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**EBF response to the IFRS Foundation consultation on the global approach to sustainability reporting and on possible Foundation role**

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Dear Trustees,

We are pleased to provide response to the IFRS Foundation consultation questions on the need for global non-financial reporting standards. We will be pleased to respond any question you may have or provide more details.

**Questions for consultation**

Question 1

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

Yes. While there is a general agreement that the current non-financial reporting data is insufficient in terms of availability, relevance and reliability, it is also agreed that this is not due to the lack of reporting standards, guidelines or initiatives.

To the contrary, the current patchwork of existing reporting frameworks leads to fragmentation, inconsistencies and is at times, hard to navigate. Companies are faced with multiple information request from different stakeholders. It is desirable that companies report information only once, based on a common standard and simple set of indicators.

Acknowledging this fragmentation, the European Commission has tasked EFRAG to start preparatory work for potential European non-financial reporting standards to support the implementation of the Non Financial Reporting Directive and is considering issuing a standard setting mandate for the EFRAG in the area of non-financial reporting.

The EFRAG has recently published its first Progress Report of the Project Task Force on Preparatory Work for the Elaboration of Possible EU Non-Financial Reporting Standards (PTF-NFRS)<sup>1</sup> on 31

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<sup>1</sup> <https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/PTF-NFRS%20Progress%20Report%20Final.pdf>

The final report will aim at mapping the existing non-financial reporting initiatives (significant international standards and indicators), analysing the interconnection between financial and non-financial information, clarifying and mitigating potential inconsistencies across EU disclosure regulations, providing recommendations on how the concept of double materiality could be applied and operationalized.

October 2020. According to the progress report, nearly 100 non-financial information standard-setting initiatives have been identified, in addition to the EU specific initiatives, and are currently under detailed analysis (e.g., WBCSD, Principles for Responsible Investment, WWF, CSDB, ACCA, GRI, EY, IIRC, etc.). More than 5000 KPIs or data points of a non-financial nature have been inventoried so far, of which more than 3000 are generic, whereas 700 relate to climate and environment.

Improving consistency, removing complexity, and increasing comparability and understandability should be the main objective of a harmonized non-financial reporting. Climate change in particular, but also other sustainability objectives are global in nature and as such we prefer a minimum common international non-financial reporting standards **built on the current practices and integrating existing or newly build standards in different geographical jurisdictions.**

**The sustainability standards board (SSB) should also work closely with the other major organisations already involved in sustainability reporting standard setting to leverage on their experience, technical expertise and work accomplished to date.**

(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?

Yes. We support the IFRS Foundation to establish Sustainability Standards Board that would set the global international standards for non-financial reporting under two conditions:

**1) IFRS Foundation should strongly coordinates with other standards for non-financial reporting setlers from different jurisdictions, including EFRAG** which we expect and support to become the EU Non-Financial Reporting standard setter. I

Public authorities that become members of the Sustainability Standard Board commit to the promotion and adoption of the standards within their jurisdiction.

(b) If not, what approach should be adopted?

## 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?**

Yes, we believe it is for three main reasons:

First, the IFRS Foundation has an international network and tried and tested structures at its disposal.

Second, the strengths of the IFRS Foundation lies in its independence, which ultimately guarantees its acceptance. It is important to maintain a clear dividing line between reporting standards and political interests. Political interests should not be advanced through reporting, but through mechanisms such as taxation or investment.

Third, the interlinkage with financial reporting given possible spill over effects (e.g. discussions on materiality), need for cohesiveness and for paving the way for integrated reporting.

**Finally, it will be critical for the SSB to work with national, regional and international authorities who have established, or are in process of developing, legislative and regulatory frameworks on sustainability reporting (such as the European Commission, EFRAG, EBA and ESMA in Europe). More specifically, the SSB should ensure close coordination with EU institutions to take into consideration the planned review of the Non-Financial Reporting Directive (NFRD) that will become the cornerstone of EU- sustainability reporting standards.** The analysis in the EFRAG progress report should be considered in the future work of the SSB.

### 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)?**

Appropriate governance and due process, stable funding and sufficient level of expertise and consideration and cooperation with regional initiatives is likely to enhance chances of global support from public authorities, global regulators and market player. **As with IFRS, we believe the non-financial reporting standards should be principle based and provide a global umbrella framework that would be capable of consistent application.**

When it comes to market players, we believe it is important to secure the support of primary users of non-financial information and preparers. Given that there are already important regulatory developments in several jurisdictions as well as market initiatives and best practices, it is important to build the global standard taking current material standards and market practices into account. We believe the requirements listed in paragraph 31 are appropriate and key to guarantee success, however will need to be elaborated in more details on how the Foundation plans to achieve it.

Also the timing will be critical. Sustainability considerations are evolving fast and rapid progress is needed to level with well-established initiatives that have existed for years. Quick and adequate resourcing/staffing of the SSB will be key.

SSB could consider launching in similar way as the IASB (formerly known as IASC) did years ago – as an association, that coordinates and consolidates the work already done by organizations like CDP, CDSB, GRI, the Value Reporting Foundation, TCFD, and EFRAG. All relevant organizations, which have strong interest in harmonized non-financial reporting standards should become a member of the SSB.

### 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?**

The IFRS Foundation could leverage on its relationship with stakeholders to become the global center of expertise on corporate reporting. While the aspects of non-financial reporting differ from financial reporting and qualitative aspects will continue to be of prime importance in non-financial reporting, synergies between financial and nonfinancial reporting will have to be explored to pave the way towards an integrated reporting system over time. Such synergies are essential to ensure that the reporting system is an integrated, holistic and convergent system that preparers can apply and users can rely on to form an integrated view of the financial and sustainability-related risks and impacts on reporting companies. In. At the same time, it has to be acknowledged that a different set of expertise is also needed for development of non-financial reporting standards and the stakeholder base will largely broaden. New relationships should be built and existing relationships should be strengthened with stakeholders and initiatives having a focus on non-financial/ESG reporting, such as CDP, CDSB, GRI, IIRC and SASB, now the Value Reporting Foundation, TCFD, GHG Protocol for emission calculation, WEF and most importantly EFRAG that is also expected to build the European standard based on the most relevant current initiatives.

Given the constant jurisdictional and market developments, for the IFRS Foundation to succeed it will have to find an inclusive, transparent, yet pragmatic and agile approach to be able to keep pace with the developments and constituents' needs, ensure consensus can be built fast to avoid further global fragmentation.

#### Question 5

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

The IFRS Foundation should leverage on existing initiatives and expertise that could be invited to directly participate in the standard setting process (e.g. expert groups etc) while ensuring transparent due process including field tests, impact analysis, outreach, consultation and adoption without undue influence. One important aspect that has proven important in the existing initiatives is to have not only globally applicable metrics and standards but also sector specific guidance and / or KPIs that reflect the particularly sustainability issues most relevant for a given sector.

#### 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?**

While we fully support and 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, there will likely be a timing mismatch and we believe that an interim solution will be necessary. **The sustainability agenda in Europe is accelerating on an unprecedented speed and is central to both EU policy making and regulatory agenda. The EU needs a reporting standard (s) that will have to be consistent with the EU legislation and regulatory requirements to facilitate not only the**

**compliance with the legislation (including e.g. reporting under Pillar III), but also companies' transition, and the support financial market participants can offer and we support EFRAG in assuming the role of European standard setter.**

Should IFRS Foundation move towards becoming the global standard setter also in the field of nonfinancial reporting, we would **envisage strong working arrangements between EFRAG and the Sustainability Standards Board under IFRS Foundation since the beginning and a possible "convergence project"**, should the global standards meet the EU ambitions and considered fit for compatibility with the EU legislative environment. The ultimate objective should be one single global standard as it is with the IFRS, with 'mutual equivalence" in the interim period. Such 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.

#### 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? IFRS Foundation Consultation Paper on Sustainability Reporting—September 2020.**

Given the urgent need for a generally accepted framework that addresses sustainability reporting, we are supportive of the proposal to take a pragmatic approach to developing this framework, including a "climate-first" agenda which would prioritize the development of climate-related standards. However, it is critical that the SSB's scope incorporates all aspects of sustainability reporting and is not limited to climate in order to ensure the SSB can deliver value to its stakeholders over the longer term.

#### Question 8

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

Banks across the globe are working on TCFD definitions of climate risk that do not include broader environmental factors. However, climate risk is part of environmental risk and there are natural overlaps that should not be artificially distinguished. To be most useful the definitions of risks should be aligned with regulatory requirements.

#### Question 9

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

We support double materiality concept. Otherwise there would be a risk on non-acceptance and lack of buy-in as there are various initiatives already mandating the double materiality concept.

The materiality assessment is already a core aspect of corporate (sustainability) reporting and a key principle to ensure completeness and relevance of content. To foster a path towards more standardization in reporting, the concept of materiality should however be clarified, aligned at international level and between different initiatives and supported by guidance. Further work is needed to ensure that the materiality concept to be developed by the SSB fits with legislative initiatives. For example, in the EU the materiality concept applicable to the Management Report in general (governed by the EU Accounting Directive) and the materiality concept applicable to non-financial-information (governed by the EU Non-Financial-Reporting Directive) should be conceptually better aligned to avoid confusion

The exercise should not become more complex but confirming material (decision useful) sets of aspects that all companies (within one sector) must report on. At the moment, the high degree of flexibility to determine parameters of materiality makes it almost impossible to compare materiality assessments, its results and as a consequence, the content of reports. Therefore, a principle based concept about how to conduct a materiality assessment should be introduced. **A guideline would help to constitute a robust, reliable determination process which should be disclosed in the Non-Financial Statement as well.**

The introduction of "double materiality" by the TCFD is a good step towards this goal, but needs to be better explained, while kept simple and the concept of risk/impact should be considered in the assessment process. More stress on the dual-materiality understanding would be useful. Currently, the emphasis seems to be skewed to focus on the impact of the financial results to a greater extent than on the impact of the business on its surroundings (ESG factors). It is important to develop a standardized and widely accepted materiality framework, i.e. that there is alignment between sustainability taxonomy/dimensions and materiality topics, taking into account existing frameworks to the extent appropriate in the EU context. A more elaboration on the understanding of impacts would be particularly helpful with reference to the positive and negative ESG impacts of the company along the value chain and the services and products offered. We would encourage an alignment with organizations such as UNEP FI and its Positive Impact working group to support the Principles for Responsible Banking.

EFRAG final report in January 2021 will provide recommendations on how the concept of double materiality could be applied and operationalized in Europe.

In addition to materiality we would like to mention importance to take the principle of proportionality into account when developing a global set of internationally recognized sustainability reporting standards.

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?**

We believe a limited assurance should be required including assessment of the materiality assessment process based on a common assurance standard and following proportionality principle. Existing assurance standards should be screened and mapped with the aim to provide robust guidelines, rather than develop new standards. International Standard on assurance engagement, ISAE 3000 (revised) should provide a starting point in this context, the IFRS Foundation should cooperate with auditors/external assurers, e.g. the IAASB

Question 11

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

Your sincerely,



**Sébastien de Brouwer**  
Chief Policy Officer

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