



Tel: +44 20 7893 3300
Fax: +44 20 7487 3686
@: abuchanan@bdoifra.com
www.bdointernational.com

BDO IFR Advisory Limited
Contact: Andrew Buchanan
55 Baker Street
London W1U 7EU
United Kingdom

Mr Erkki Liikanen
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

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Dear Mr Liikanen

IFRS Foundation Trustees' *Consultation Paper on Sustainability Reporting*

BDO welcomes the opportunity to respond to the IFRS Foundation Trustees' *Consultation Paper on Sustainability Reporting*.

We support global standard setting; companies and capital markets are global and we have reached a stage at which key existing frameworks need to be combined and harmonised into a single, globally accepted solution. The establishment of a Sustainability Standards Board (SSB) is a key element of this. The IFRS Foundation is the appropriate organisation in which to house the establishment of internationally recognised and accepted sustainability reporting standards and it is necessary to act quickly. The IFRS Foundation has the independent standard-setting process, governance structure and established relationships necessary to facilitate this process.

We therefore support the proposed creation of a Sustainability Standards Board (SSB) under the IFRS Foundation. The IFRS Foundation can also provide the interconnectivity that will be necessary between current financial reporting standards and the new sustainability standards.

A key to the success of the SSB is to leverage existing sustainability initiatives to meet the urgent demand for timely action. Existing non-financial reporting standard setters have already created significant frameworks and standards which can be used as a starting point, as shown by the CDP, CDSB, GRI, IIRC and SASB having collaborated to publish a prototype climate-related financial disclosure standard for the purposes of reporting enterprise value. In addition, different jurisdictions are at different stages of development of their own requirements, and it is essential that the IFRS Foundation and the proposed SSB work with those initiatives, with them being treated as being complementary and not competing. This may result in the SSB creating a globally accepted 'core' set of standards, with jurisdictions choosing to add further reporting requirements if this is considered appropriate from a public policy perspective.

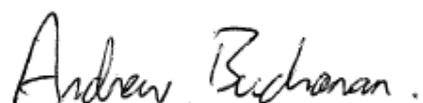
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Although we agree that the initial and urgent focus of the SSB should be on climate-related matters relevant to enterprise value creation, the ultimate remit of the SSB should be comprehensive and include a broad range of sustainability factors.

Our responses to the questions in the Consultation Paper are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

A handwritten signature in black ink that reads "Andrew Buchanan." The signature is written in a cursive, slightly slanted style.

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

Appendix

Question 1

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

Yes.

There is an urgent need for internationally recognised sustainability reporting standards. Global issues such as climate change and the United Nations Foundation Sustainable Development Goals require a global solution. This global solution needs to include consistent, comparable sustainability information across all jurisdictions.

Global environmental and social issues are increasingly matters that impact enterprise value creation. Therefore, investors and other capital market participants are increasingly requiring high-quality, relevant, reliable and comparable sustainability information to make economic decision. In addition, regulators in various jurisdictions are encouraging the inclusion of sustainability information that is relevant to investment decisions.

Question 1(a)

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

Yes.

The IFRS Foundation is key to the urgent need for the establishment of globally recognised and accepted sustainability reporting standards and should act quickly. The IFRS Foundation has a well-established independent standard-setting process and governance structure necessary for the development of these standards.

We agree with 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) (the 'Group of Five') to IOSCO on 30 September 2020 ('Open Letter') stating that 'the IFRS Foundation could provide an appropriate governance architecture to achieve global acceptance. Integration with the IFRS Foundation's governance and oversight could deliver internationally-accepted institutional arrangements for sustainability disclosures relevant for the capital markets, ensuring robust governance, rigorous due process and independent standard-setting, within the context of accountability to public authorities who foster outcomes that are in the public interest.'

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 support the proposal for the formation of a Sustainability Standards Board (SSB) under the governance of the IFRS Foundation. There is a need for reporting focused on enterprise value creation, meeting the needs of global capital markets, interconnected with financial information. We agree with the shared vision of ‘a comprehensive corporate reporting system’ of the Group of Five as stated in their Open Letter. The IFRS Foundation is in a position to provide the connection between financial reporting and sustainability reporting resulting in a comprehensive corporate reporting system under its umbrella.

The IFRS Foundation has a history of success as an independent global standard-setter for financial reporting standards. The due process of the IFRS Foundation is well-established and is essential for developing widely adopted standards. In addition, the fact that the processes are already in place would allow the SSB to move quickly on standard-setting, which is paramount to the urgent need for globally accepted sustainability standards. The urgent need for sustainability standards and output from the SSB in the short term needs to take priority over more administrative matters, such as the revisions that will be required to the IFRS Foundation’s constitutional documents.

It is important that members of the SSB include those with relevant professional experience in sustainability-related areas. We note that the Group of Five have stated in their Open Letter a willingness to work closely with the IFRS Foundation and IOSCO, and the Group of Five would appear to be an appropriate source of expertise. This should, in conjunction with the frameworks and standards already published by the Group of Five, together with other sources such as the recommendations of the Task Force on Climate-related Financial Disclosures, enable the SSB to move quickly on standard setting.

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)?

We agree with the requirements for success provided in paragraph 31.

The IFRS Foundation must deliver sustainability standards urgently while maintaining high-quality outcomes. This can be accomplished by leveraging existing expertise, and the work, of the Group of Five and other sources such as the TCFD recommendations.

It is essential that the current resources of the IFRS Foundation which are made available to the IASB are not affected. Consequently additional sources of funding will be needed. Certain existing private sector organisations might agree to combine as part of the SSB, and may be able to provide some sources of funding. In addition, given certain targets that are associated with non-financial reporting, some multilateral agencies may be willing to provide funding.

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?

Yes.

The IFRS Foundation should leverage its current network of global relationships with regulators, standard-setters, market participants, preparers, and the accounting profession to establish globally recognised sustainability reporting standards. The focus of the establishment of the standards should be on the needs of global capital markets, which links to sustainable enterprise value creation. In many respects, this aligns with the Foundation's existing relationships.

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 and build upon the existing initiatives. The Joint Statement published by the Group of Five set out elements of their current frameworks and standards that could serve as a starting point for the new SSB. We also note that in the Open Letter the Group of Five state their 'standards and frameworks can act as a starting point for the technical content, while the IFRS Foundation could provide an appropriate governance architecture to achieve global acceptance'. We also agree with IFAC's *Enhanced Corporate Reporting: The way forward* 'building block' approach where IFAC outlined components - building blocks - of the system for sustainability standard setting.

We note that the Group of Five has collaborated to publish a prototype climate-related financial disclosure standard for the purposes of reporting enterprise value. This illustrates how their various frameworks and standards can be brought together in an effective way.

Further, the IIRC and SASB have announced their intention to combine and form the Value Reporting Foundation, which provides further evidence of the desire to collaborate to achieve a combined global approach. We view this as a first step towards further consolidation of existing initiatives, which is welcome.

The IFRS Foundation should also leverage upon the work of the Task Force on Climate-related Financial Disclosures (TCFD), and in particular the recommendations included in their Final Report released on 15 June 2017, which includes recommendations for entities to disclose climate-related financial information. The work of the TCFD could form useful input into the initial climate-related focus of the SSB.

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?

See also our response to Question 5.

We note that different jurisdictions are at different stages of development of their own requirements, and it is essential that the IFRS Foundation and the proposed SSB work with those initiatives, with them being treated as being complementary and not competing. This may result in the SSB creating a globally accepted 'core' set of standards, with jurisdictions choosing to add further reporting requirements if this is considered appropriate from a corporate reporting and public policy perspective.

One of the primary objectives is for the SSB to move quickly in establishing this core set of globally accepted sustainability standards. The IFRS Foundation should utilise its long established experience of working with multiple jurisdictions to facilitate the acceptance of this global solution for sustainability reporting in the short term.

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?

Yes, and we agree with the reasons stated in the Consultation Paper.

Climate change is relevant and material across all jurisdictions, and the development of a climate standard is very urgent. As noted in our response to Question 5, as well as the frameworks and standards issued by the Group of Five, the IFRS Foundation should leverage upon the recommendations of the TCFD. The timely issuance of the climate standard will also create momentum for the SSB. Following the development of a climate standard, the SSB should quickly broaden its remit into other areas of sustainability reporting again leveraging the work of the Group of Five in order to promote timely issues of standards in these other areas of sustainability.

Question 8

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

See also our response to Question 7.

The SSB should position itself to address broader sustainability topics including all environmental, social and governance (ESG) topics relevant to enterprise value creation. Climate-change is interconnected with other ESG topics. For example, the shortage of rainfall due to climate-change has resulted in numerous fires damaging real estate and vegetation. The damaged buildings and infrastructure result in social issues such as displacement of people from their homes and communities. Damaged forests and landscape result in other environmental issues such as diminishing habitat for various wildlife species.

Therefore, as well as developing and issuing a climate standard, the SSB should quickly broaden its remit to cover other topics.

Question 9

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

We agree that the SSB should, as proposed in paragraph 50 of the consultation document, ‘initially focus its efforts on producing information about the effects of relevant events (for example, climate change) on the reporting entity, as this would support the decisions of investors and other market participants.’

Although there should ultimately be a broader focus, an initial focus for materiality on enterprise value creation is likely to attract broad global support, and enable the SSB to move quickly in developing standards. Over time, we believe that the scope of materiality based on enterprise value creation is, in any case, likely to broaden meaning that the range of ESG topics that fall within this boundary will increase and evolve over time.

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?

Yes.

We consider that sustainability information should be audited or subject to external assurance. This could enhance the reliability of information disclosed, and would provide greater confidence in that information.

At present, little sustainability information disclosed in annual reports is subject to any form of assurance. We believe that it could be challenging for reasonable assurance to be provided in the short term and so, in the initial stages, limited assurance may be an appropriate objective. In this context, we note that the International Audit and Assurance Standards Board is developing guidance setting out how ISAE 3000 might be applied for the purposes of areas which include sustainability reporting.

An ultimate goal may be for sustainability information to be subject to reasonable assurance. In its 30 September statement IFAC noted that it believed ‘the demand is urgent and real - from investors, policymakers and other stakeholders - for a sustainability reporting system that delivers consistent, comparable, reliable, and assurable information.’

Question 11

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

We have no further comments or relevant matters for consideration.