December 10, 2020

IFRS Foundation
Columbus Building
7 Westferry Circus, Canary Wharf
London, E14 4HD

By email: commentletters@ifrs.org

Dear IFRS Foundation Trustees,

Consultation Paper on Sustainability Reporting

We are writing on behalf of the Global Accounting Alliance (GAA) in response to your request for comment on IFRS Foundation’s Consultation Paper on Sustainability Reporting (“the Consultation Paper”).

Introduction

The GAA was formed in November 2005 and serves as a forum for 10 leading professional accountancy bodies whose members practice in significant capital markets.

Its purpose is to serve the public interest by leading the advancement of a high-quality accounting profession by sharing information and collaborating, among GAA members, and advocating on international issues important to the profession.

The GAA’s members include the following professional accountancy bodies:

- Association of International Certified Professional Accountants
- Chartered Accountants Australia and New Zealand
- Chartered Accountants Ireland
- Chartered Professional Accountants Canada
- Hong Kong Institute of Certified Public Accountants
- Institut der Wirtschaftsprüfer in Deutschland e.V.
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants of Scotland
- Japanese Institute of Certified Public Accountants
- South African Institute of Chartered Accountants

The Consultation Paper contains issues and proposals that are of great importance to the GAA in respect of its members’ responsibility to act in the public interest and we appreciate the opportunity to comment.
Is there a need for global sustainability reporting standards?

We note that in December 2019, the Accountancy Europe (AE) Cogito paper, Interconnected standard setting for corporate reporting, put forward a global corporate reporting structure as a possible model to follow in order to achieve an international and independent non-financial reporting standard-setting body.

In June 2020, the ICAEW’s position paper Non-financial reporting: ensuring a sustainable global recovery, strongly encouraged all efforts towards establishing an international and independent non-financial reporting standard-setting body overseen by an authoritative, internationally recognized umbrella body to coordinate activities globally.

In September 2020, a Statement of Intent to Work Together Towards Comprehensive Corporate Reporting was published by the CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), and Sustainability Accounting Standards Board (SASB). Taken together along with the Task Force on Climate-Related Financial Disclosures (TCFD), these organizations guide the overwhelming majority of quantitative and qualitative sustainability disclosures. The paper set out the case for reducing the “confusion among producers and users of sustainability information” and for a “comprehensive solution for corporate reporting that is urgently needed”.

In September 2020, the International Federation of Accountants (IFAC) issued Enhancing Corporate Reporting: The Way Forward. IFAC’s membership comprises more than 175 professional accountancy organizations in 130 countries and jurisdictions. It opined that “a new standard setting board is necessary to build and coordinate a coherent global system of interconnected corporate reporting”.

In November 2020, the IIRC and the SASB announced their intention to merge into a unified organization, the Value Reporting Foundation (VRF). While not formally joining the new entity, the CDP, CDSB and GRI have expressed their interest to work with the VRF to continue progress towards the vision of a single, coherent system of corporate disclosure.

The above papers and developments provide numerous arguments for the case in support of global sustainability reporting standards.

The GAA believes that investors and other providers of capital have a growing and urgent need for sustainability information that is:

- Comparable across companies;
- Consistent from one time period to the next;
- Prepared in an environment of strong internal controls and board governance;
- Material to enterprise value creation;
- Inter-connected with the information in the financial statements;
- Industry-specific; and
- Quantitative and metric-based with qualitative information used to provide context.

The GAA believes that the development of the above described sustainability information can best be derived from reporting standards that:

- Are connected with financial reporting standards;
- Have widespread acceptance and use;
- Are acknowledged by regulators;
- Allow a tailored approach depending on the size of the enterprise; and
• Are developed using due process that is widely respected.

A single set of high-quality sustainability reporting standards will bring significant benefits to the global economy, society at large, and serve the public interest.

The GAA believes that there is an urgent need for global sustainability reporting standards.

Should the IFRS Foundation play a role?

The IFRS Foundation is well positioned to play a key role in the development of globally accepted sustainability reporting standards. The IFRS Foundation has:
• Proven standard-setting expertise and due process procedures;
• Relationships with governments and policymakers around the world;
• Facilitated the development of IFRS - which are recognized in more than 140 jurisdictions around the world; and
• A well-established and robust governance structure that incorporates global representation and public interest oversight.

The IFRS Foundation could help achieve consistent, authoritative sustainability reporting standards for use by global investors and companies which could minimize the risk of global fragmentation and accelerate the path for marketplace acceptance and global legitimacy for sustainability reporting standards for the capital markets.

The GAA believes that the IFRS Foundation has a central role to play in setting sustainability reporting standards and we support developments to expand its standard-setting activities into this area.

There already exists a proliferation of initiatives in this area and they create confusion for preparers, boards, and investors. Rather than starting from scratch, we believe it will be critical that the IFRS Foundation should build on the current momentum noted above and consolidate existing initiatives to reduce confusion and avoid duplication of effort.

The “house graphic”\(^1\) from the joint Statement of Intent illustrates one example of how the IFRS Foundation could efficiently and effectively achieve global consistency in a way that is aligned with their current remit.

It is important that any final proposal from the IFRS Foundation result in a structure and culture that seeks to build effective synergies with existing financial reporting. Leveraging these synergies will allow the IFRS Foundation to monitor the impact of non-financial reporting standards on financial reporting standards and vice-versa.

We would note that critical to this aspiration is that the remit of the IFRS Trustees would need to broaden and be redefined to reflect a new and broader function. This would necessarily mean attracting members with a skillset that, while grounded in financial reporting disciplines, also encompasses wider sustainability perspectives.

\(^1\) Figure 6 in the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting published by the CDP, CDSB, GRI, IIRC, and SASB in September 2020.
Requirements for success

We agree with the requirements for success listed within the Consultation Paper and would add the following additional thoughts.

Regional Initiatives
The GAA believes that investors and other providers of capital need sustainability information that meets the characteristics listed above and which result from standards developed with input from geographically diverse stakeholders.

The objective should be that each region, or jurisdiction, adopts and applies globally agreed sustainability reporting standards. Therefore, we believe that it is important the IFRS Foundation work towards achieving a global approach; although it may be possible to allow for additional region-specific disclosure requirements.

Speed of development
Given the momentum in this space and the need of some jurisdictions to move speedily on these matters, the GAA believes it is in the public interest, that the IFRS Foundation should move quickly with standard development. It is important that this be achieved in an unprecedented short period of time; which we believe is possible if existing resources and expertise are leveraged.

Scope
In the long term, the remit should focus on producing high-quality sustainability reporting standards that address the full range of environmental, social, and governance (ESG) criteria that are material to enterprise value creation. At the start, however, it may be unreasonable to expect the IFRS Foundation to work on everything at once.

The standards development process must maintain a strong commitment to due process yet should be agile and responsive to the rapidly developing nature of sustainability reporting issues, especially compared to the typical pace of accounting standards development.

Funding
It is important to establish a stable funding model to sustain high-quality, global standards development.

The funding model should not be dependent upon any one stakeholder group, but rather sourced from a broad range of stakeholders to ensure it does not result in any real or perceived threat to the SSB’s independence.

Need for Assurance
There exists a natural connectivity between financial and non-financial information and, in order to provide investors and other providers of capital with confidence in an entity’s reports, it is essential that assurance can be provided on those reports by independent third parties.

It will, therefore, be important that sustainability reporting standards contain suitable auditable criteria to allow for reasonably consistent evaluation of the underlying subject matter.

The audit profession has a great deal of experience serving the public interest and has significant expertise providing assurance on both qualitative and quantitative information, using multidisciplinary teams, and is well positioned to provide assurance on reported sustainability information.
While there already exist some resources on sustainability assurance, the GAA would encourage any sustainability reporting standards board to work closely with the International Auditing and Assurance Standards Board (IAASB) and their ongoing project on Extended External (EER) Assurance in order to ensure the audit profession’s input and technical expertise in applying standards is considered.

In summation, the GAA strongly believes that there is an important opportunity here for the IFRS Foundation to quickly effect a global solution which would serve all stakeholders well.

Yours sincerely,

Jim Knafo, CPA CA CGMA
Chief Executive Officer
Global Accounting Alliance