commentary* (Management Commentary)²⁴ and the IR Framework provide useful content and should be the starting point for this framework.
- (53) The IASB will soon publish an Exposure Draft for the Management Commentary, whereas the IR Framework is currently in revision. This creates an ideal opportunity to work effectively with these organisations and bring these initiatives together quickly.
- (54) We support the IFRS Foundation consideration of enhancing the composition of the Trustees to be able to address NFI issues. However, we suggest considering that this is the case for the Monitoring Board too: NFI issues are sometimes highly political and a broad range of stakeholders are affected by them and interested in them. Therefore, the Monitoring Board should also be enhanced to include a broader representation of public authorities and even multilateral agencies or international bodies (e.g., the FSB, UN agencies in relation to the SDGs or the Paris Agreement, the World Bank, regional development banks).
- (55) In addition, we point out that SMEs are increasingly faced with requests from capital providers and business partners to provide NFI reporting, as they are part of the same value chain. However, SMEs often lack the resources to address NFI sophisticated reporting. Therefore, we suggest the IFRS

²⁴ IFRS, *Practice Statement 1 Management Commentary*, see: <https://www.ifrs.org/projects/work-plan/management-commentary/>

Foundation to consider issuing simplified NFI standards for SME based on the full set of NFI standards, similarly to the IFRS for SMEs Standard²⁵.

- (56) Finally, we emphasise that having a taxonomy for NFI reporting is key for improving market comparability in a digitalised era. Tagging information would make reporting more easily accessible to users of electronic reports. Therefore, we suggest the IFRS Foundation to consider the need for an NFI taxonomy, as part of its long-term vision.

²⁵ IFRS, *The IFRS for SMEs Standard*, see: <https://www.ifrs.org/issued-standards/ifrs-for-smes/>