



IFRS FOUNDATION TRUSTEES CONSIDER SUSTAINABILITY REPORTING

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BACKGROUND

On 30 September 2020, the Trustees of the IFRS Foundation published a [consultation paper](#) on Sustainability Reporting ('the paper'). The paper sets out the view of the IFRS Foundation Trustees on how the IFRS Foundation may contribute to the development of consistent, global requirements, which would enhance the usefulness and comparability of information provided to stakeholders (e.g. investors, the corporate sector, central banks and market regulators).

On 28 September 2020, Hans Hoogervorst, Chair of the International Accounting Standards Board ('IASB') delivered the [keynote speech](#) at the IFRS Foundation's Virtual Conference. This keynote speech discusses a number of the proposals included in the paper, including the limits of current IFRS requirements and the need to develop a global framework for sustainability reporting.

This publication provides a summary of the current requirements, the options being considered by the IFRS Foundation and approaches being considered by parties other than the IFRS Foundation.

EXECUTIVE SUMMARY

The Trustees of the IFRS Foundation are considering how they may support global sustainability reporting initiatives. The Trustees have provisionally chosen to further the development of a Sustainability Standards Board ('SSB'). The Trustees are seeking input on 11 questions with comments due by 31 December 2020.

CURRENT REQUIREMENTS AND PERCEIVED NEED FOR CHANGE

There is increasing demand for information on how entities contribute to the effects of climate change and/or are exposed to the risks arising from climate change. This demand has been driven by growing public awareness of the urgency of the issue, as well as various national and global commitments to mitigate the effects of climate change, including the Paris agreement signed in 2015 and ratified by 189 parties worldwide.

Views of stakeholders have broadly evolved to acknowledge the need for information beyond what is produced in historical financial statements, as this broader information is vital for stakeholders in making investing and other business decisions. Additionally, information relating to sustainability (e.g. production of carbon dioxide and other greenhouse gases) will become increasingly important for jurisdictions to be able to assess compliance with laws and regulations designed to satisfy international commitments, including those made in the Paris agreement.

Currently, a wide variety of frameworks for environmental and sustainability reporting exists. These initiatives and frameworks have been led by numerous entities¹, including the Financial Stability Board's Task Force on Climate-related Financial Disclosures, the Sustainability Accounting Standards Board, The Global Reporting Initiative, the Climate Disclosure Standards Board and the Climate Disclosure Project.

Many of them are voluntary, and there is a lack of consistency in the principles underlying these frameworks. This makes comparability of metrics between entities and different jurisdictions challenging, particularly when such information is intended to foster movement towards common global aspirations and goals, such as 'across the board' reductions in carbon emissions.

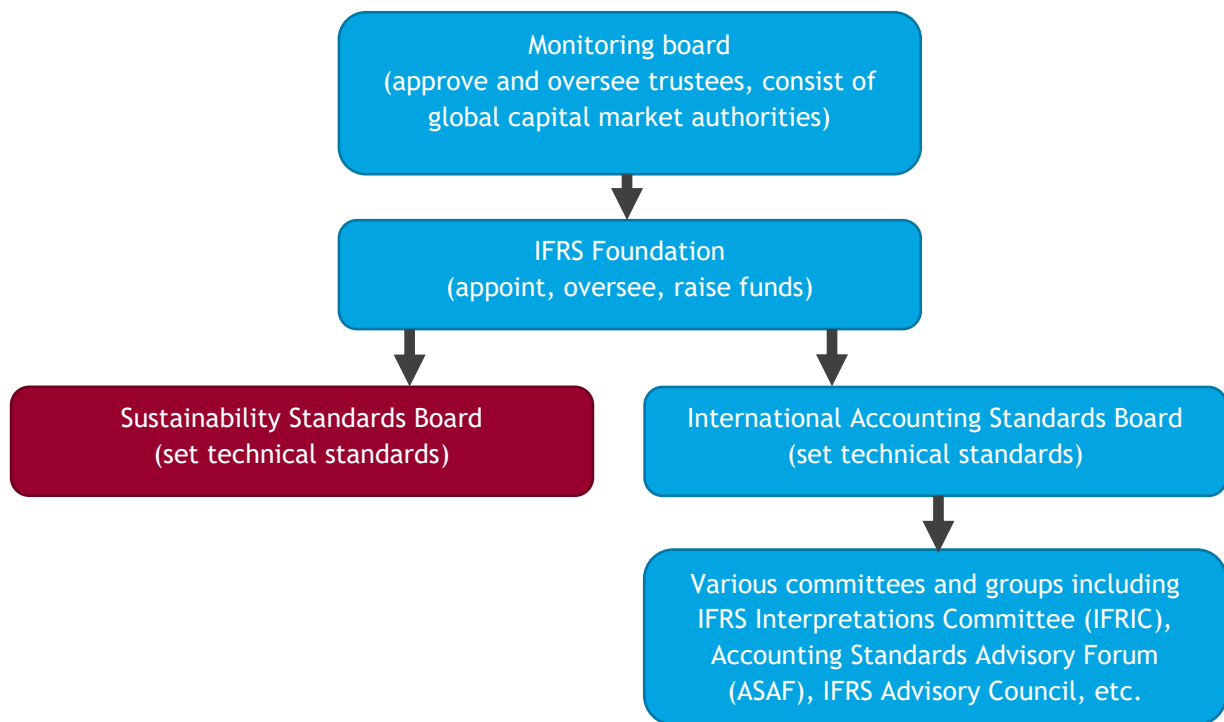
¹ Concurrently with the publishing of the Trustees of the IFRS Foundation's consultation paper, these four entities plus the International Integrated Reporting Council issued [a document](#) titled: Statement of Intent to Work Together Towards Comprehensive Corporate Reporting. This document sets out their view of how they may work with the IASB and FASB to complement frameworks and standards in order to provide more comprehensive corporate reporting systems.

The Trustees considered a number of different options in the paper before provisionally deciding to explore the third option:

- 1) Maintain the status quo (i.e. do not proceed with any sustainability initiatives).
- 2) Facilitate existing initiatives (i.e. assist in harmonising existing standards).
- 3) Create a Sustainability Standards Board and use existing initiatives, building upon their existing work.

PROVISIONAL APPROACH - SUSTAINABILITY STANDARDS BOARD

The SSB would be created and inserted into the governance structure of the IFRS Foundation as follows (blue items denote existing entities and organisations and the red item denotes the potential introduction of the SSB):



The SSB's objective would be to develop and maintain a global set of sustainability-reporting standards. The initial focus would be on climate-related risks, however, the paper notes that broader environmental, social and and corporate governance ('ESG') issues may be considered in the future.

Some of the advantages of the SSB being created under the supervision of the IFRS Foundation would be that the SSB could leverage existing knowledge bases, networks and due process. The paper also notes that this interconnectedness would improve the implicit connections that exist between financial reporting and non-financial reporting. This connection would also allow the two Boards to align goals and work plans to benefit one another.

KEYS TO SUCCESS

The Trustees have provisionally chosen to develop the SSB option, and invite public comments on the paper. The Trustees also consider a number of requirements essential to ensure the success of this option:

- (a) Achieving sufficient global support;
- (b) Working with regional initiatives to achieve global consistency and reduce complexity;
- (c) Ensuring the adequacy of the governance structure;
- (d) Achieving appropriate technical expertise for Trustees, board members and staff;
- (e) Achieving sufficient funding;
- (f) Developing a structure and culture that seeks to build effective synergies with financial reporting;
- (g) Ensuring the current mission and resources of the IFRS Foundation are not compromised.

OTHER APPROACHES BEING CONSIDERED

Separate from the IFRS Foundation's activities, in September 2020, the European Financial Reporting Advisory Group ('EFRAG') formed a project task force on non-financial reporting standards ('PTF-NFRS'). The PTF-NFRS is exploring the creation of possible European Union-specific non-financial reporting standards. This option would apply to EU-member states, and would not have global applicability.

The PTF-NFRS is undertaking a three-stage approach:

- Phase 1: assessment (until end of October 2020). Six separate streams will each assess a specific aspect of the overall scope of the work.
- Phase 2: Proposal (November - December 2020). Possible scenarios will be designed and detailed recommendations will be elaborated, along with formal outreach.
- Phase 3: Outreach and conclusion (January 2021). Recommendations will be finalised with feedback integrated from key stakeholders before a final report is delivered by 31 January.

NEXT STEPS AND FURTHER RESOURCES

The Consultation Paper issued by the IFRS Foundation Trustees is open for public comment until 31 December 2020. The paper asks 11 questions about the need for sustainability reporting standards, and how the IFRS Foundation might be involved.

Additional resources on the consultation paper and sustainability reporting may be accessed here:

[Consultation Paper on Sustainability Reporting issued by the IFRS Foundation Trustees](#)

[Paris Agreement, 2015](#)

[Sustainable Finance and the Role of Securities Regulators and IOSCO: Final Report \(April 2020\)](#)

[Interconnected Standard Setting for Corporate Reporting: Accountancy Europe \(December 2019\)](#)

[Feedback Analysis on Interconnected Standard Setting for Corporate Report \(Accountancy Europe\) \(June 2020\)](#)

[IFRS Standards and Climate Related Disclosures: publication by IASB Board Member Nick Anderson \(November 2019\)](#)

Additional resources on the consultation paper and sustainability reporting may be accessed here:

[Statement of Intent to Work Together Towards Comprehensive Reporting: Summary of alignment discussions among leading sustainability and integrated reporting organisations CDP, CDSB, GRI, IIRC and SASB \(September 2020\)](#)

[Toward Common Metrics and Consistent Reporting of Sustainable Value Creation: World Economic Forum \(January 2020\)](#)

[Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation: World Economic Forum \(September 2020\)](#)

[Enhancing Corporate Reporting: The Way Forward IFAC \(September 2020\)](#)



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