

IFRS Foundation
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December 24, 2020

Dear Trustees,

The International Banking Federation is pleased to provide feedback to the Trustees of the IFRS Foundation on their Consultation Paper on Sustainability Reporting.

Support for global non-financial reporting standards to address current fragmentation and complexity

With an economy that is increasingly global in nature, we believe that sustainability-related reporting should be addressed at the international level. We support the IFRS Foundation in their efforts to contribute to the development and maintenance of a global set of sustainability reporting standards.

The banking industry strongly supports efforts to establish a generally accepted international framework for sustainability reporting in order to promote consistency and comparability across organizations and reduce the potential for global fragmentation.

We note that numerous standards, guidelines, and voluntary frameworks already exist for disclosing sustainability-related information. We would also highlight that such disclosures may be used by a broader spectrum of stakeholders including within civil society. While past efforts have significantly advanced ESG related disclosures, we find that objectives and metrics vary considerably, creating complexity for stakeholders and organizations, and giving rise to a heightened risk of global fragmentation. We find that companies receive multiple information requests from different stakeholders, and financial institutions face challenges due to a lack of relevant, comparable, and high quality data from their customers. Improving transparency, consistency, comparability, understandability, relevance, and reliability of reported information while reducing complexity should be the main objectives of a harmonized non-financial reporting framework.

We believe that it is important to simplify and streamline the sustainability reporting landscape to enable companies to report information based on a common principles-based standard and a simple set of indicators. This will be helpful in order to achieve a level playing field and to avoid competitive distortions.

Support for a Sustainability Standards Board

The proposal to establish a Sustainability Standards Board (SSB) addresses the clear need for a generally accepted international framework for ESG reporting. We believe the IFRS Foundation is well positioned to contribute based on its experience in facilitating the establishment of global accounting standards.

The IFRS Foundation has built a solid reputation and has long-standing credibility in the area of financial reporting through dialogue with key stakeholders and sound governance. This is also evidenced by the adoption of IFRS in many countries around the world and the reliance placed on these standards by a global network of investors, financial market participants, and other users of financial information. Establishing a separate SSB under the direction of the IFRS Foundation may allow proven governance structures and relationships to be utilized and could more readily facilitate the acceptance of new standards as high quality and internationally recognized.

With this in mind, we suggest that different sets of expertise are needed for the development of non-financial reporting standards and, over time, the stakeholder base will likely broaden to include many aspects of civil society. It will be important for SSB members to have diverse backgrounds, including from a regional and industry perspective and any standards issued by an SSB should be compatible with both developed and emerging markets. In addition, we suggest an overall balance on the SSB that includes not only those members who specialize in ESG areas but also those who are significant participants in financial markets such as preparers, investors, and lenders. All of these factors suggest that an appropriate leadership and governance structure will be critical in producing high quality standards that are useful to a diverse set of interested parties. Members of the SSB should be committed to the promotion or adoption of the standards within their jurisdictions or globally.

We also strongly recommend that the funding model for a SSB receive due consideration to ensure that any possible negative impacts on IASB funding, in particular the voluntary financial contributions, are avoided. If the work efforts of a SSB have the effect of reducing contributions needed for the IASB, the IASB's ability to fulfil its mission could be undermined.

In order to enable stakeholders to effectively evaluate any proposal for establishing an SSB, we recommend that the IFRS Foundation provide a clear operating model for consultation that outlines how it plans to move forward with this initiative, including a clear proposal regarding how the SSB would work with or integrate the existing standard setters and their disclosure frameworks and how it intends to collaborate with national or regional standard setters. Insight into the envisaged standards that an SSB would deliver would also be appreciated. Appropriate governance and due process, stable funding, requisite expertise, and consideration and cooperation with regional initiatives is likely to enhance support from public authorities, global regulators, and market participants.

We would also appreciate if the IFRS Foundation could clarify how the feedback from the consultation process will be used to evaluate whether or not to move forward with the SSB. While the proposal outlines the requirements for success for evaluating the further development of the SSB, it does not provide details as to how success will be defined in the context of each requirement. We understand and appreciate that the nature of this initiative may not necessarily lend itself to establishing specific pre-set criteria for each success factor. However, we believe that it will be important for stakeholders to understand

how each requirement for success has been evaluated by the Trustees in determining whether or not to move forward with the SSB.

Building on existing initiatives and market practices

As noted in the consultation paper, there are numerous existing initiatives in sustainability reporting. Many, if not all, of these initiatives are further along from a development perspective relative to the SSB. There is a risk that the potential time horizon required for a SSB to actually deliver a sustainability reporting framework could jeopardize or limit its usefulness.

Many organizations around the world have also invested significant time and effort in supporting the development of existing disclosure frameworks, standards, and metrics that already provide useful and valuable information such as the Task Force on Climate-related Financial Disclosure (TCFD) recommendations. In addition, the recently announced Value Reporting Foundation¹ is already bringing together two non-financial reporting bodies to simplify the corporate reporting landscape. This underscores the importance of integrating material existing standards and market practices and building on this expertise.

In order for the SSB to be successful in achieving its objectives, we believe that the IFRS Foundation will need to act quickly to drive consensus and convergence across existing ESG standards. As the IFRS Foundation observes, in paragraph 31 of the consultation paper, the requirements essential for success include the SSB achieving a sufficient level of global support from public authorities, global regulators and market stakeholders and working with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting.

National/regional developments

We believe the SSB will need to adopt an inclusive, transparent, yet pragmatic and agile approach to keep pace with developments and constituents needs. This includes consideration not only of the activities of organizations that currently develop non-financial reporting frameworks, but also of governmental initiatives, both nationally and regionally. As with IFRS, we believe the non-financial reporting standards should be principles-based and provide a global umbrella framework that would be capable of consistent application. Should the IFRS Foundation attempt to move towards becoming the global standard setter in the field of non-financial reporting, we would envisage strong working arrangements between regional initiatives and the SSB from the outset.

In the near term, this would include ensuring the SSB closely monitor the development of the EU sustainable finance framework including the non-financial reporting aspects, as the EU has been and continues to be proactive on these aspects. Indeed, it has established and is in process of further developing a sustainable finance regulatory framework that include sustainability reporting standards that would apply at least to all large companies across the

¹ Representing the planned merger of the Sustainability Accounting Standards Board and the International Integrated Reporting Council (IIRC)).

EU. On an ongoing basis, regional standards and practices must be monitored to assess the need for revisions, based on stakeholder feedback.

Such working relations should be subject to certain requirements regarding transparency, due process, and independence.

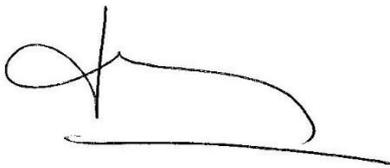
Support for pragmatic approach and transparency on longer term strategic plan

Given the urgent need for a generally accepted framework that addresses sustainability reporting, we are supportive of the proposal to take a pragmatic and proportional 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 incorporate all aspects of sustainability reporting and not be limited to climate in order to ensure that the SSB can deliver value to its stakeholders over the longer term. A prolonged initial focus on climate change could result in other potentially material sustainability topics being neglected. We also note that existing frameworks, such as the TCFD, have already been widely supported and should be leveraged by the IFRS Foundation in developing a sustainability reporting framework.

Where issues or topics are not prioritized to be addressed immediately, it will still be important for the IFRS Foundation to provide stakeholders with a commitment that these issues will be considered and addressed in due course as part of any longer term strategic plan. As part of future consultation, we recommend that the IFRS Foundation provide proposed timelines regarding when and how (i.e. through a phased approach) deferred topics would be considered on the SSB’s agenda.

We are very much willing to further exchange with you on the subject.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hedwige Nuyens', with a long horizontal line extending from the end of the signature.

Hedwige Nuyens
Managing Director IBFed