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| <b>Project:</b>    | <b>Sustainability Reporting</b>  | <b>Meeting:</b>            | AASB November 2020 (M178) |
| <b>Topic:</b>      | <b>IFRS Foundation Trustees' Consultation</b>  | <b>Date of this paper:</b> | 28 October 2020           |
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|                    |  | <b>Project Priority:</b>   | Medium                    |
|                    |  | <b>Decision-Making:</b>    | Medium                    |
|                    |  | <b>Project Status:</b>     | Decide whether to comment |

### Objective of this agenda item

- 1 The objective of this agenda item is for the Board to **decide** whether to submit a comment letter to the IFRS Foundation on its *Consultation Paper on Sustainability Reporting*.

### Attachment

Agenda Paper 14.2 [Consultation Paper on Sustainability Reporting](#) [supporting materials folder]

### Overview

- 2 In September 2020 the IFRS Foundation Trustees issued *Consultation Paper on Sustainability Reporting* (the 'CP'). The purpose of the CP is to identify demand from stakeholders in the area of sustainability reporting and understand what the IFRS Foundation could do in response to that demand. Comments are invited by 31 December 2020.
- 3 The CP has been issued in the context of the IFRS Foundation's five-year review of its strategy, which started in January 2019. The CP contains the following key parts:
  - (a) **Assessment of the current situation:** Noting increasing demand from various stakeholders and the existence of a wide range of voluntary frameworks;
  - (b) **High-level options:** being (1) maintain status quo (ie do nothing), (2) facilitate existing initiatives or (3) create a new Sustainability Standards Board – the preferred approach by the Trustees subject to success criteria;
  - (c) **A new Sustainability Standards Board:** proposing a new Board alongside IASB, with success criteria being (1) sufficient global support, (2) working with regional initiatives to achieve global consistency, (3)-(5) adequate governance, expertise and funding, (6) a structure that builds synergies with financial reporting and (7) that the existing IFRS Foundation mission and resources are not compromised.
  - (d) **Relationships with other institutions and initiatives:** noting the importance for the IFRS Foundation to work with existing initiatives and build upon their work; and
  - (e) **Scope – if SSB were to be established by the IFRS Foundation:** a 'climate-first' approach is proposed and a focus on needs of primary users first.

**Previous IFRS Trustees consultations and the AASB’s feedback**

- 4 The AASB made submissions to the IFRS Foundation’s previous reviews in 2011 and 2015.<sup>1</sup> Although previous reviews have generally focussed on the strategy and operations of the IASB Board itself, the AASB has also provided comment on the structure and strategy of the IFRS Foundation as a whole previously.
- 5 Of particular note is the AASB’s previous comments on wider corporate reporting. In its submission to the *IFRS Foundation Trustees’ Review of Structure and Effectiveness: Issues for the Review* (July 2015), the AASB noted the following:

“The AASB strongly agrees with the proposal that the IASB should play an active role in developments in wider corporate reporting, including Integrated Reporting and believes the IASB should develop a strategy regarding its involvement. Ideally, the IASB will receive feedback through its agenda consultation process about the importance of wider corporate reporting relative to the existing program of ‘conventional’ financial reporting projects.”

**Whether the Board should comment to the IFRS Foundation**

- 6 Staff recommend the AASB provide a submission to the IFRS Foundation.
- 7 Staff consider that commenting is appropriate under the AASB’s fifth strategy – to influence initiatives integral to financial reporting.<sup>2</sup> This is because, in staff’s view, wider corporate reporting (including sustainability reporting) is integrally linked to financial reporting. This is demonstrated, for example, through the AASB’s previous comments to the IFRS Trustees, as well as the AASB-AUASB Joint Bulletin *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2*. That publication acknowledges the growing demand for climate-related information from primary users and shows how such information is linked to financial statements.
- 8 Staff acknowledge possible views that the AASB should not comment on the basis that:
  - (a) sustainability reporting is not mandated in Australia, and whether it is would likely be a matter for Government; and
  - (b) even if sustainability reporting were mandated, it is unclear whether sustainability reporting would be within the remit of the AASB.
- 9 However, staff see benefit in encouraging a unified approach to setting both financial reporting and sustainability standards. We think that cohesion between the two frameworks would be useful in simplifying the preparation and understandability of wider corporate reporting. Staff also see benefit in sharing the AASB’s experience as a stakeholder in the development of international reporting frameworks through the IFRS Foundation’s structure.

**Question for Board members**

Q2: Do Board members agree with staff’s recommendation to submit a comment letter to the IFRS Trustees in response to its *Consultation Paper on Sustainability Reporting*?

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1 Previous submissions available at the following links: [2015 submission](#); [2011 submission](#).

2 AASB Strategic Objective 5: Influence initiatives to develop standards and guidance that meet user needs for external reporting integral to financial reporting.

**Next steps**

- 10 Staff recommend targeted outreach (noting time constraints preclude broader outreach) with the following stakeholder groups to help inform a response to the CP:
  - (a) **Primary users of financial statements:** as they are expected to be the key stakeholders to use sustainability information;
  - (b) **Large corporates/preparers:** as they are expected to be the stakeholders most affected by any resultant sustainability standards, whether that be by pressure to voluntarily adopt such standards, or mandatorily apply them in the future; and
  - (c) **Academics:** to understand available evidence on the topic.
- 11 Staff have also had preliminary discussions and will continue to engage with:
  - (a) **FRC:** the FRC is expected to discuss whether to provide its own comment letter to the CP at its meeting on 5 November. Staff will provide a verbal update at this meeting.
  - (b) **AUASB:** AUASB Staff have indicated their intention to not recommend the AUASB comment on the CP. However, staff will continue to engage on any audit issues.
- 12 Due to time constraints, staff recommend the Board form a sub-committee to develop and approve a submission to the IFRS Trustees out of session. Accordingly, staff recommend the following timeline/process to prepare the submission:

| Timing           | Milestone   |
|------------------|---|
| This meeting     | Board discussion on any preliminary views on the CP   |
| H2 November 2020 | Targeted outreach by staff  |
| W1 December 2020 | Circulate outreach summary and staff recommendations to Board subcommittee; Board subcommittee teleconference |
| W2 December 2020 | Circulate draft comment letter to subcommittee for approval   |
| W3 December 2020 | Circulate draft comment letter to entire Board for fatal-flaw review  |
| W4 December 2020 | Final approval of comment letter by subcommittee  |

- 13 Staff have attached Appendix A outlining preliminary staff views in response to the specific matters for comment to the CP. The purpose of including this Appendix is to give the Board a starting point for considering the nature of the feedback that staff might recommend providing. However, staff’s views may change as further analysis and outreach is undertaken.
- 14 Staff have also noted some views published by other stakeholders relating to the CP. A list of those published views is available for the Board’s information in Appendix B. Staff note that, at this stage, there appears to be general support for the IFRS Foundation having a role in sustainability reporting, however there appears to be some concern from academics.

**Question for Board members**

Q2: Do Board members agree with staff’s recommendation to conduct targeted outreach?

Q3: Do Board members agree with staff’s recommendation to form a subcommittee to approve the comment letter? If so, staff will ask Board members to volunteer verbally at this meeting.

Q4: Do Board members have any feedback on the preliminary views set out in Appendix A?

**Appendix A: Staff’s preliminary views on the CP’s specific matters for comment**

| SMC   | Staff’s preliminary views   |
|---|---|
| <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> | <p>Yes, there appears to be a need for global standards, given the growing importance to users and the number of current different initiatives.</p> <p>Staff think the IFRS Foundation has been successful in promoting international financial reporting, and on that basis would be a suitable body to take the initiative forward and bring harmonisation.</p>   |
| <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>   | <p>Staff agree that a new Board under the IFRS Foundation governance could be appropriate, subject to the requirements for success and general acceptance amongst stakeholders, particularly jurisdictions that would adopt the standards, and the existing initiatives.</p>  |
| <p>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)?</p>   | <p>Staff agree with requirements for success listed.</p> <p>Staff think there could be merit in also considering an additional requirement for success being something along the lines of ‘ensuring the scope of work to be addressed by the SSB is clear and agreed amongst stakeholders’. Given the potential breadth of sustainability reporting (as evidenced by the number of current initiatives), staff think a requirement for success will be effective scoping of the SSB’s remit, strategy and work. We note that the CP does address some scope matters, but we think that making it a requirement for success could help bring more focus to it.</p> |
| <p>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?</p>  | <p>Yes, existing relationships with users, preparers, auditors and governments, among others, would remain useful.</p> <p>However, we don’t think the IFRS Foundation could rely on these stakeholders alone. The Foundation will need to ensure it develops relationships with appropriate representatives of sustainability reporting that might not have been involved in financial reporting previously. This might include expanding the representatives it engages with from the same organisations.</p>  |

|   |   |
|---|---|
| <p>How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?</p>  | <p>Staff think it is imperative that the other initiatives are supportive of the IFRS Foundation playing a role.</p> <p>Assuming they are supportive, we think it would be most effective for those organisations to be effectively ‘absorbed’ into the IFRS Foundation as members and staff of the SSB. However, we acknowledge this would be challenging. In lieu of that, we think that it is important that the IFRS Foundation includes representatives from the initiatives identified in the paper, perhaps as members of the SSB.</p> |
| <p>How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?</p>   | <p>Staff think that jurisdictional initiatives could be utilised in a manner similar to the national standard setters. For example, the SSB could use the jurisdictional initiatives as consultative bodies in a way similar to the functioning of the Accounting Standards Advisory Forum through the local representatives, for example any resultant national standard-setters.</p>  |
| <p>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?</p>                             | <p>Staff note that some countries (such as New Zealand) are already announcing initiatives to have mandatory climate reporting. Therefore, any international initiative must be timely. Accordingly, staff agree that initially focussing on climate-related financial disclosures could be useful.</p> <p>However, the SSB would need to carefully consider what concepts it will base its work on and be cautious not to fragment its outputs by focussing on a single issue at a time.</p>   |
| <p>Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?</p>  | <p>Staff think this would be a pragmatic approach for reasons similar to those immediately above.</p>   |
| <p>Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?</p>   | <p>Staff think this would be a pragmatic approach for reasons similar to those in the two questions above.</p>  |
| <p>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?</p> | <p>Staff strongly agree that the information should be auditable. The audit of financial information brings credibility and trust to reporting, and we think that would remain true for sustainability reporting.</p>   |
| <p>Stakeholders are welcome to raise any other comment or relevant matters for our consideration.</p>   | <p>No additional issues have identified by staff at this stage.</p>   |

## Appendix B: Summary of published views on sustainability reporting

| <b>Stakeholder and Link</b><br>Note: this is a collation of information staff identified through a limited search. It is not exhaustive.   | <b>Support IFRS Foundation having a role?</b>  |
|--|--|
| International Federation of Accountants<br><a href="https://www.ifac.org/system/files/publications/files/IFAC-Enhancing-Corporate-Reporting-The-Way-Forward.pdf">https://www.ifac.org/system/files/publications/files/IFAC-Enhancing-Corporate-Reporting-The-Way-Forward.pdf</a><br><a href="https://www.ifac.org/news-events/2020-09/ifac-applauds-ifrs-consultation-sustainability-standards-board">https://www.ifac.org/news-events/2020-09/ifac-applauds-ifrs-consultation-sustainability-standards-board</a>                  | Support  |
| Chartered Accountants Australia and New Zealand<br><a href="https://www.charteredaccountantsanz.com/news-and-analysis/news/ca-anz-joins-climate-change-call-to-action">https://www.charteredaccountantsanz.com/news-and-analysis/news/ca-anz-joins-climate-change-call-to-action</a>   | Published prior to CP, so did not comment on IFRS Foundation's role. However, made 'call to action' on climate change.                                   |
| CPA Australia<br><a href="https://www.cpaustralia.com.au/-/media/corporate/allfiles/document/media/policy-bulletins/integrated-reporting-and-the-evolving-connectivity-of-financial-and-nonfinancial-reporting--policy-s.pdf?la=en&amp;rev=a64bdcc5b0954eb6980e8586ccc7f1f0">https://www.cpaustralia.com.au/-/media/corporate/allfiles/document/media/policy-bulletins/integrated-reporting-and-the-evolving-connectivity-of-financial-and-nonfinancial-reporting--policy-s.pdf?la=en&amp;rev=a64bdcc5b0954eb6980e8586ccc7f1f0</a> | Did not comment on IFRS Foundation's role. However, has issued policy statement on wider corporate reporting including 'interconnected standard setting' |
| Open letter from Professors of Accounting – Australian academics include Prof Carol Adams (Swinburne), Prof James Guthrie AM (Macquarie), Prof Sumit Lodhia (UniSA), Prof Lee Parker (RMIT), Prof Carol Tilt (UniSA)<br><a href="https://drcaroladams.net/open-letter-to-the-chair-of-the-ifrs-foundation-trustees-from-professors-of-accounting/">https://drcaroladams.net/open-letter-to-the-chair-of-the-ifrs-foundation-trustees-from-professors-of-accounting/</a>  | Do not support.<br>Significant concern that IFRS Foundation Trustees have not considered available evidence.   |
| Deloitte<br><a href="https://www2.deloitte.com/global/en/pages/audit/articles/deloitte-welcomes-the-role-of-the-ifrs-foundation-in-sustainability-standard-setting.html">https://www2.deloitte.com/global/en/pages/audit/articles/deloitte-welcomes-the-role-of-the-ifrs-foundation-in-sustainability-standard-setting.html</a>  | Support  |
| Teresa Ko, IFRS Trustee<br><a href="https://www.ifrs.org/news-and-events/2020/10/hope-for-a-new-paradigm-sustainability-reporting/">https://www.ifrs.org/news-and-events/2020/10/hope-for-a-new-paradigm-sustainability-reporting/</a>   | Support<br>(Note: Ko was a member of the IFRS Trustees working group for the paper)  |
| Climate Disclosure Standards Board; Global Reporting Initiative, International Integrated Reporting Council, Sustainability Accounting Standards Board, CDP<br><a href="https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf">https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf</a>                         | Issued prior to consultation, so does not comment on IFRS Foundation proposals.<br>Supportive of working together.                                       |