ShareAction»

63/66 Hatton Garden
Fifth Floor, Suite 23
London
EC1N 8LE

18 December 2020

The Trustees
IFRS Foundation
Columbus Building 7
Westferry Circus
Canary Wharf
London
E14 4HD

**Consultation Paper on Sustainability Reporting**

ShareAction is a non-profit that works to drive higher standards of responsible investment so that our financial system serves our planet and its people. Over the last 15 years, we have held investors to account and worked with them to support investor-led efforts to address the pressing environmental and social challenges the world faces.

In doing this, we often hear from investors, as the Trustees note in their consultation document, that more consistent, comparable and higher quality reporting on sustainability issues would enable them to better allocate capital and fulfil their stewardship obligations.

In 2016, to address one such data gap, ShareAction founded the Workforce Disclosure Initiative (WDI), an investor-backed corporate reporting initiative. 140 of the world's biggest companies now respond to the WDI's annual survey, which covers the breadth of companies' direct operations and supply chains, including topics such as pay and working conditions, diversity and inclusion, human rights and sourcing practices. It has been developed with extensive stakeholder consultation, including civil society groups, experts, representatives of rights holders, as well as companies and investors. The WDI survey could form the basis of a standard for corporate disclosure on workforce matters and is already cited by leading corporate sustainability reporting bodies, including GRI.

We welcome the opportunity to respond to the Trustees' consultation on a global approach to sustainability reporting and on a possible Foundation role.

**ShareAction's position on sustainability reporting**

Informed by our experience of working with investors and holding them to account, ShareAction believes that internationally recognised sustainability reporting standards would help to drive progress towards a financial system that better addresses the pressing environmental and social challenges the world faces.

ShareAction's view is that those standards must (1) be comprehensive across environmental and social issues and (2) take an approach to materiality that reflects impact on both companies and on the environment and society, adopting the concept of "double materiality" as used by the EU[1] or the approach to materiality set out in GRI 101.

[1] A company is required to disclose non-financial information "*to the extent necessary for an understanding of the [its] development, performance, position and impact of its activity." (Article 1, NFRD)*

Our experience is that investors, which are far from being a homogenous group, are not solely interested in so-called "financially material" information.

The distinction between issues that have been proven to be financially material and issues that are currently judged to be not financially material (but which have negative impact on people and planet) is a false dichotomy. One example that illustrates this is how corporate workforce practices have been shown to have a material impact on both companies and on society this year, during the COVID-19 pandemic.

We recognise that standards on different topics and in different geographic regions may develop at different speeds and to different levels of ambition. Therefore, efforts to develop comprehensive, global standards should not themselves create additional fragmentation in an already crowded ecosystem, nor stifle the development of existing standards to reach the level of ambition we need, nor lead to the adoption of "lowest common denominator" standards, stymieing regional efforts such as those of the EU.

Rather, such efforts must work closely with established sustainability standard setters, such as GRI, to ensure that any new global standards truly build on and support their work. Established standard setters are already able to respond dynamically to rapidly evolving issues, including through mechanisms for working with new and emerging and subject matter expert initiatives, such as WDI, that can inform and feed into their evolving thinking.

Any effort to develop sustainability reporting standards must be inclusive of and accountable to a broadly defined set of stakeholders, including those who are most greatly affected by sustainability issues, with interest in this critical information about corporate impacts.

**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?**

ShareAction believes that internationally recognised sustainability reporting standards would help to drive progress towards a financial system that better addresses the pressing environmental and social challenges the world faces.

We acknowledge the position and influence that IFRS holds given that its standards are currently required in more than 140 jurisdictions and permitted in many more. There is clearly an opportunity for IFRS to help lead the world towards the sustainability reporting standards we need.

However, ShareAction's view is that while internationally recognised sustainability reporting standards are desirable, those standards must (1) be comprehensive across environmental and social issues and (2) take an approach to materiality that reflects impact on both companies and on the environment and society.

We note with concern the narrow scope of such reporting standards proposed in the consultation document. It is difficult to see how the approach set out would support a vision of comprehensive reporting which meets the needs of a broad set of stakeholders in order to address corporate impact on our planet and its people.

Rather, it risks creating additional fragmentation in an already crowded ecosystem of reporting or, worse, stifling the development of existing standards to reach the level of ambition we need. This is particularly true in the case of regional divergences where, for example, the EU's Sustainable Finance Action Plan is currently leading global policy and practice.

**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?**

In our view, any steps the IFRS takes in this space, including establishing a sustainability standards board, must be deeply connected to existing work to build global sustainability reporting standards. While the IFRS Foundation may be the best placed organisation to deliver the approach articulated by the Trustees in the consultation paper, it is difficult to see how this approach would support a vision of comprehensive reporting reflecting double materiality. Organisations, such as GRI, have established expertise and credibility in setting global sustainability reporting standards, reflecting a more comprehensive approach to materiality, while still effectively responding to the needs of financial market participants.

**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)?**

If the IFRS Foundation proceeds with the proposal under consultation, we urge the Trustees to consider how they can ensure that their work does not create barriers to achieving the comprehensive reporting reflecting double materiality that is required. It should not lead to the adoption of "lowest common denominator" standards, stymieing regional efforts such as those of the EU.

Given the rapidly moving pace of sustainability reporting specifically, and the broader recognition of sustainability issues as a whole, an additional requirement for success is that any standards are sufficiently flexible and adaptable to reflect new developments and changing consensus.

Static, rigid standards will fail to meet the needs of all users of sustainability information as understanding of sustainability issues advances. Any standard setting process should account for this fact and ensure the structures and mechanisms are in place for standards to evolve when needed.

As noted above, there exist other organisations, such as GRI, which have an established expertise and credibility in setting global sustainability reporting standards. We would urge the IFRS Foundation to work closely with those established standard setters to ensure that any standards that IFRS develops truly build on and support their work.

A criterion for success should therefore be the deep involvement and support of existing sustainability standard setting organisations.

**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?**

Given the narrow focus on climate change in the Trustees' consultation paper and the existence of established, credible, expert standard setters on this topic in both TCFD and CDSB, we believe the best use of IFRS's relationships with stakeholders would be to aid the global adoption and mandating of standards which build up on this work.

Input from and communication with these stakeholders will be vital in assuring that the standards are implemented in practice. The IFRS should aim to do this by involving business leaders in open and consistent dialogue in the form of regular working groups and workshops to understand the existing reporting challenges and avoid the pitfalls of other frameworks.

**Question 5. How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?**

As noted above, ShareAction's view is that, if the IFRS Foundation proceeds with its proposal, then it is critical that it builds upon and works with existing initiatives. As a starting point, we suggest that IFRS Foundation predicate any work in this space on the support and involvement of "The Five" global sustainability standard setting and corporate reporting organisations (CDP, CDSB, GRI, IIRC and SASB) who have already signalled their intent and started to work together towards greater consistency and harmonisation in their work.

Established standard setters have mechanisms for working with new and emerging and subject matter expert initiatives, such as WDI, to inform their standard setting work. They also have credible processes for working inclusively with a broadly defined set of stakeholders, including those who are most greatly affected by sustainability issues, with interest in this critical information about corporate impacts.

**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?**

As noted above, ShareAction sees a risk that an IFRS initiative could lead to the adoption of "lowest common denominator" standards, stymieing regional efforts such as those of the EU, which go further towards the reporting needed to address the scale of the environmental and social challenges we face.

To achieve "gradual convergence" we endorse the four pillars put forward in the Cambourg report, where pillar 1 focuses on "general quality principles and a general classification of extra-financial information, both of which can be agreed upon at global level", while content standardisation (pillar 2) should take place at the regional (i.e. European) level and can be partly driven by international cooperation.[2] The adoption of this approach should lead to global harmonisation and consistency while at the same time allowing for different levels of ambition and a reflection of different market practices and approaches.

**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?**

The narrow focus on climate change neglects the fact that sustainability issues are interlinked and interdependent, such as climate and biodiversity and just transitions. It also fails to recognise the appetite from users of sustainability data, including investors, for a much broader scope for corporate reporting.

ShareAction's view is that while internationally recognised sustainability reporting standards are desirable, those standards must (1) be comprehensive across environmental and social issues and (2) take an approach to materiality that reflects impact on both companies and on the environment and society.

**Question 8. Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?**

ShareAction's view is that internationally recognised sustainability reporting standards must be comprehensive across environmental and social issues. A narrow focus on climate-related risks neglects the fact that sustainability issues are interlinked and interdependent, such as climate and biodiversity and just transitions.

If an SSB has a focused definition of climate-related risks then it should not be called a "sustainability standards board" but a "climate-related financial risks standards board." We note how close this name is to the existing Climate Disclosure Standards Board (CDSB) and Task Force on Climate-related Financial Disclosures (TCFD), which illustrates the importance of IFRS's efforts building up the existing work of others.

**Question 9. Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?**

ShareAction's view is that internationally recognised sustainability reporting standards must take an approach to materiality that reflects impact on both companies and on the environment and society, adopting the concept of "double materiality" as used by the EU or the approach to materiality set out in GRI 101.

By developing internationally recognised sustainability reporting standards which are limited to so-called "financially material" issues, the IFRS Foundation risks creating additional fragmentation and a two-tier system. It will do nothing to reduce the requests for disclosure on the range of critical sustainability issues that companies already face from a wide range of stakeholders.

[2] P. de Cambourg, May 2019, "*Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe",* pp.12-15 (link)

Our experience is that investors, which are far from being a homogenous group, are not solely interested in so-called "financially material" information. Many investors already seek information on environmental and social impact and, in some jurisdictions, investors will soon be under regulatory requirements to disclose that information (e.g. EU SFDR). Going against this positive trend, as proposed in paragraph 50, thus seems counterproductive.

The distinction between issues that have been proven to be financially material and issues that are currently judged to be not financially material (but which have negative impact on people and planet) is a false dichotomy. One example that illustrates this is how corporate workforce practices have been shown to have a material impact on both companies and on society this year, during the COVID-19 pandemic.

**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?**

While assurance may be desirable where possible, disclosure requirements should not be limited to what assurance providers are prepared to audit.

For example, disclosure of information including governance, strategy and management approach is important for a variety of stakeholder audiences, including investors. The absence of assurance does not prevent information from being useful. On the contrary, it can help to build a picture of corporate impact and provide the basis for further scrutiny and engagement.

Where reporting standards are voluntary, the additional expense and potential reputational risk that accompanies an external audit, may dissuade companies from reporting in the first place.

***

Once again, we are grateful for the opportunity to respond to the Trustees' consultation and would welcome the opportunity to engage closely with the IFRS Foundation on its work in this area.

Yours faithfully,

Simon Rawson

Director of Corporate Engagement

simon.rawson@shareaction.org