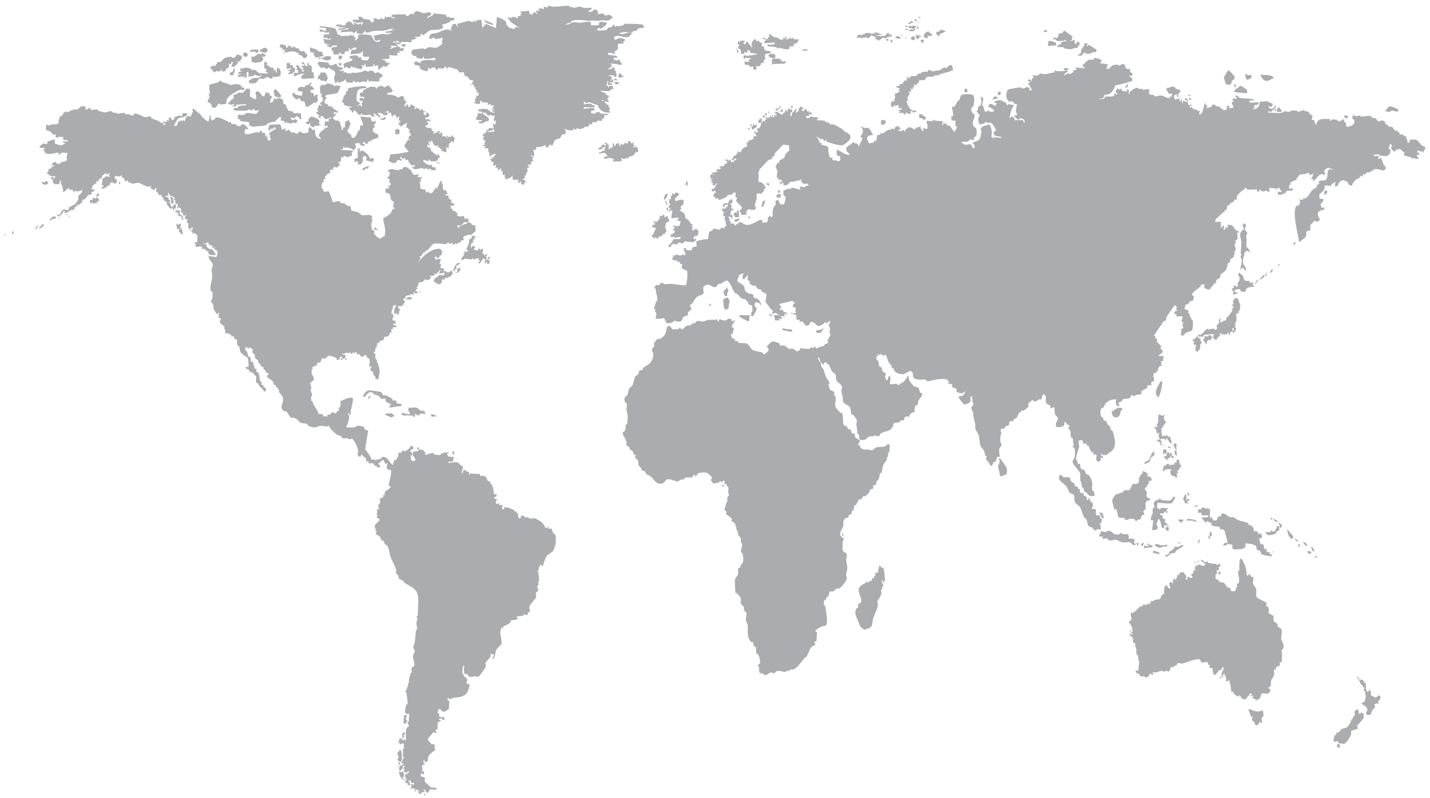
April 2021

IFRS® Foundation
Feedback Statement

IFRS Foundation Trustees’ Feedback Statement on the *Consultation Paper on Sustainability Reporting*



Introduction

The IFRS Foundation Trustees (Trustees) are required by the IFRS Foundation's *Constitution* (*Constitution*) to undertake a strategy review every five years. As part of that review there has been an accelerated focus on sustainability reporting that resulted in the publication of a *Consultation Paper on Sustainability Reporting* (Consultation Paper) in September 2020. The comment period closed on 31 December 2020. The Trustees' aim in publishing the Consultation Paper was to assess the demand for global sustainability reporting standards and for the Foundation's involvement. The Consultation Paper sought feedback on:

- the need for consistency in reporting and comparable information;
- the potential creation of an international sustainability standards board (new board) under the governance of the IFRS Foundation;
- input on key requirements for success as conditionalities for further developing a new board;
- relationships with other institutions and initiatives;
- the target audience of sustainability reports;
- the priority of initially focusing on climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting;
- assurance of reporting; and
- other matters.

Public consultation

- Consultation Paper was published in September 2020 with a 90-day comment period that closed on 31 December 2020.
- Respondents' 576 (577 including one late submission) comment letters were received and analysed.
- The IFRS Foundation Trustees considered this feedback from January to April 2021.
- Overall, the feedback was representative—comment letters were received from all regions and stakeholder groups.

Respondents to the Consultation Paper included members of various stakeholder groups such as the policy and regulatory community, the accounting community, the environment, social, and governance (ESG) community, individuals and market participants. Their responses provided a truly global perspective, with responses being received from all geographic regions. The Trustees acknowledge that their detailed analysis has been made possible not just because of the quantity of responses to the Consultation Paper, but also because of the nature and quality of the respondent's comments. The Trustees recognise that the breadth and detail of the responses received on the Consultation Paper will provide useful information for the new board to analyse. The Trustees are responsible for providing strategic direction for a new board and its work; however, the technical considerations for a new board and its standard-setting would be within the purview of the new board.

This Feedback Statement sets out in detail the most important matters raised in response to the Consultation Paper and the Trustees' views on those matters.

Summary of the Trustees' response to the feedback

The responses indicated a growing demand to improve the global consistency and comparability of sustainability reporting, as well as a recognition that there is an urgent need for action. The responses also illustrated widespread support for the IFRS Foundation to play a role in global sustainability reporting. The Trustees are, therefore, continuing their work to create a new board to set IFRS sustainability standards. The Trustees have also been encouraged by the statement from the International Organization of Securities Commissions (IOSCO), which explained that IOSCO 'sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards'. In the statement, IOSCO's board also set out its priorities and vision for a new board under the IFRS Foundation to encourage globally consistent standards, promote comparable metrics and narratives and coordinate across approaches. Also, the Financial Stability Board in a letter to G20 Finance Ministers and Central Banks welcomed the steps being taken by the Trustees of the IFRS Foundation to accelerate convergence in global sustainability reporting standards with an initial focus on climate, through the further development of a prototype built on the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD).

Based on the broad support received and given the urgency of the matter, the Trustees have announced in public statements published on 8 March 2021 and on 22 March 2021, to take steps to formalise the creation of a new board, have reached views on the strategic direction for the new board and have launched two working groups to undertake preparatory work for the new board.

Creation of a new board

The Trustees have set out the required steps to formalise the creation of a new board by publishing for public comment targeted proposed amendments to the Constitution. The targeted proposals are published alongside this Feedback Statement and have a comment period of 90 days. Recognising the need for urgency to deliver global standards, most notably on climate, the Trustees aim to make a final decision about a new board before the November 2021 United Nations COP26 conference, if the key requirements for success—that are set out in Section 2—are met. As the institutional arrangements for the new board are progressing, the Trustees will shortly make a call for nominations for the positions of Chair and Vice-Chair of the new board.

Strategic direction for the new board

Based on the feedback to the Consultation Paper and encouraged by the statement from IOSCO, the Trustees have reached the following views on the strategic direction for the new board relating to:

- *investor focus for enterprise value*—the new board would focus on information that is material to the decisions of investors and other participants in the world's capital markets (further explained in Section 4 Scope—Target audience).
- *sustainability scope, prioritising climate*—due to the urgent need for better information about climate-related matters, the new board would initially focus its efforts on climate-related reporting, while also working towards meeting the information needs of investors on other ESG matters. The strategic direction for the scope is further explained in Section 4 Scope—climate priority.

Summary of the Trustees' response to the feedback continued...

- *building on existing frameworks*—the new board would build upon the well-established work of the TCFD, as well as work by the alliance of leading standard-setters in sustainability reporting focused on enterprise value. The Trustees will consider the prototype proposed by the alliance for approaching climate-related disclosures as a potential basis for the new board to develop climate-related reporting standards. To prepare for this work, the IFRS Foundation initiated a process of structured engagement with the relevant organisations.
- *building blocks approach*—by working with standard-setters from key jurisdictions, standards issued by the new board would provide a globally consistent and comparable sustainability reporting baseline, while also providing flexibility for coordination on reporting requirements that capture wider sustainability impacts. To prepare for this work, the IFRS Foundation will engage with key jurisdictions and start a process of structured engagement to explore the creation of a multi-stakeholder expert consultative committee.

Working groups and engagement with jurisdictions

In the period before the new board is formalised, the Trustees have created two working groups and will continue their engagements with jurisdictions. The Trustees understand that this preparatory work could provide the new board with a 'running start' to its standard-setting.

Technical readiness working group

As part of their undertaking to meet the key requirements for success and in line with the strategic direction to build on existing frameworks, the Trustees have established a technical readiness working group to accelerate convergence in global sustainability reporting standards focused on enterprise value and to undertake technical preparation for a new board under the governance of the IFRS Foundation. The group brings together organisations with expertise in sustainability and in integrated reporting standards and framework-setting focused on enterprise value. Members of the working group include the TCFD; the Value Reporting Foundation representing the intended merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB); the Climate Disclosure Standards Board (CDSB); and the World Economic Forum (WEF). Throughout the process, the working group will also engage closely with the Global Reporting Initiative (GRI) and CDP (formerly Carbon Disclosure Project). The technical readiness working group will provide a forum for structured engagement with these initiatives and work to provide technical proposals for consideration by the new board, as described in the Trustees' statement of 8 March 2021. The formation of the group also responds to IOSCO's statement of 24 February 2021 that calls for coordination to achieve international consistency of sustainability-related disclosures with a focus on enterprise value creation.

The group will also review how technical expertise and content might be made available to the new board under the IFRS Foundation's governance structure, to facilitate consolidation and reduce fragmentation in sustainability reporting standards.

Summary of the Trustees' response to the feedback continued...

Multilateral working group

Within a multilateral working group, the Trustees will begin work with IOSCO and relevant organisations to explore the creation of a multi-stakeholder expert consultative committee. The Trustees understand that creating such a committee would be a key part of the new board's work in establishing sustainability standards that could serve as the global baseline for sustainability disclosures. The multi-stakeholder expert consultative committee would provide a forum for stakeholders to advise the new board on relevant sustainability topics, while also supporting mechanisms to facilitate, coordinate and promote consistency on any wider sustainability reporting requirements, including complementary jurisdiction-specific reporting standards. It will be for the new board to determine the disclosure standards for reporting information that is material to the decisions of investors and other participants in the world's capital markets.

Engagement with jurisdictions

The Trustees and both working groups will continue to engage with jurisdictions to further understand how the new board could provide a globally consistent and comparable sustainability reporting baseline, while also providing flexibility for coordination on wider sustainability reporting requirements—a 'building blocks' approach. The Trustees specifically welcome the acknowledgement from the European Commission and the European Financial Reporting Advisory Group (EFRAG) of the relationship between the European Union and the IFRS Foundation and look forward to dialogue between the parties on participation in global convergence efforts.

1. Demand for a consistent global set of sustainability reporting standards and the possible role of the IFRS Foundation

The need for a global set of internationally recognised sustainability reporting standards

To gauge the demand for globally consistent sustainability reporting standards and for the IFRS Foundation to play a role in setting such standards, the Trustees asked:

> 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?

Feedback

The responses demonstrate broad stakeholder support for globally recognised sustainability reporting standards. Generally, respondents also agreed with the analysis in the Consultation Paper that diverse approaches to and objectives for sustainability standard-setting pose a threat of increasing global fragmentation. The potential for fragmentation and the growing demands from stakeholders demonstrate the need to promote comparable reporting and reduce the complexity in approaches and objectives.

Respondents expressed support for the IFRS Foundation playing a role in global sustainability reporting, citing the Foundation's relationships with global governance bodies and industries, its expertise in international standard-setting and its rigorous due process. In general, there was broad stakeholder agreement that the Foundation would contribute most effectively by creating a new board that would operate under the Foundation's governance structure.

Some respondents who disagreed with the IFRS Foundation creating a new board suggested it would be beneficial for the Foundation to use its established relationships with regulators to encourage those regulators to mandate the use of sustainability reporting standards globally. Some respondents suggested that the GRI standards already had created the groundwork for global sustainability reporting standards that regulatory authorities could mandate. A few other respondents suggested that the EU is already taking the lead in developing sustainability standards and that the IFRS Foundation could contribute its expertise in financial reporting to remove gaps or overlaps between financial and sustainability reporting.

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Trustees' response

The Trustees concluded that the responses to the high-level questions published in the Consultation Paper indicate a growing and urgent demand to improve global consistency and comparability in sustainability reporting. The responses also demonstrated an urgent need for action and a broad demand for the IFRS Foundation to play a leading role in setting sustainability standards. The Trustees, therefore, decided to undertake further analysis and agreed to form a Trustee Steering Committee to oversee the next phases of work.

The potential creation of a sustainability standards board under the governance structure of the IFRS Foundation

The Consultation Paper explained that several stakeholders had called for the IFRS Foundation to become involved in sustainability reporting and how such calls suggest that the IFRS Foundation's track record and expertise in standard-setting and its relationships with regulators and governments around the world could be useful for setting sustainability reporting standards.

The Consultation Paper laid out three 'high-level' optional approaches the Trustees suggested the IFRS Foundation might take:

- maintaining the status-quo;
- facilitating initiatives by other organisations; or
- creating a sustainability standards board and become a standard-setter, building upon existing initiatives.

The Trustees explained in the Consultation Paper that the creation of a new board was the option (subject to demand and the satisfaction of the key requirements for success) considered to be:

> ... the best of those discussed to assist in reducing complexity and achieving comparability in sustainability reporting. The IFRS Foundation action could lead to an approach that seeks to harmonise and streamline sustainability reporting, which could benefit stakeholders of the IFRS Foundation and benefit sustainability reporting.

To understand the potential demand for such an approach, the Trustees asked respondents whether developing a new board to operate under the governance structure of the IFRS Foundation would be an appropriate means of achieving further consistency and global comparability in sustainability reporting.

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Feedback
Responses to the Consultation Paper indicate a broad level of support from public authorities, global regulators and market stakeholders for establishing a new board that would operate under the governance structure of the IFRS Foundation. In general, respondents expressed support for a new board, again citing the Foundation's relationships with global governance bodies and industries, its expertise in international standard-setting and its rigorous due process. Some respondents went further and noted the potential value of having two boards setting international standards for both financial reporting and sustainability reporting working within one organisation (IFRS Foundation). Some respondents noted that having two connected boards could prove useful because some of the matters within the purview of the new board would likely become financial reporting issues over time, and necessitate greater connectivity between the reporting frameworks. Generally, respondents agreed in principle with the IFRS Foundation creating a new board, but said that the new board would need to meet certain conditions. The proposed conditions were usually aligned to the key requirements for success discussed in Section 2 of this Feedback Statement. Some respondents suggested that they would be supportive of the IFRS Foundation creating a new board provided the Foundation revises its governance structure. Some suggested that a restructured Foundation should involve an expanded Monitoring Board to include additional organisations to oversee the Foundation's work on sustainability reporting. Some also argued that they would endorse the creation of a new board if the expertise and experience of the Trustees were extended to bolster the Trustees' capacity for governance and oversight. Some respondents did not specifically endorse the creation of a new board, and left it to the Trustees to decide whether they felt the creation of a new board would be justified. Many acknowledged that such a question closely relates to the proposed scope of the new board's work. Some respondents did not agree that the IFRS Foundation should create a new board and suggested that global sustainability reporting standards could be advanced in other ways. Some of these respondents highlighted the use of GRI standards, others asserted that merging organisations that already set sustainability reporting standards could be more beneficial, and others noted that the IFRS Foundation lacks expertise in such standard-setting.
Trustees' response
Given the broad support for creating a new board under the governance structure of the IFRS Foundation, the Trustees have published for public comment proposed amendments to the Constitution. These amendments are necessary for formalising the creation of a new board and the Trustees are keen to receive stakeholders' views to determine: • whether the proposed governance structure would provide adequate oversight of the standard-setting activities of a new board in addition to the International Accounting Standards Board (IASB); and • whether the proposed amendments are proportionate to the strategic directions (for example, with regard to the potential scope of the new board's work) set out by the IFRS Foundation Trustees in relation to the potential work of the new board. The consultation period ends on 29 July 2021. The response of Trustees to the feedback on the proposed conditions for creating a new board are explained in Section 2.

2. Key requirements for success

Key requirements for success

The Trustees acknowledged in the Consultation Paper that they had provisionally chosen to further develop the new board on the condition that it would meet specified requirements for success. These requirements are that the new board would be able to:

- achieve a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets;
- work with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting;
- ensure the adequacy of the governance structure;
- achieve appropriate technical expertise for the Trustees, new board members and staff;
- achieve the level of separate funding required and the capacity to obtain financial support;
- develop a structure and culture that seeks to build effective synergies with financial reporting; and
- ensure the IFRS Foundation's mission and resources are not compromised.

The Trustees asked respondents to provide comments on or suggest additions to the requirements for success (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise).

Feedback

Respondents generally agreed with the proposed key requirements for success as appropriate conditions for further developing a new board. The most cited example of a proposed additional requirement was for the new board to move quickly and create a set of standards promptly. Respondents described climate change as an urgent problem and asserted that global standardisation of climate-related financial disclosures would be an important element in the transition to a carbon neutral global economy.

Respondents highlighted 'work with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting' as an important consideration. Some respondents suggested that future standards will need to cater to jurisdictions at different stages of development in sustainability reporting, while using the best and most advanced practices as the basis for developing those standards. Respondents cited the importance of the European Union's work on sustainability reporting, noting the revision of the Non-Financial Reporting Directive, the creation of the EU Green Taxonomy and the work of the EFRAG's European Lab Project Task Force on preparing for the creation of possible EU non-financial reporting standards. Respondents suggested that it is vital to determine how the European and global initiatives will be aligned or complement each other so as not to incur vast costs, complexity and fragmentation.

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Feedback (continued)

Respondents asserted that a condition for their support would be the IFRS Foundation building upon the work of global initiatives such as the TCFD, SASB and other standard-setters in sustainability reporting. This assertion was typically paired with a caution against the IFRS Foundation adding to the 'alphabet soup' of sustainability-reporting initiatives. Building upon the work of global initiatives was also mentioned in response to the Trustees' key requirement on obtaining 'appropriate technical expertise for the Trustees, new board members and staff'. Respondents emphasised that working with sustainability-reporting organisations would be vital to ensuring technical expertise for a new board, enabling it to harmonise and converge various standards to create a set of consistent global standards.

On the key requirement to ensure the 'adequacy of the governance structure', respondents generally acknowledged that the IFRS Foundation's governance structure would be beneficial to creating a new board, adding that the three-tier structure comprising the Monitoring Board, Trustees and the standard-setting boards would provide legitimacy and robust oversight. However, some respondents asserted that the Foundation's governance structure may need to be amended to oversee a new board sufficiently and some respondents added that they would welcome further input into how the governance structure could be amended. As discussed, this was linked to the proposed scope of the new board's work. Respondents explained that if the Trustees determined that the new board were to have a broad scope, proportionate changes would need to be made to the governance structure to provide legitimate oversight of the new board's standard-setting work.

Respondents stated that it would be essential for the new board to achieve 'the level of separate funding required and the capacity to obtain financial support'. Some respondents noted that developing the new board should not affect existing funding for IASB operations and should not undermine the quality and robustness of financial reporting standard-setting.

On the key requirement to develop 'a structure and culture that seek to build effective synergies with financial reporting', respondents said that a benefit of the IFRS Foundation creating a new board would be the ability of the new board's members to collaborate with the IASB. These respondents suggested that synergies would develop between financial reporting and sustainability reporting, and added that information currently relevant for sustainability reporting may in time become relevant for financial reporting.

Some respondents said the proposed scope and extent of the new board's work could compromise the current mission and resources of the IFRS Foundation. They suggested that by focusing and aligning the new board's work closely with that of the IASB, the Trustees could reduce such a risk.

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Trustees' response

At their February 2021 meeting, the Trustees agreed with the suggestion to add a key requirement for success—an urgent need to develop global standards, most notably on climate. The Trustees will continue to assess whether developing a new board will meet these key requirements. A newly created Trustee Steering Committee is overseeing the next phases of work, which include overseeing the multiple workstreams necessary to satisfy the key requirements for the success of a new board.

Achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets

The Trustees published the Consultation Paper to fully understand stakeholders' demands and how the Foundation could respond. The Trustees recognise that the public consultation on the proposed targeted amendments to the Constitution provides the opportunity to engage further with a broad group of stakeholders.

Working with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting

As set out in the summary of the Trustee's response to the feedback of this Feedback Statement, the Trustees have established two working groups to prepare the work of a new board on working with regional initiatives to establish sustainability standards that would serve as a global baseline to improve global consistency and comparability, as well as building on existing initiatives to reduce complexity in sustainability reporting. The Trustees recognise the importance for the public interest of reporting standards that address enterprise value—which capture expected value creation (or erosion) for investors in the short, medium and long term and is interdependent with value creation for stakeholders in the context of social and environmental imperatives. The Trustees also recognise the importance of a supporting mechanism to facilitate, coordinate and promote consistency on any wider sustainability reporting requirements, including complementary jurisdiction-specific reporting standards. The Trustees understand, based on the feedback to the Consultation Paper, that consistent and comparable disclosures on sustainability matters are needed to bring transparency to financial markets and provide investors with information useful in assessing a company's enterprise value.

The Trustees have started exploring with IOSCO and relevant organisations the establishment of a multi-stakeholder expert consultative committee within the IFRS Foundation's structure. The consultative committee will be tasked with formalising and streamlining the new board's engagement with relevant global stakeholders. Such a committee could help the new board to identify relevant sustainability topics, while supporting mechanisms to facilitate, coordinate and promote consistency on any wider sustainability reporting requirements, including complementary jurisdiction-specific reporting standards.

The Trustees will continue to engage with jurisdictions in this area to further understand how the new board could provide a globally consistent and comparable sustainability reporting baseline, while also providing flexibility for coordination on wider sustainability reporting requirements—a 'building blocks' approach. The Trustees specifically welcome the acknowledgement from the European Commission and EFRAG of the relationship between the EU and the IFRS Foundation and look forward to dialogue between the parties on participation in global convergence efforts.

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Trustees' response (continued)

Ensuring the adequacy of the governance structure

To receive input from stakeholders on the adequacy of the governance structure, the Trustees have exposed for public comment the targeted amendments to the Constitution to determine whether the amendments are consistent with the strategic direction and oversight of the work of the proposed new board.

Achieving appropriate technical expertise

To achieve appropriate technical expertise for the Trustees, new board members and staff, one of the main tasks of the technical readiness working group is to review and formulate joint recommendations regarding how technical expertise, resources and content could be made available to the new board, with a view to facilitating consolidation and reducing fragmentation in sustainability reporting standards. The Trustees' Human Capital Committee will also consider this matter, including how to provide training and cross-functional engagement to achieve appropriate technical expertise.

The Trustees Nominations Committee will lead the work on nominating the Chair, Vice-Chair and board members and will engage with the IFRS Foundation Monitoring Board at the appropriate junctures of this process. The Nominations Committee is currently considering the appropriate appointments process, balancing the need for urgency and the need for transparency.

Achieving the level of separate funding required and the capacity to obtain financial support

The Trustees' Audit, Finance and Risk Committee is leading the work on achieving the level of funding required to establish a new board and the capacity to obtain financial support under the IFRS Foundation's governance structure. Given the importance of ensuring the Foundation's mission is not compromised through the creation of the new board, the Foundation will require additional resources to support the new board. The Trustees are developing a funding arrangement that would provide seed capital in the short term to allow the new board to commence its standard-setting activities quickly, and funding from a diverse range of sources to ensure its longer-term future and independence. The Trustees recognise the importance of ensuring that funding previously received for the work of the IASB is not to be used to finance the new board.

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Trustees' response (continued)

Developing a structure and culture that seek to build effective synergies with financial reporting

The Trustees recognise that developing a structure and culture that seek to build effective synergies with financial reporting is a key requirement that the proposed new board would have to continue to work toward. In preparing for the new board, the Trustees have invited the IASB to participate in the technical readiness working group, to provide an early opportunity to develop such synergies.

Ensuring that the IFRS Foundation's mission and resources are not compromised

To respond to feedback on the Consultation Paper and to ensure that the IFRS Foundation's mission and resources are not compromised, the Trustees have set out the strategic direction of the new board in line with the Foundation's current mission (see Section 4: Scope—Target audience). The Trustees have published targeted amendments to the Constitution to receive feedback on:

- whether the proposed governance structure would provide legitimate oversight of the standard-setting by a proposed sustainability standards board; and
- whether the proposed amendments are proportionate to the strategy of the IFRS Foundation in relation to the potential work of the new board.

Engagement with the IFRS Foundation Monitoring Board is also occurring at regular junctures to continue to ensure that the IFRS Foundation's mission and resources are not compromised by the creation of a new board.

Urgent need for global standards

Recognising the urgency of the need to develop global standards, most notably on climate, work has begun on meeting the key requirements for success. The Trustees will continue to assess progress regarding each key requirement at appropriate junctures in the coming years. The Trustees expect to make a final determination about a new board with a view to its potential creation in advance of the November 2021 United Nations COP26 conference.

3. Relationships with other institutions and initiatives

Providing a global platform
In the Consultation Paper, The Trustees noted that several stakeholders had reported a growing demand for the international coordination of a globally harmonised set of sustainability reporting standards. International standardisation assists in providing a level playing field for companies that prepare reports and aids investors by allowing for comparisons, across countries, of companies' results. In the Consultation Paper, references were made to regional and jurisdictional public policy initiatives, most notably those by the EU. The Trustees explained in the Consultation Paper that if the demand exists for the IFRS Foundation to become further involved in sustainability reporting, it would be important to build upon the established work of the TCFD and other initiatives. The Foundation, with its expertise in standard-setting, could work with the organisations involved in sustainability reporting to assist the new board in its standard-setting activities. A process of 'bottom up' cooperation among regional initiatives or existing standard-setters alone would not realise the goal of creating even a basic set of standards. To develop such standards would require a global initiative cooperating with regional initiatives to achieve global consistency and comparability. On relationships with other institutions the Trustees asked: • how and under what conditions the IFRS Foundation could use its relationships with stakeholders to aid the adoption and consistent application of global sustainability standards; • how the IFRS Foundation could best build upon and work with existing initiatives in sustainability reporting to achieve further global consistency; and • how the IFRS Foundation could best build upon and work with existing jurisdictional initiatives to find a global solution for consistent sustainability reporting.
Relationships with stakeholders
How could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of new board standards globally? If so, under what conditions?

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Feedback

There is broad support from respondents that if demand exists for the IFRS Foundation to create a new board, it should use its relationships with stakeholders to aid the adoption of global sustainability standards. Respondents said the IFRS Foundation's transparent governance structure and established path of relationships with stakeholders position the Foundation uniquely to set sustainability standards, while working closely with its regulatory partners toward the global adoption and consistent application of those standards. IFRS Standards are adopted in over 140 jurisdictions and the Foundation maintains strong, close and collaborative relationships with governments, regulators, and national standard-setters to deliver its mission. These global relationships would be an important advantage if the IFRS Foundation were to create a new board with a global remit. Engagement with the Foundation's stakeholders could enable the new board to gather feedback on, gain international endorsement for and mobilise adoption of its standards more quickly than would otherwise be possible.

Respondents specifically encouraged the IFRS Foundation to seek a global solution by engaging with international bodies such as IOSCO, the Financial Stability Board, the International Monetary Fund, the United Nations and the World Bank. Respondents also stressed the importance of engaging with the United States and the EU in this regard.

Respondents acknowledged that broadening its remit would require the IFRS Foundation to create relationships with new stakeholders. Leveraging its current network of stakeholders would be insufficient, according to some respondents, to foster global acceptance and receive the needed input. The Foundation would, therefore, need to foster deeper or new relationships with a wider stakeholder base, for example with professional bodies, non-governmental organisations, specific legislative bodies, and other organisations which have been active and have issued guidance in the sustainability and integrated reporting area. Examples of such organisations include the TCFD, CDP, CDSB, GRI, IIRC and SASB.

Respondents suggested that Trustees start a dialogue with stakeholders at an early stage to build support for the adoption of IFRS sustainability standards once they are finalised. Respondents said the IFRS Foundation's due process should apply to setting those standards, and made specific suggestions on how to integrate stakeholder engagement with the IFRS Foundation's three governance levels. Some respondents suggested that preparing a schedule for implementing new standards would help to provide clarity for stakeholders.

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Trustees' response
The Trustees consider relationships with stakeholders vital to realising the adoption and consistent application of IFRS sustainability standards globally. The Trustees propose to utilise the Foundation's three-tier governance structure to accommodate a new board. The IFRS Foundation's governance structure is founded on transparency, full and fair consultation, and accountability. The proposed targeted amendments to the Constitution set out plans for creating a separate new board that would sit alongside the IASB under the three-tier governance structure. In parallel to the proposed targeted amendments, the Trustees will start a multilateral working group with IOSCO and relevant organisations to explore the creation of a multi-stakeholder expert consultative committee. The consultative committee would be tasked with formalising and streamlining the new board's engagement with the relevant global stakeholders involved in wider sustainability reporting. The Trustees understand that the IASB's due process in its standard-setting was one of the main reasons many stakeholders agreed that the IFRS Foundation should potentially expand its standard-setting remit to setting sustainability standards. Therefore, the Trustees recommend that its Due Process Oversight Committee consider how the IASB's existing due process can be adapted to a new board in the light of the need for urgent action. The Trustees also invited the technical readiness working group to consider recommendations on the adaptability of the Foundation's due process to enable the new board to undertake its initial standard-setting efforts on a timely basis, but without sacrificing due process.
Build upon existing initiatives
How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?
Feedback
Respondents strongly encouraged the IFRS Foundation to collaborate with initiatives on sustainability reporting, such as the TCFD, and existing sustainability and integrated reporting organisations such as the CDP, CDSB, GRI, IIRC and SASB. According to respondents, it will be critical for the Foundation to build on the momentum and consolidate relevant initiatives to reduce confusion and avoid duplication of effort. Such an approach would also allow the Foundation to draw on the wide-ranging expertise and experiences of those initiatives. According to respondents, there is an urgent need to harmonise, accelerate and mandate sustainability reporting, and leveraging the work of existing organisations would be a cost-efficient and outcome-effective approach to achieving this goal. Respondents referred to the 'building blocks' approach as the way forward for working with sustainability reporting initiatives. Respondents explained that this approach could facilitate the new board's ability to move with speed, gain broad acceptance for investor-focused sustainability reporting, and allow multi-stakeholder sustainability reporting initiatives to progress in parallel with the work of the new board. This approach would also help rationalise the ecosystem for sustainability reporting. Some respondents suggested that the best way to build upon existing initiatives would be to identify base metrics that meet key stakeholder information needs and objectives and then to link those to sustainability measures that have been used and tested in practice.

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Feedback (continued)
Some respondents strongly encouraged the Foundation to use the recommendations of the TCFD as a starting point in forming the global framework. Some respondents suggested another potential starting point—*Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, a report by WEF's International Business Council. Some respondents suggested that work should assess jurisdictions' sustainability-reporting requirements to reduce the risk that the sustainability reporting standards would be incompatible with jurisdictional initiatives. Some respondents suggested that developing global sustainability reporting standards could contribute to countries implementing the UN Sustainable Development Goals (SDGs). In their view, were this to happen, the stature of the new board would be established on an international stage and the new board would be less likely to lose sight of other pressing environmental and social matters which require urgent action. Some respondents suggested that the IFRS Foundation explore how sustainability-reporting initiatives could be involved in the work of the IFRS Foundation Trustees and the new board by way of consultative or advisory bodies. Some respondents suggested that the IFRS Foundation engage with these initiatives in the short term, before establishing a new board. Some suggested that collaborating with sustainability-reporting initiatives could assist in the transition from voluntary standards to required sustainability reporting standards issued by the new board. The transition plan should set out how the new board intends to build on existing initiatives and the expected timeframes for this work. Some respondents also explained that its connections with the IASB will also assist the new board in its work.
Trustees' response
Given respondents' broad support, the Trustees expect the new board to build upon the well-established work of the TCFD and the work of leading standard-setters in sustainability and integrated reporting focused on enterprise value. The Trustees recognise that the four pillars of the TCFD framework represent core elements of how organisations operate and that further work on the level of metrics has been conducted by other leading standard-setters in sustainability and integrated reporting focused on enterprise value. As set out in the summary of the Trustees' response to feedback above, the Trustees have established a technical readiness working group to facilitate the work of a new board to build on the work of existing initiatives, as well as to review how technical expertise and content might be made available to the new board under the IFRS Foundation's governance structure, to facilitate consolidation and reduce fragmentation in sustainability reporting standards.

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Finding a global solution for consistent sustainability reporting
How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?
Feedback

Setting a global baseline

Most respondents expressed the need for a globally accepted set of sustainability reporting standards to achieve global consistency and comparability. They also said that building a global consensus on baseline standards, compatible with jurisdictional regulatory environments, would be a productive approach for the IFRS Foundation to take, given the differences in the approaches to and the maturity and scope of sustainability reporting initiatives around the world.

Respondents suggested that the Foundation create a base to which jurisdictions could add wider reporting requirements or specific disclosures based on policy priorities. This 'building block' approach would allow jurisdictions to move at different speeds and allow different types of information to be disclosed based on the class of users of the information on sustainability, while limiting fragmentation in the global sustainability reporting system. Some respondents also noted that, because of the interdependency of enterprise value creation and value creation for society and the environment, meeting the information needs of investors may necessarily address many of the information needs of other stakeholders.

According to some respondents, the IFRS Foundation should aim to issue the highest quality of standards, to bring transparency to sustainability-related matters rather than to provide a minimum common denominator among sustainability reporting standards that have already been created. In this way the international standards can both match the ambition of the jurisdictions with the most advanced sustainability reporting standards, while allowing other jurisdictions' gradual adoption. For alignment among jurisdictions, some respondents suggested the Trustees consider anchoring the development of IFRS sustainability standards to the UN's SDGs, while still ensuring a focus on the information needs of investors.

Some respondents suggested that when the new board issues standards, to avoid fragmentation among jurisdictions, it also introduce a transitional period, after which compliance with all standards will be required.

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Feedback (continued)

Legal frameworks

Respondents noted that many jurisdictions already have sustainability reporting frameworks in place. They suggested that the IFRS Foundation undertake a comprehensive assessment of sustainability reporting in jurisdictions worldwide as the starting point for achieving a global base. As part of this assessment, the Foundation could check how each jurisdiction's framework would best align with new IFRS sustainability standards. Such an assessment could provide useful insight about variations among jurisdictions, expectations of regional regulators and how much jurisdictional variation or flexibility is required to gain universal acceptance of international standards. Respondents said it would be critical for the new board to minimise duplication of efforts, avoid contradictory messaging to the markets and enhance jurisdictions' acceptance of the global standards it sets. Some respondents added that to the extent possible, selecting the best from the range of established frameworks and standards could help ensure that individual jurisdictions are included in the process.

Some respondents expressed the need for clarity over likely future work programmes and adoption processes. An assessment of current sustainability requirements could feed into an agenda consultation and a timeline that could be communicated to stakeholders so there is a common expectation of when standards will be developed and adopted.

Engagement with stakeholders to foster global convergence

Some respondents said it is essential for the new board to engage with stakeholders to harmonise sustainability reporting standards internationally. The rationale for harmonisation is ensuring that companies with an international presence do not have to report under multiple sets of standards. Respondents agreed with the IFRS Foundation's proposal to cooperate with national jurisdictions and regional initiatives. Respondents flagged the importance of gaining endorsements from governments and from initiatives in their jurisdictions, and commonly referred to the EU and the US in this regard.

Respondents suggested that the IFRS Foundation engage and cooperate closely with IOSCO on potential IFRS sustainability standards. IOSCO could facilitate the creation and application of such standards and could also work closely with the IFRS Foundation on an inventory of the jurisdictional frameworks on sustainability reporting. Respondents suggested that the IFRS Foundation engage with the United Nations, the International Platform on Sustainable Finance and other governmental and non-governmental organisations that contribute to achieving the UN SDGs.

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Trustees' response

The Trustees welcomed respondents' endorsement of the IFRS Foundation creating an international baseline of comparable IFRS sustainability standards upon which jurisdictions could build additional reporting requirements geared toward specific policy priorities. The Trustees regard that approach as a viable way to address the need for global convergence. IOSCO endorsed this approach in its February 2021 press statement. By working with standard-setters from key jurisdictions, the new board could provide a globally consistent and comparable sustainability reporting standards baseline, while also providing sufficient flexibility for coordination on wider sustainability reporting requirements. As set out on page 4, the multilateral working group will explore the creation of a multi-stakeholder expert consultative committee. The Trustees understand that creating such a committee would be a key part of the new board's work in establishing sustainability standards that could serve as the global baseline. The multi-stakeholder expert consultative committee would provide a forum for stakeholders to advise the new board on relevant sustainability topics, while also supporting mechanisms to facilitate, coordinate and promote consistency on any wider sustainability reporting requirements, including complementary jurisdiction-specific reporting standards. The Trustees also recognise the need for international cooperation on approaches and initiatives on sustainability reporting for investors and participants in capital markets. Therefore, a technical readiness working group was launched to accelerate convergence in global sustainability reporting standards focused on enterprise value and on undertaking certain technical preparation to facilitate the work for a new board under the governance of the IFRS Foundation.

4. Scope

Climate priority

The scope proposed by the Trustees is that the new board will set standards on sustainability, covering environmental, social and governance factors. The Trustees asked in the Consultation Paper if developing global sustainability reporting standards for climate-related information is the most pressing concern. It was proposed that any initial work to be undertaken by the new board focuses on climate-related information.

The Trustees asked:

- if the IFRS Foundation were to create a new board, whether it should initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting; and
- whether the new board should have a focused definition of climate-related risks or consider broader environmental factors.

Feedback

Respondents broadly agreed that the new board should prioritise climate change in its standard-setting, while emphasising that climate should not be the sole focus. Respondents also suggested that the new board should set standards across ESG factors.

Some respondents suggested that the new board set standards on any sustainability matter relevant to investors' information needs because environmental, social and governance matters are linked and broader sustainability topics are gaining momentum. They also said that consolidating approaches to ESG standard-setting would reduce complexity and create an effective filter for determining on which sustainability issues standard-setting should focus.

Links between ESG matters

Respondents asserted that because climate-change risks and impacts are linked to other environmental matters with potential social consequences, they cannot be addressed separately. Some respondents argued for appropriate disclosures on the governance of a company's approach to environmental and social matters. For example, some respondents highlighted the TCFD's recommendation for a company to describe:

- the board's oversight of climate-related risks and opportunities; and
- management's role in assessing and managing risks and opportunities.

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Feedback (continued)

Other sustainability topics gaining momentum

Respondents asserted that sustainability topics related to environmental and social matters are gaining international attention along with climate change and that investors need consistent disclosure on all ESG matters. Some respondents suggested that the UN SDGs are suitable subjects for standard-setting. Respondents cited a company's effect on the biodiversity of its geographical setting as an area of increasing importance. Other commonly cited matters relating to the environment are water scarcity and air pollutants.

Respondents who called for the new board's remit to include diverse sustainability topics also said the new board should consider setting standards for reporting on a company's social responsibility. Some respondents referred to board diversity policy, human capital management and other employment-related issues for potential standard-setting. Some respondents expressed the view that the covid-19 pandemic had accelerated the need for more consistent reporting on social matters. Some respondents also suggested the European Union's Non-Financial Reporting Directive as a useful reference for the matters the new board could consider for standard-setting.

Reducing complexity

Some respondents explained that for the IFRS Foundation to reduce complexity in sustainability reporting, it would need to move quickly past a climate priority to standard-setting across sustainability topics. Some suggested that if the new board does not move quickly into broader ESG matters, confusion and an inability to compare companies' sustainability disclosures would continue and companies would use diverse frameworks for disclosing information about other sustainability topics. Generally, respondents who advocated that the new board quickly adopt a broader approach suggested that the new board issue a climate-related standard and a schedule for developing reporting standards for other environmental and social matters because they are increasingly relevant to investors.

Appropriately filtering matters considered for standard-setting

Some respondents stressed the need for the new board to work with stakeholders to determine the ESG matters, beyond the climate priority, for which standard-setting is required. The new board would need principles for determining the issues on which to set standards. Respondents suggested that the new board use the IASB's due process as a basis for the new board to determine its broader agenda. For example, some respondents explained the new board could:

- consult with stakeholders as quickly as is practicable to develop a plan for potential standard-setting; and
- develop a formal structure to receive technical input from stakeholders on its technical projects. This structure could take the form of a technical advisory body that advises the new board on areas where there is growing international consensus on an issue and on which investors need information.

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Trustees' response

The Trustees emphasised the need for the new board to develop IFRS sustainability standards relevant to investors. The Trustees' view is that the new board would prioritise work on climate-related reporting, while also working towards meeting the information needs of investors on other sustainability and ESG matters.

The Trustees understand, based on the feedback, that the main reasons for the new board to prioritise its work on climate change are that:

- prioritising climate-related standard-setting would be a legitimate focus given the global governmental consensus on the need to reduce global warming, formalised in international agreements such as the Paris Agreement on climate change.[1]
- there is broad demand from investors for comparable and consistent information to assess the risks and opportunities from climate change and a resulting clear need for global standardisation on how climate change may impact on a company's enterprise value (as well as on their actions to reduce climate change).
- climate-related reporting is among the most developed sustainability-reporting practices.
- carbon emissions are already widely measured, according to the generally accepted 2004 Greenhouse Gas Protocol. Greenhouse gas emissions have a well-understood effect on climate change and the Protocol includes science-based targets, which helps to enable a level of consensus on what needs to be reported.

Even as the Trustees plan for the new board to prioritise climate-related standards, it is recognised that many sustainability topics are linked, and investors have other information needs for reporting on matters for which there is an international consensus. Therefore, the Trustees recommend that the new board quickly set standards on multiple sustainability topics to meet investors' information needs.

1 See the Paris Agreement, https://unfccc.int/sites/default/files/english_paris_agreement.pdf

Target audience

It was proposed in the Trustees' Consultation Paper that 'the new board would initially focus its efforts on the sustainability information most relevant to investors and other market participants'. The Consultation Paper stated that investor sustainability information needs are changing and highlighted the TCFD's recommendations on company greenhouse gas (GHG) emissions disclosure:

> … it must be recognised that disclosures that focus on a company's impact on the environment are becoming increasingly important to the investor audience (see the TCFD's recommended disclosure on GHG Emissions), because there is a connection between a company's impact on the environment and the risks and opportunities for that company. Such disclosures are increasingly important for investors to understand a company's long-term value creation as well as its impact on the climate.

Feedback

Target audience

There was broad support from respondents for the Trustees' proposal that investors be the target audience for IFRS sustainability standards and recommended that the new board focus its standard-setting on investors' information needs. Respondents suggested that the new board recognise that the sustainability topics relevant to investors are expanding in number. Some respondents suggested that an investor target audience aligns with many of the key requirements for success listed in the Consultation Paper and highlighted the key requirement to build effective synergies between sustainability reporting and financial reporting.

Some respondents disagreed that the target audience should be investors. Those respondents explained that global sustainability reporting standards should have a multi-stakeholder approach. For example, in their view, a multi-stakeholder approach is most suited to supplying information about companies' progress toward the UN SDGs, in keeping with the approach used by one standard-setter, the GRI. Some respondents who suggested the new board should create standards for multiple stakeholders explained that this would likely require fundamental governance changes to the composition of both the IFRS Foundation Trustees and the Monitoring Board. Those respondents explained that these bodies would have to sufficiently represent non-governmental organisations, civil society and citizens to legitimately oversee the standard-setting activities of a new board setting sustainability reporting standards for multiple stakeholders.

Contribution to the UN SDGs

Arguments made by respondents who disagreed with the IFRS Foundation expanding its remit into sustainability reporting cited that an investor focus could limit the progress made by companies disclosing information on ESG matters and progress in relation to the UN SDGs. Those respondents argue that a global effort will most likely work toward the UN SDGs if it serves the information needs of multiple stakeholders because governments, civil society and citizens interested in information not relevant to value creation will continue to seek relevant disclosures. Others acknowledged that, given the political nature of serving the sustainability information needs of multiple stakeholders, including governments, individual jurisdictions may wish to retain responsibility for the due process that develops the societal reporting standards that relate to their specific policy priorities.

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Feedback (continued)

The respondents who agreed with a new board setting sustainability reporting standards for investors stated that their preferred approach is likely to result in a positive contribution by helping companies to align with the SDGs. Many respondents argued that effective sustainability disclosure would better inform investors and thereby increase capital allocation toward more sustainable business activities. Some respondents explained that the impact of the reporting entity on the wider environment is a major factor for assessing exposure to risks and opportunities and is, therefore, important information for making investment decisions. As such, in practice, the lines between single and double materiality might be blurred. Such respondents acknowledged that other stakeholders, such as civil society, labour, trade associations, non-governmental organisations and governments, could also use the information disclosed to investors for their own purposes, as is currently the case for financial statements prepared in accordance with IFRS Standards. Most respondents acknowledged that a focus on the information needs of investors was the option most likely to achieve global support and to be mandated globally. Those respondents said that as a result, it could prove beneficial for the new board to work closely with IOSCO to provide a global baseline that would prevent fragmentation and, therefore, increase global capital allocation toward more sustainable business activities.

Ensuring connectivity with jurisdictional and multi-stakeholder initiatives

Respondents highlighted the need for the new board to be closely aligned with the work of the EU including its work on updating the Non-Financial Reporting Directive and EFRAG's preparatory work on European non-financial reporting standards. Some respondents suggested that connectivity between the EU Directive and global standards could best be achieved through the new board taking a multi-stakeholder approach from the outset. Other respondents suggested that such connectivity could be achieved through the new board creating global standards with an investor focus, while seeking interoperability with regional initiatives through formal working arrangements, such as the creation of an advisory group that could help to inform the new board's work.

Information needs of investors in sustainability reporting

There was broad support for the proposal to focus on the sustainability information most relevant to investors. Respondents, most notably from the EU, called for information produced on a global scale to be closely aligned with the European Union's initiatives. These respondents expressed concern that the Trustees' proposal in the Consultation Paper did not clearly support the new board considering companies' impact on the environment. These respondents explained that a company's impact on the environment is of increasing importance to investors.

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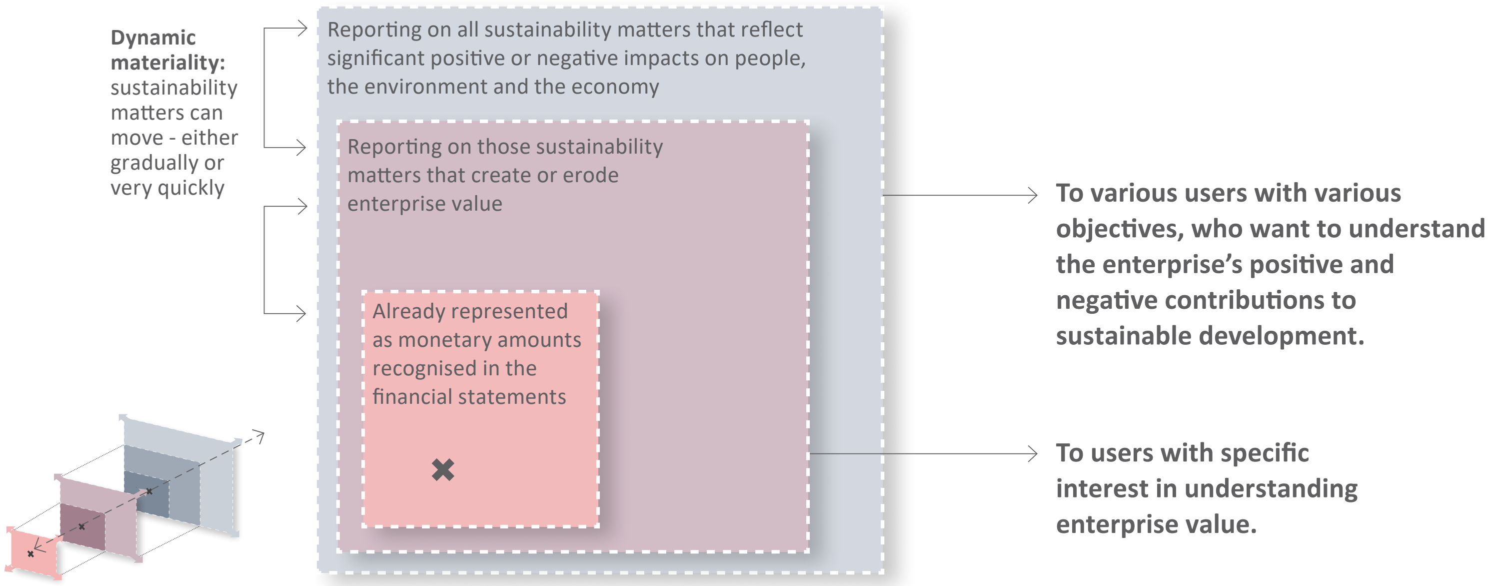
Feedback (continued)

Respondents explained that if a new board were to be created, it would be vital that it build upon the work of initiatives that already issue standards. In general, respondents endorsed the work of the 'Group of 5'[2] standard-setters on rationalising the debate about investors' information needs and the scope of sustainability topics on which investors may need information. For example, the recently produced 'Prototype climate disclosure standard' explained dynamic materiality and how a specific sustainability matter can be relevant to audiences with varied perspectives—this is illustrated in Figure 1. [3]

Figure 1: Comprehensive corporate reporting



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2 The term 'Group of 5' refers to the main standard-setting organisations currently involved in setting sustainability reporting standards or frameworks. These organisations are the CDP (formerly the Carbon Disclosure Project), Climate Disclosure Standards Board, Global Reporting Initiative, International Integrated Reporting Council and Sustainability Accounting Standards Board. In November 2020 the Sustainability Accounting Standards Board and the International Integrated Reporting Council expressed their intention to merge, to become the Value Reporting Foundation. The Climate Disclosure Standards Board also expressed its intention to enter into discussions to merge with the Value Reporting Foundation.

3 Please see Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard for further detail.

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Trustees' response

Based on the feedback, and encouraged by the IOSCO board statement, the Trustees recognised the significant public interest in developing reporting standards that address investors' information needs on enterprise value. The Trustees recognise that more consistent disclosure from companies on sustainability topics relevant to enterprise value can increase capital allocation toward more sustainable business activities, since enterprise value creation or erosion is fundamentally interdependent with value created or eroded for society and the environment.

The Trustees decided that the strategic direction for the new board would be to set IFRS sustainability standards focused on information material to the decisions of investors and other participants in the world's capital markets, because setting such standards:

- received broad endorsement by respondents to the Consultation Paper;
- would facilitate creating synergies with the IASB;
- would align with the IFRS Foundation's current mission and expertise; and
- would not necessitate fundamental restructuring of the IFRS Foundation's governance model.

The current mission of the IFRS Foundation

The IFRS Foundation's current mission is to:

> ... develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world. The work serves the public interest by fostering trust, growth and long-term financial stability in the global economy. This enables investors and other market participants to make informed economic decisions.

The Trustees understand that for the new board to focus its standard-setting efforts on ESG matters relevant for investors would be a natural extension of the IFRS Foundation's current mission. The Trustees take the view that it is in the public interest for the IFRS Foundation to seek to develop IFRS sustainability standards that bring further transparency, accountability and efficiency to financial markets around the world.

Building effective synergies with the IASB

To succeed, according to the Consultation Paper, the IASB and the new board would need to build effective synergies between sustainability reporting and financial reporting. The Trustees have, therefore, created the working groups on technical readiness and the multilateral working group with the understanding that those groups could develop further understanding on the connectivity between enterprise-value-focused sustainability reporting and financial reporting, but also between enterprise-value sustainability reporting and sustainability reporting for multiple stakeholders.

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Trustees' response (continued)

Governance

As outlined in the Trustees' proposed amendments to the Constitution, creating a new board with investors as a target audience would not necessitate a fundamental restructuring of the IFRS Foundation's governance model. The IFRS Foundation's three-tier governance structure provides legitimacy and oversight for developing IFRS Standards; the Trustees are individuals with broad knowledge of international capital market practices and the Monitoring Board comprises capital market authorities. The three-tier governance structure is aligned with the Foundation's role in setting standards that inform investors' decisions. The Trustees suggest that if the Foundation were to extend its remit into setting IFRS sustainability standards, the most substantive change that would be required with regard to governance would be the creation of the new board.

Information needs of investors

The Trustees recognise that, in the context of sustainability reporting, information that is deemed material to investors and other participants in the world's capital markets addresses the interdependency between enterprise-value creation and value created for society and the environment. They realise that this category of information is evolving quickly. As a result, to meet investors' needs, a company would need to report its significant impacts and dependencies on society and the environment that it is reasonably possible will affect its business model over the short, medium, and long term, and, therefore, drive the determination of its enterprise value. Investors' information needs may include information about the company's impact on society and the environment and how that impact affects the company's business model.

The three reporting regimes set out in Figure 1 are deliberately depicted as distinct and nested lenses because the sustainability matters covered by each are not *necessarily* always the same. Reporting:

- *on all sustainability matters that reflects significant impacts on people, the environment and the economy*—typically addresses the broadest range of information because it aims to meet the needs of multiple stakeholders, including specific jurisdiction-led, public-policy-driven disclosure requirements. This reporting regime is consistent with the aims of the current work of the EU.
- *on sustainability matters that create or erode enterprise value*—addresses sustainability matters that create or erode enterprise value—addresses sustainability matters that are reasonably possible to positively or negatively affect the company's business model over the short, medium or long term (that is, matters that could affect revenue, costs, assets, liabilities, cost of capital or risk profile) and, therefore, determination of its enterprise value and financial returns to providers of financial capital. Such reporting would be the strategic direction for the new board the Trustees propose creating.
- *on monetary amounts recognised in the financial statements*—represents those effects on enterprise value that have already taken place at the reporting date (or are included in the projections of the cashflows that support valuations and estimates of future cash flows) and that are, therefore, already recognised in the financial statements. Such information also aims to meet the needs of an investor audience. This form of reporting is within the IASB's remit.

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Trustees’ response (continued)
The work of the ‘Group of 5’ illustrates that sustainability matters affect varied audiences, as shown in the lenses depicted in Figure 1. The Trustees suggest that the new board should focus on an investor target audience and be tasked with setting standards on sustainability matters that ‘create or erode enterprise value’, the middle lens, as depicted in Figure 1. The Trustees understand that materiality is dynamic, and that investors’ information needs are broader than the climate priority and companies will, therefore, need to disclose information about other sustainability priorities. As set out in the summary of the Trustees response to feedback in this Feedback Statement, the Trustees have created a multilateral working group and a technical readiness working group to accelerate convergence in global sustainability reporting standards focused on enterprise value and to undertake certain technical preparations to facilitate the work for a new board. Part of the technical readiness working group’s role will be to provide proposals that enhance previous work on the climate prototype standard (reflected in Figure 1), for consideration by a new board.

5. Assurance and other matters

Auditing and external assurance

The Trustees explained in the Consultation Paper that:

> … to achieve globally consistent sustainability reporting practices, sustainability information reported by companies will ultimately need to be subject to external assurance. However, there are conceptual and practical challenges to achieving such assurance, including the need for a consistent global framework and the difficulties of setting out qualitative sustainability-related disclosure requirements.

To understand the demand for the disclosure of sustainability information that can be assured the Trustees asked stakeholders whether the sustainability information to be disclosed should be auditable or subject to external assurance and, if not, what different types of assurance would be acceptable to render the information disclosed reliable and decision-useful.

Feedback

There is broad agreement among respondents that the sustainability-related information disclosed in annual reports should be capable of being audited or subject to external assurance. Respondents stated that independent assurance could enhance the reliability of information that companies disclose. Some respondents also suggested that markets will demand assurance over sustainability information, and that in some jurisdictions, such assurance may become mandatory. Some respondents also suggested that processes for assuring sustainability disclosures will evolve over time and the ultimate aim should be for the auditing of sustainability-related disclosures to be as robust as that of financial reporting. Some respondents suggested that more consistency in reporting sustainability-related information will enable the development of methodologies for the audit and assurance of this information. In general, respondents also agreed that it would be important for the new board to work closely with the International Auditing and Assurance Board (IAASB) to allow the IAASB to monitor and evaluate the need for changes to assurance frameworks or standards for auditors or other external assurance providers that would provide assurance on the reported information.

Trustees' response

The Trustees believe the new board should benefit from the experience of the IASB in working with the auditing profession to achieve standards that are subject to third party assurance. The Trustees also note the February 2021 statement from IOSCO about the importance of delivering an effective system to support the development of an audit and assurance framework for sustainability-related disclosures.

Any other comments or relevant matters
The Trustees allowed respondents to raise any other comments or relevant matters for their consideration.

Feedback

Respondents raised a variety of topics, including:

- *a conceptual framework*—Respondents suggested that the new board develop a conceptual framework similar to that of the IASB to underpin its standard-setting. Some respondents also explained that such a framework could be utilised to elaborate on the potential links between the new board and the IASB and between sustainability reporting and financial reporting.
- *due process*—Respondents stated that ensuring a robust due process in standard-setting reinforces the IFRS Foundation's legitimacy as an international standard-setter. However, respondents explained that their support for the creation of a new board under the governance structure of the IFRS Foundation was conditional on the board working quickly, given the urgency of some sustainability topics that require standard-setting, notably climate change. Before setting sustainability reporting standards, the IFRS Foundation should carefully consider how to work quickly to create high-quality IFRS sustainability standards, while maintaining a transparent due process. Respondents explained that a thorough process must be undertaken by the new board to determine its broader standard-setting agenda in its early years and how to best build upon the work of current standard-setting initiatives. Some respondents stressed that an open and transparent due process is vital to ensure the legitimacy of the new standards.
- *management commentary*—Some respondents stressed the importance of the work already being undertaken to revise IFRS Practice Statement 1 *Management Commentary*, for which the IASB is planning to issue an Exposure Draft in May 2021. Those respondents explained that information about sustainability matters will often need to be included in a company's management commentary. Some respondents suggested it would be important for the new board to consider the Practice Statement in developing its standards so that the information required by those standards will be suitable for disclosure in the company's management commentary.
- *sustainability reporting for SMEs*—Some respondents expressed the need for the IFRS Foundation to consider the important role of small- and medium-sized enterprises (SMEs) and how they feature in global sustainability reporting. SMEs collectively account for a significant share of private sector economic, social, and environmental impacts and play an important role in achieving the UN SDGs. Respondents also asserted that SMEs increasingly face sustainability reporting requests from capital providers and business partners. Respondents suggested that the new board develop a reasonable and proportionate set of requirements for SMEs, comparable in substance to the *IFRS for SMEs®* Standard. Respondents also stressed the need for any SME reporting requirements to be carefully assessed for costs and benefits. Other respondents foresaw a gradual and proportional adaptation and adoption of sustainability reporting standards by SMEs. Some respondents suggested the Trustees include individuals with experience in SMEs in its membership and that of the new board, so they can assist in developing IFRS sustainability standards for SMEs.

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Feedback (continued)

- *use of technological innovation and digital reporting*—Some respondents encouraged the IFRS Foundation to build into its early thinking a digitalisation agenda and an understanding of how technology can drive the interoperability of standards. Some respondents explained that digitalising sustainability reporting will enhance the efficiency of the reporting process which will, in turn, scale up adoption at speed and possibly prevent undue costs. To enhance digitalisation, devising a taxonomy of sustainability indicators should be part of the mandate of the new board according to some respondents.

Trustees' response

The Trustees appreciate the additional matters raised by respondents and see merit in providing strategic direction for the new board on:

- *a conceptual framework*—The Trustees agree with respondents that developing a conceptual framework will be critical for the new board to conceptually underpin its standard-setting. The Trustees would welcome efforts by the new board to conceptually explore how its standard-setting could be linked to the work of the IASB and how to connect sustainability reporting and financial reporting. A framework could help to satisfy a key requirement for success—connecting the work of the IASB to that of the new board. The Trustees expects the technical readiness working group to undertake preparatory work in this area.
- *due process*—As mentioned, the Trustees recommend that its Due Process Oversight Committee consider how the IASB's existing due process can be adapted to a new board in the light of the need for urgent action. The Trustees also invited the technical readiness working group to consider recommendations on the adaptability of the Foundation's due process to enable the new board to undertake its initial standard-setting efforts working on a timely basis, but without sacrificing due process.
- *management commentary*—The Trustees understand the importance of the IASB's work on updating IFRS Practice Statement 1 *Management Commentary*, which they acknowledge could be used to help develop links between sustainability reporting and financial reporting. The Trustees expect that the new board will consider how the information required by IFRS sustainability standards could be suitable for disclosure in a company's management commentary complying with the Practice Statement.
- *sustainability reporting for SMEs*—The Trustees recognise the responses from many stakeholders emphasising the important role SMEs have in global sustainability reporting. The Trustees, therefore, recommend that the new board work to create an IFRS sustainability standard comparable to the *IFRS for SMEs* Standard.
- *use of technological innovation and digital reporting*—The Trustees have digital reporting high on their agenda both because of accessibility and cost-efficiency. The Trustees included the development of innovative and digital approaches to standard-setting in its plan for preparatory work and suggest that will be important for the new board to consider a digital strategy from the onset of its standard-setting, including the development of a taxonomy for the IFRS sustainability standards comparable to IASB's work on the IFRS Taxonomy.

Important information

This Feedback Statement has been compiled by the staff of the IFRS Foundation for the convenience of interested parties. The views within this document are those of the staff who prepared this document and are not the views or the opinions of the IFRS Foundation Trustees or the International Accounting Standards Board and should not be considered authoritative in any way. The content of this Feedback Statement does not constitute any advice.

Other relevant documents

IFRS Foundation Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*

IFRS Foundation *Constitution*

IFRS Foundation *Due Process handbook*—the procedural requirements followed by the Board and the Interpretations Committee.

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Contact the IFRS Foundation for details of countries where its trade marks are in use or have been registered.

IFRS Foundation Trustees' Feedback Statement on the *Consultation Paper on Sustainability Reporting* is published by the IFRS Foundation (Foundation) and has not been approved by the International Accounting Standards Board (Board).

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