Submitted electronically via **www.ifrs.org** website

23 December 2020

Dear Sirs and Madams,

GFMA response to the IFRS Foundation Consultation Paper on Sustainability Reporting

The Global Financial Markets Association (GFMA) welcomes the opportunity to comment on the IFRS Foundation Consultation on Sustainability Reporting.

This submission reflects the views of a majority of the GFMA board members rather than those of any one member. Individual GFMA members may have views that differ from those expressed in this document.

GFMA represents the common interests of the world's leading financial and capital market participants to provide a collective voice on matters that support global capital markets. It also advocates on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end users. GFMA efficiently connects savers and borrowers, thereby benefiting broader global economic growth. The Association for Financial Markets in Europe (AFME) located in London, Brussels, and Frankfurt; the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong; and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian, and North American members of GFMA.

This response does not represent views of buy-side members of the ASIFMA and SIFMA, which are captured in separate responses from ASIFMA's Asset Management Group division and SIFMA's Asset Management Group.

We and our members stand ready to engage on this topic further with the IFRS Foundation.

Respectfully,

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Executive Summary:

Climate change and sustainability are challenges that require global solutions. Internationally agreed sustainability reporting standards are needed to achieve consistent and comparable reporting on environmental, social and governance (ESG) matters. Therefore, GFMA welcomes the consultation paper published by the Trustees of the International Financial Reporting Standards (IFRS) Foundation.

We have provided our detailed responses to the questions raised by the consultation in **Appendix A** below, but we would like to draw the attention of the Foundation to our key messages.

- GFMA supports the establishment of a uniform, harmonised and consistent set of internationally recognised sustainability reporting standards, which is essential to prevent further proliferation of various, often duplicative and sometimes contradictory, public and private reporting initiatives.
- To promote cross-border alignment, the standards should be based on a global minimum of common cross-industry and industry-specific key performance indicators (KPIs), reflecting different materiality of ESG factors in different industries, as well as common principles around methodologies underpinning such KPIs.
- GFMA supports the development of a Sustainability Standards Board (SSB) to operate under the governance structure of the IFRS Foundation. By relying on the IASB's expertise and existing processes in global standard-setting, the SSB would be well placed to contribute to bringing sustainability disclosure and reporting requirements under a common denominator.
- To succeed in achieving global reporting harmonisation, the new SSB should work in close cooperation with regional authorities and other major organisations[1] involved in sustainability reporting standard setting to leverage on their experience, technical expertise and work accomplished to date. The SSB should initiate its work by performing a scoping exercise to evaluate the current sustainability reporting landscape to identify optimal ways on how the harmonisation should be achieved, building upon existing initiatives.
- It would be appropriate for the SSB to initially focus on the harmonisation of standards for reporting of climate related information, reflecting the current level of development of underlying methodologies and practices. However, the SSB should seek to ultimately become a standard-setter for reporting on the whole spectrum of material ESG matters, beyond climate, as associated methodologies mature.
- We understand that the SSB may initially need to focus on financial materiality to enable global financial markets to appropriately price in material ESG information into capital allocation decisions based on traditional risk and return considerations. However, we believe that the SSB should also start to oversee, once circumstances so permit, the development of reporting standards from a double materiality perspective. This would be a necessary step to respond to growing demand for such information from investor communities and other stakeholders and to align the objectives of global sustainability reporting with the UN Sustainable Development goals ('SDGs').
- Third-party assurance requirements would need to be established around the reported ESG information to ensure information reliability, with limited assurance being the most appropriate at this stage.

We thank the IFRS Foundation for seeking to bring much needed harmonisation in the global sustainability reporting paradigm and we look forward to continued engagement and dialogue on this critical matter. We stand ready to discuss the content of our response or to provide any further clarity regarding the statements made.

[1] Among others, the European Commission, European Financial Reporting Group (EFRAG), European Banking Authority and ESMA in Europe, along with the International Platform on Sustainable Finance, the World Economic Forum and International Organisation of Securities Commissions as well as major existing sustainability standard setting bodies.

Appendix A

I. Question 1

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

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

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

GFMA supports the potential establishment of a uniform set of internationally recognised sustainability reporting standards, that would be based on a global minimum of common cross-industry and industry-specific key performance indicators (KPIs), reflecting different materiality of ESG factors in different industries, as well as common principles around methodologies underpinning such KPIs.

A globally harmonised approach to sustainability reporting is essential to prevent the proliferation of various emerging public and private reporting initiatives, which are often not aligned and are making reporting costly and time-consuming for preparers and confusing to users. In this respect, as highlighted by IOSCO in its recent report on Sustainable Finance[2], companies operating cross-border particularly suffer from additional costs, complexity, and reduced reliability of data due to the lack of harmonisation of ESG disclosure requirements. For example, it remains crucial that disclosures can be made at the group level, where appropriate. This would prevent duplication of efforts by subsidiaries and, most importantly, enable investors to take informative decisions related to their consolidated financial exposure. For this to be achievable, the IFRS Foundation should perform a scoping exercise to properly evaluate the current sustainability reporting landscape prior to creating a new framework. This will enable the Foundation to adopt a more targeted and concrete approach addressing any existing gaps and help avoid further overlaps and inconsistencies in various reporting requirements.

We note that the IFRS Foundation has operated successfully for many years to develop and promote international financial reporting standards (IFRS) through the International Accounting Standards Board (IASB). We believe that the Foundation is well placed to play a role in setting global sustainability reporting standards, being able to leverage its deep standard-setting expertise and due process procedures that are focused on transparency, broad consultation, and accountability.

We stress, however, that the IFRS Foundation should build on the established work and accumulated knowledge of organisations already operating in the sustainability reporting space. We thus believe that the principles, frameworks, and standards already developed should form the basis for the gap analysis, referred to above, to further comprehend the challenges in achieving common international standards.

Lastly, the IFRS Foundation should remain mindful of the current accounting differences across regions and collaborate with other accounting authorities (such as FASB[3]).

II. 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?

GFMA supports the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation. By drawing on the IASB's existing processes in global standard-setting, as well as technical expertise and reputation, the SSB would have a strong leverage in helping bring sustainability disclosure and reporting requirements under a common denominator.

Nevertheless, as alluded to in our response to Question 1, this undertaking will only be successful if the SSB were to work closely with other organisations who have been involved in sustainability reporting standard setting over many years and thus developed profound expertise that cannot be ignored. This will enable the SSB to identify where and how it can contribute and add value in its efforts to consolidate reporting requirements and

[2] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf
[3] Financial Accounting Standards Board

guard against the proliferation of frameworks. To this end, it is important to consider recent work by the WEF[4], as well as by organisations such as CDP, CDSB, GRI, IIRC and SASB who also recently issued[5] a statement of intent to work together towards a comprehensive corporate reporting system. The SSB should establish a collaboration channel with this coalition to leverage its expertise and act in a coordinated manner to achieve a globally harmonised approach.

Additionally, TCFD has proven to be a workable and widely accepted framework to report on climate related risks and opportunities[6] and should be incorporated in any global standard setting effort on broader sustainability issues.

Furthermore, 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 (for example, 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), which is aiming to be a cornerstone of EU-wide sustainability reporting standards, as well as initiatives and institutions with greater representation of other regions, including the Americas and Asia, and different levels of economic development.

To this end, EFRAG 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)*[7] on 31 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.

In Asia, we note that the Japan Exchange Group and the Tokyo Stock Exchange published their *Practical Handbook for ESG Disclosure*[8] in March 2020, whereas the Singapore Exchange will soon include TCFD recommendations in its existing guidance to assist listed companies with their climate-related financial disclosures.

This all highlights the need for further analysis of the current reporting landscape which will enable the SSB to clearly define its future work.

III. 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)?

It would be useful to mention the need to build effective synergies with intergovernmental work on sustainable development, such as the UNDP's SDG Impact Standards, and initiatives with the corporate sector by UNCTAD-ISAR and the UN Global Compact.

The SSB could initially focus on performing a scoping exercise to evaluate the current sustainability reporting landscape and identify potential gaps and overlaps between frameworks. Completion of this exercise would help the SSB to set out clear objectives for its future work and funding requirements.

[4] https://www.weforum.org/press/2020/09/measuring-stakeholder-capitalism-top-global-companies-take-action-on-universal-esg-reporting/
[5] https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf?mc_cid=9911e2d6bb&mc_eid=aaad58bda7
[6] As noted in recent 2020 TCFD status report, Over the past 15 months, the number of organizations expressing support for the TCFD has grown more than 85%, reaching over 1,500 organizations globally, including over 1,340 companies with a market capitalization of $12.6 trillion and financial institutions responsible for assets of $150 trillion."
[7] 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.
[8] https://www.jpx.co.jp/english/corporate/news/news-releases/0010/20201120-01.html

IV. 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 is well positioned to develop an appropriate institutional and governance framework to promote widely accepted, consistently applied global sustainability-reporting standards. The Foundation has established strong and fruitful relationships with governments, regulators (including securities markets regulators), and national standard-setters, working closely with stakeholders in connection with its standard-setting, implementation support and maintenance activities. Its expertise and network could thus help ensure harmonisation and coordination on sustainability reporting at the global level.

V. Question 5

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

GFMA believes that the IFRS Foundation should base the development of a global reporting standard on existing initiatives in sustainability reporting. We echo calls for the importance of international coordination and consistency in the exchange of letters between the alliance of standard-setting organisations[9] and the IOSCO[10].

As mentioned above, there are numerous existing and adopted frameworks such as CDP, CDSB, GRI, IIRC and SASB. The SSB, by working closely with all stakeholders, will help ensure that its contribution will be credible and effective.

The governance structure of the new SSB should be premised on transparency, independence, and inclusion. In particular, the new Board's composition should be geographically diverse, including representation of economies and regions at all stages of development, and ensure participation of companies, accounting firms and investors.

Finally, the SSB should work closely with the IASB in order to facilitate synergies and integration, between financial and non-financial reporting frameworks, where appropriate.

VI. 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?

GFMA acknowledges that national and regional jurisdictions adopt sustainability reporting at different speeds. However, by engaging with different stakeholders, and basing its own standards upon the work and experience already accumulated by regional authorities and international initiatives, the IFRS can aim to establish a common international approach, helping prevent further fragmentation of the reporting practices in global capital markets. We would favour an endorsement of the SSB by G20 as it would provide a strong and clear signal to market participants about the scale and credibility of the IFRS Foundation's initiative to assist in improving accuracy, comparability and usability in sustainability reporting framework.

As noted in our response to Question 2, we encourage the IFRS Foundation to closely coordinate with the work that is quickly advancing at the EU level. The aim of such coordination should be to at least promote the consistency of key reporting principles that would be conducive to future cross-border sustainability reporting equivalence regimes. As mentioned in our response to Question 3, the IFRS Foundation should also aim to seek out synergies with the UNDP's SDG Impact Standards, and initiatives with the corporate sector by UNCTAD-ISAR and the UN Global Compact.

[9] https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Open-Letter-to-Erik-Thedeen-Chair-of-the-Sustainable-Finance-Task-Force-of-IOSCO.pdf
[10] https://www.iosco.org/library/speeches/pdf/20201029-Erik-Thed%C3%A9en.pdf

VII. 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?

We believe that it would be appropriate for the new SSB to initially focus on the harmonisation of standards for reporting of climate related information but stress the importance of ultimately adopting a broader remit into other areas of sustainability reporting.

Whilst existing frameworks for reporting of climate related information, such as TCFD, are relatively well established and widely adopted, we nevertheless see merit in and scope for refining climate-related financial disclosures, given that managing the impact on economies from climate change has become or continues to become a focal point for many governments across the globe, and specifically in the EU, as outlined in the EU Green Deal and 2030 Climate Target Plan. We also recognise that addressing climate-related threats is considered to be the most tangible and imminent issue within the sustainability spectrum, where a greater body of scientific research and measurement capabilities are available.

However, the SSB should seek to proactively take an inclusive and long-term view with regard to addressing informational needs on other material ESG matters, in addition to climate. We fully acknowledge that current methodologies for measuring and disclosing, for example, on other environmental factors, such as biodiversity or social factors, are not as advanced as methodologies for climate-related factors. However, once such methodologies mature, an expansion of the SSB's scope will be necessary. We also note that, if the SSB decides to focus on climate only, the problem of proliferation of reporting standards for other ESG issues outside of climate will remain (and potentially exacerbate), and the usefulness of the SSB will be significantly diminished. To this end, we already see that market led initiatives start appearing to work on ESG issues beyond climate (e.g. a Task Force on Nature-related Financial Disclosures has been recently set up in partnership with UNEP FI, UNDP, WWF and Global Canopy).

Finally, certain jurisdictions, such as the EU, are already adopting a wider approach. For example, the new EU sustainable finance policy initiatives seek to address other environmental and social objectives that go beyond climate change[11]; the EU's to be revised Non-Financial Reporting Directive (NFRD) is expected to set up a framework that would be seeking to address the lack of information on a wider range of ESG risks and factors; the Dutch Central Bank started to explore the risks for the financial sector from the loss of biodiversity[12], and the list can be continued.

With regard to whether such standards should only cover financial disclosures (i.e. reporting climate related matters that may have an effect on financial position and performance of the reporting company), please refer to our response to Question 9.

VIII. Question 8

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

Consistent with our response to Question 7, although the current focus is on climate-related risks, it would be necessary to expand the work on the definitions into other environmental factors (in particular, risks from the loss of biodiversity), as associated methodologies mature. The SSB, instead of attempting to catch up with years of work on climate related disclosures, should focus on the challenges ahead, in cooperation with organisations and regional authorities that have already established ESG disclosure standards.

[11] EU Taxonomy Regulation defines 6 core environmental objectives, such as : (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy, waste prevention and recycling; (5) pollution prevention and control; (6) protection of healthy ecosystems

[12] https://www.dnb.nl/en/binaries/Indebted%20to%20nature%20_tcm47-389172.pdf

We also believe that the SSB should not only focus on risk. Organisations should disclose their management approach to identifying opportunities, how they are incorporated into strategy to create value for organisations and society, and governance oversight of that process.

Finally, the SSB should adopt existing definitions, including on climate risk, to the extent possible, rather than create new ones.

IX. Question 9

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

We understand that the SSB might need to initially focus on financial materiality to enable global financial markets to appropriately price in material ESG information into capital allocation decisions based on traditional risk and return considerations. This would also be consistent with the current generally accepted principles of reporting of financial information under accounting frameworks across all major jurisdictions. Such an approach, to effectively integrate ESG considerations in the reporting framework, would already be complex enough but should ease the global harmonisation effort because at least the definition of financial materiality is well understood and has been successfully applied for many years.

However, we believe that the SSB should also start to oversee, once circumstances so permit, the development of standards that would facilitate the reporting of other material ESG information. This would be a necessary step to respond to the growing demand for such information from investor communities and to align the objectives of global sustainability reporting with the UN Sustainable Development goals.

Notably, this approach will soon be implemented in the EU via legislation; and globally the GRI Sustainability Reporting Guidelines[13], which focus on non-financial materiality, have been the most widely used[14] comprehensive sustainability reporting standard in the world.

Therefore, we encourage the IFRS Foundation to actively monitor global developments in this area with a view to further assessing the issue of double materiality as early as appropriate.

X. 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?

In a globalized economy, reporting instruments that transcend national boundaries can improve the comparability of information and the efficiency of reporting practice, and also enable the effective assurance of data. This is another reason why robust reporting standards play a critical role.

Mandatory third-party assurance around certain ESG information would be critical, not least because some jurisdictions, such as the EU, have imposed legal requirements for financial market participants to disclose ESG risks and factors associated with their financial products, which would need to be based on data sourced from issuers of the instruments underlying the financial products. Third-party assurance would help enhance the quality and credibility of ESG information reported by issuers and consequently by financial product manufacturers and distributors. As a result, this would help decrease the risk of mis-selling for financial product distributors and the risk of greenwashing for investors.

Though GFMA believes that ESG reporting needs to eventually become a professional discipline with its own accounting and assurance frameworks, we think it is still a long journey ahead for this to fully develop (e.g. it took many years to develop internationally recognised financial reporting standards). Therefore, we think that requiring limited assurance (e.g. using ISAE3000 assurance framework) would be most appropriate given the

[13] https://www.globalreporting.org/
[14] This was highlighted by the Alliance for Corporate Transparency in its 2019 Research Report, which assesses the sustainability reports of over 1000 European companies: https://allianceforcorporatetransparency.org/assets/2019_Research_Report%20_Alliance_for_Corporate_Transparency-7d9802a0c18c9f13017d686481bd2d6c6886fea6d9e9c7a5c3cfafea8a48b1c7.pdf

current level of maturity of non-financial reporting practices. In this respect, we note that it would not be possible to achieve reasonable assurance where reported information is, for instance, largely provided based on a combination of actual data and estimations.

We consider that seeking to obtain reasonable assurance might be attainable and justifiable for quantitative data, where defined and established methodologies/criteria are in place for collecting and reporting such information (e.g. the reporting of scope 1 and 2 GHG emissions or figures relating to sustainable products and tax if that information is derived from financial systems). However, we would strongly support that the quality of information, especially regarding quantifiable and measurable data, is improved and standardised as a first step via a global approach. Therefore, we would recommend that mandatory assurance be introduced on a phase-in basis where e.g. firms would be required to obtain assurance around their sustainability information reported in the second reporting cycle after the application of the new global standards.

We think it is critical for financial institutions to be able to rely on information verified by qualified third-party assurance providers. In our view, assurance of non-financial information should be performed by organisations, either financial audit firms or others, which have been explicitly accredited/licensed for verifying such information. We note that some accounting firms might not be able at this stage to perform a verification of highly specialised data, requiring environmental subject matter experts and verifiers of environmental management systems, yet we think that these capabilities can be built over time.

In June 2020 AFME and ISDA responded[15] to the European Commission's consultation on the revision of the EU Non-Financial Reporting Directive, providing further insights that we trust could be helpful to the IFRS Foundation in deciding a way forward on taking a role in the establishment of global sustainability reporting standards.

[15] https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME%20ISDA%20NFRD%20revision%20consultation%20response_Final_11062020.pdf

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