

See the appendix for answers in the order of that consultation's 11 questions. The author, however, recommends this cover letter as providing a more holistic view of what is needed.

Recommendations for the IFRS Foundation's proposed Sustainability Standards Board

It is important for corporate¹ reporting on environmental and social topics relevant to capital allocation decisions to be integrated with financial reporting so these topics are given adequate weight in capital allocation decisions. IFRS Foundation's role in this integration should be similar to its role for financial reporting. Namely, to engage with subject matter experts, regulators and other government authorities to create non-financial reporting standards which are used globally for corporate reporting. **When doing this it should:**

A) Define the PURPOSE of sustainability reports as the first step to defining the 'Material' topics these reports include. For this:

1. The **PRIME PURPOSE** of corporate reporting should be to improve the outcome of capital allocation decisions and hence the sustainability and quality of life for human civilization and the rest of the biosphere². Specifically, it should inform:
 - a. A company's management decisions on capital expenditure, investments, lines of business, how their operations are run and exercising influence over the value chain of which they are part.
 - b. Investor decisions on allocating capital to companies; and, on engaging with company management regarding sustainability issues.
 - c. Government, regulator and civil society interaction with companies regarding their capital allocation decisions.
2. For this prime purpose corporate reports should treat as material and address:
 - a. The impact of sustainability challenges on companies.
 - b. The impact of company actions on natural and social capital if it is probable that these will significantly impact on the value of the company. For example, a company's reputation loss when it is found to exploit vulnerable people, damage biodiversity, damage the health of its customers or cause severe pollution.
3. For corporate reports to achieve this prime purpose they should be:
 - a. Principle based, with compliance to key principles overriding following specific rules.
 - b. Clear, concise and well indexed³. Investors should be able to understand key points from the reports of several companies they are comparing in one sitting.

¹ Taking 'corporate' to include not just companies but all organisations.

² The sustainability of human civilization requires good management of the five types of capital defined in the IIRC framework. For example, the sustainable use of natural capital including maintaining healthy biosphere.

³ See point D) on page 4.

4. **Corporate reporting should serve OTHER IMPORTANT PURPOSES in addition to the 'prime purpose'**. In particular covering issues which, while not impacting capital allocation are:
 - a. important to stakeholders in a particular location⁴; or,
 - b. important to stakeholders concerned with a particular topic⁵.

Given the above a large company company's reporting should include:

1. A **'STRATEGIC REPORT'** which clearly and concisely fulfills the prime purpose of improving the outcome of capital allocation decisions on the sustainability of human civilization and quality of life in this planet's biosphere.
2. Such **'SUSTAINABILITY REPORTS'** as are appropriate for addressing the needs of stakeholders with important concerns focused on a particular geography or on particular topics.

B) Establish a staircase of levels of sophistication of corporate reporting.

1. There should a basic level of corporate reporting which is appropriate for small SMEs and a staircase of higher levels leading to an advanced level which is appropriate for large MNEs. Each level should be a natural progression from the previous level⁶. Each progression to a higher level should benefit, and hence motivate, the company issuing the reports.
2. To facilitate companies progressing from basic to advanced levels the structure should:
 - a. Provide consistent taxonomy and principles which are used by all levels.
 - b. Embed the concept of 'continuous improvement.'
 - c. Provide 'Sector Supplements' with information specific to particular industries.
 - d. Accommodate countries, and other jurisdictions, providing supplements which add information they require. Further which causes this information to be added in a manner which enables comparability of the 'global standard' information.

⁴ An example of a separate sustainability report meeting the needs of geographically specific stakeholders: Hong Kong's MTR (Mass Transit Railway) produces separate sustainability reports which meet the needs of its stakeholders in each of Melbourne and Stockholm where it also runs railways.

⁵ Examples of topics which may warrant a separate sustainability report for special interests.

1. Impacts on biodiversity which are of concern to nature conservationists.
2. OHS and other working conditions which are of concern to staff and trade unions.

⁶ In Hong Kong the levels of sophistication used are:

1. Unlisted companies must follow the Hong Kong Company' law requirement for a statement from Directors on the company's environmental policies and performance as well as its key relationships with its employees, customers and suppliers
2. Listed companies must comply with the Hong Kong Stock Exchange's ESG reporting guidelines.
3. Many larger Hong Kong companies also report using GRI standards where there are three levels:
4. Finally, a small number of sophisticated companies use the Integrated Reporting Framework while continuing to use GRI for topic definitions.

3. SSB should also provide a framework which Jurisdictions around the world can use to set lower levels of reporting which are appropriate with their local circumstances while also being compatible with the higher levels set by SSB⁷.
4. As part of providing a 'staircase' of levels of sustainability reporting, the standards should facilitate multiple assurance options with recognition given for the higher quality options.

C) Build SSB standards based on the IIRC's integrated reporting framework, GRI's standards and TCFD's approach on climate change. Then improve using input from the EU's Non-Financial Reporting Directive (once issued), CASS-CSR4.0, CDP, CDSB and SASB

IFRS Foundation's proposal that SSB bases its work on existing sustainability standards is welcome, as is its proposal that the first topic covered should be climate change. Looking at all standards equally, however, would require a large number of decisions and risk producing an incoherent set of standards.

The starting point for defining its standards should be agreeing:

1. Principles for defining (a) Report Content and (b) Report Quality.
2. A multilingual taxonomy covering all terms used in sustainability reporting.

SSB standards should then be based on IIRC, GRI and TCFD's approach on climate change.

Reasons for this:

1. Integrated Reporting should provide the framework for the 'Strategic Report' given:
 - a. Its concepts of 'Value Added', 'Capitals' and 'Business Model'.
 - b. Its focus on providing concise reports which integrate financial, social and environmental topics which are material to providers of financial capital.

Integrated Reporting provides an overall framework for meeting the purpose proposed for the non-financial reporting standards. Integrated Reporting does not define 'Topics' (that is, individual subjects such as water use or OHS) rather it encourages reporters to use GRI, SASB or another appropriate standard.

2. "GRI should be used as the starting point for definitions of Topics⁸ for the following reasons:
 - a. It has a **flexible, principle based** approach which already allows a number of levels of adoption (GRI Cited, GRI Core, GRI Comprehensive + ability to add in sector specific disclosures.)
 - b. Its system of allowing format flexibility while requiring a 'GRI Index' to enable user to find data.
 - c. It has by far the largest number of companies following it⁹.

⁷ An example of a Jurisdiction setting a 'lower level' standard might be the HK Exchange adapting its ESG Reporting Guidelines so they recognised as being consistent with SSB's framework. NB: The Exchange is likely to keep these guidelines given its large number of small-cap companies.

⁸ The 25 Nov 2020 announcement that IIRC and SASB will merge. This merger will facilitate SASB rather than GRI should be used as the starting point for definitions of Topics. I still, however, recommend GRI for the reasons given above.

⁹ kpmg's December 2020 survey covered the top 100 companies by revenue in 52 countries (the N100). Of these it defined the global top 250 by revenue as the 'G250'. It found 3,983 N100 companies and 239 G250 N100 companies reporting on sustainability. For reports published in 2020 GRI was used by 67% of the N100 and 73% of the G250. reported GRI remaining the dominant global standard for sustainability reporting with <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf>

3. TCFD provides a structure for assessing, managing and reporting on climate change risks. Its approach to covering longer-term issues is important and gathering support. It has got around 1,500 organisations to sign up as ‘supporters’ and is publishing details of their activity together with guidelines for scenario planning and risk metrics¹⁰ Mark Carney, in his capacity as UN Special Envoy on Climate Action and Finance, is working for COP26 to adopt a decision supporting it becoming mandatory. Presumably this would be for large companies.

Other standard setters have made important contributions (for example SASB’s materiality map and its KPI’s for Topics). Important work is also being done as preparation for the EU’s NFRD. These should be used to improve on draft SSB standards developed from IIRC+GRI+TCFD.

D) Set rules on how sustainability information is communicated.

The SSB’s standards should require:

1. Companies provide an index on where they have reported against each topic or requirement covered by the sustainability standards. This index is important given information may be in multiple locations¹¹. Further, given information in different locations may be updated at different times, companies should create and make accessible complete set of this information as of the date of each Strategic Report they issue.
2. Organisations which collect sustainability information from companies should provide a soft-copy of this information to the company in a format which is easy for people to read. Further they should not prohibit the company from posting this soft-copy on the web¹².

¹⁰: www.fsb-tcfid.org/publications/#implementation-guidance covers TCFD’s Oct 2020 status report; Guidance on Scenario Analysis for Non-Financial Companies; and, Guidance on Risk Management Integration and Disclosure.

¹¹ For clarity, conciseness and efficiency of both reporters and report users, information will usually be presented in multiple documents:

1. As mentioned under point A), it may be best for a company to produce a Strategic Report and one or more Sustainability Report.
2. For each report it may be best to have a concise ‘current period’ report containing ‘news’ and refer to other online documents for standing information and Excel data tables.

¹² The purpose of corporate reporting will be best served if information provided by reporters is freely available rather than locked behind paywalls. Currently some organisations (e.g. DJSI and CDP) ask companies for extensive information and then, completely or partially, place the information collected behind a paywall.

E) Set standards for climate change related topics as follows.

1. Take TCFD's recommendations as a starting point.
2. Arranged for high quality scenarios on future climate change published as a 'public good' for all to use. (Let us call these 'SSB Scenarios'). Further, arrange 'Safe harbour' provisions which limit the liability of companies which use reasonable endeavours to report the how their business would fare under each of the SSB Scenarios¹³.

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¹³ TCFD's scenario approach to reporting climate change risks is excellent. It is, however, challenging for even large companies to develop good scenarios with sufficient detail for meaningful reporting. Some companies may be reluctant to use scenarios which show their business faring badly. Companies are also wary of being sued if they report on how their business may be impacted in the future. The benefits of having the SSB Scenarios and Safe Harbour provisions include:

1. It is easier for companies to report as they do not have to inventing scenarios.
2. Less risk of companies tailoring scenarios to avoid reporting on points where their businesses fare badly.
3. The limitations on liability will make companies less reluctant to report.
4. Investors will be able to compare many companies reporting against the same scenarios. This 'Apples' to 'Apples' comparison should improve capital allocation decisions."

IFRS Foundation's Sustainability Standards Board consultation

The covering letter presents views holistically for ease to understanding. This appendix duplicates that information to provide it in the order of the consultation questions.

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?

Response: Yes. There should be a global set of sustainability reporting standards. IFRS Foundation should take a lead in setting these standards.

These standards should be designed with number of levels of sophistication. The basic level being appropriate for SMEs while the most advanced level is appropriate for large MNEs. All levels should follow the same taxonomy and principles facilitating companies progressing from basic to advanced levels. Further, the structure should incentivize companies moving to higher levels¹⁴.

The standards should not just be used by companies. They should be used by all organisations with significant impacts on sustainability. These will include Foundations and Government Departments

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?

Response: Yes, provided SSB standard setting process adequately includes persons and organisations with appropriate knowledge of environmental and social issues.

¹⁴ In Hong Kong the levels of sophistication used are:

1. Unlisted companies must follow the Hong Kong Company' law requirement for a statement from Directors on the company's environmental policies and performance as well as its key relationships with its employees, customers and suppliers
2. Listed companies must comply with the Hong Kong Stock Exchange's ESG Reporting Guidelines. (HKEx Guidelines)
3. Many larger Hong Kong companies also report using GRI standards where there are three levels:
4. Finally, a small number of sophisticated companies use the Integrated Reporting Framework while continuing to use GRI for topic definitions.

The HKEx Guidelines were developed to provide a level of reporting which was appropriate for its large number of small cap companies. They were prepared after a survey of global standards. They are initially close to GRI so a company reporting in accordance with GRI also met them. As both GRI and the HKEx Guidelines been upgraded more differences have occurred making following both more troublesome. The HKE's view is that GRI is only one of the international standards and hence trying to continue to align with it is not appropriate. Globally recognised IFRS SSB standards would be an improvement as aligning with them would be justified. And this is important as the HKEx guidelines are likely to remain given its continuing large number of small-cap companies.

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)?

Response: YES. Two points:

POINT 1) The SSB should start by defining the **PURPOSE** of the reporting and have this purpose drive the definition of materiality.

The **PRIME PURPOSE** of corporate reporting should be to improve the outcome of capital allocation decisions and hence the sustainability and quality of life for human civilization and the rest of the biosphere¹⁵. Specifically, it should inform:

- a) A company's management decisions on capital expenditure, investments and how their operations are run
- b) Investor decisions on allocating capital to companies; and, on engaging with company management regarding sustainability issues.
- c) Government, regulator and civil society interaction with companies regarding their capital allocation decisions.

For this prime purpose corporate reports should address:

- a) The impact of sustainability challenges on companies.
- b) The impact of company actions on natural and social capital when there is a significant probability that these will significantly impact on the value of the company. For example, a company's reputation loss when is found to exploit vulnerable people, damage biodiversity, damage the health of their customers or cause severe pollution.

For corporate reports to achieve this prime purpose they should be:

- a) Principle based, with compliance to key principles overriding following specific rules.
- b) Clear, concise and well indexed. Users should be able to understand key points from multiple of reports in one sitting.

For example, an investor should be able to glean decision-making information in one sitting from multiple companies in a sector s/he might invest in.

Corporate reporting should serve **OTHER IMPORTANT PURPOSES** in addition to the 'prime purpose'. In particular covering issues which, while not impacting capital allocation, are:

- a) important to stakeholders in a particular location¹⁶; or,
- b) important to stakeholders concerned with a particular topic. For example, the International Labour Organisation concerns on working conditions and WWF concern to protect biodiversity.

¹⁵ The sustainability of human civilization requires good management of the five types of capital defined in the IIRC framework. For example, the sustainable use of natural capital including maintaining healthy biosphere

¹⁶ An example of a separate sustainability report meeting the needs of geographically specific stakeholders: Hong Kong's MTR (Mass Transit Railway) produces separate sustainability reports which meet the needs of its stakeholders in each of Melbourne and Stockholm where it also runs railways.

Given the above a large company's reporting should include:

- a) A '**Strategic Report**' which clearly and concisely fulfills the prime purpose of improving the outcome of capital allocation decisions on the sustainability of human civilization and quality of life in this planet's biosphere.
- b) Such '**Sustainability Reports**' as are appropriate for addressing the needs of stakeholders with important concerns focused on a particular geography, or on particular topics.

2) The SSB's Governance Structure and Standard Setting Process MUST provide a robust, harmonious way of meeting both the PRIME and the OTHER IMPORTANT PURPOSES.

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?

Response: Yes, following the approach which lead to most jurisdictions following the International Financial Reporting Standards.

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

Response:

GRI should be used at the starting point for the following reasons¹⁷:

- a) It has a flexible, **principle based** approach which already allows a number of levels of adoption (GRI Cited, GRI Core, GRI Comprehensive + ability to add in sector specific disclosures.)
- b) Its approach of allowing format flexibility while requiring a 'GRI Index' to enable user to find data.
- c) It has the largest number of companies following it¹⁸.

Integrated Reporting should provide the framework for the 'Strategic Report' given:

- a) Its concepts of 'Value Added', 'Capitals' and 'Business Model'.
- b) Its focus on proving concise reports which integrate financial, social and environmental topics which are material to providers of financial capital.

¹⁷ The 25 Nov 2020 announcement that IIRC and SASB will merge. This merger will facilitate SASB rather than GRI should be used as the starting point for definitions of Topics. I still, however, recommend GRI for the reasons given above.

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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?

Response: By:

- a) Following the approach advocated in answer to Question 5.
- b) Agreeing a common set of Principles for defining (a) Report Content and (b) Report Quality.
- c) Agreeing a multilingual taxonomy covering all terms used in sustainability reporting.

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?

Response:

- a) **The SSB should give priority to climate-related financial disclosures using TCFD's recommendations as a starting point¹⁹. Reason:** The Net- Zero Carbon commitments now being made by many countries are likely to create transition risks which will substantially impacted asset values and hence share prices. - See PRI's 'Inevitable Policy Response' hypothesis²⁰.
- b) **BUT 'broadening into other areas of sustainability should be a FIRM COMMITMENT not a 'potential item'.** **SO:** At the same time as it starts work on 'Climate' SSB should consult on:
 - a framework for comprehensive integrated reporting.
 - the order of priority for setting standards on other Topics;
 - the extent to which it can use existing GRI and SASB standards to cover other Topics.

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

Response: The SSB should:

- a) Map out an overall framework for companies to report on their environmental AND SOCIAL topics.
- b) **Prioritise implementation for Climate Related issues noting that a 'Just Transition' for affected communities is an essential part of successful action on climate change.**

¹⁹ www.fsb-tcf.org/publications/#implementation-guidance covers TCFD's Oct 2020 status report; Guidance on Scenario Analysis for Non-Financial Companies; and, Guidance on Risk Management Integration and Disclosure.

²⁰ www.unpri.org/inevitable-policy-response/what-is-the-inevitable-policy-response/4787.article

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

Response: Yes, BUT (see point 3):

- a) The starting point for determining Materiality is to define the **PURPOSE** of the Reporting.
- b) The approach to materiality should EXPLICITLY recognise that a company's impacts on environmental and social issues sometimes materially impact its value creating ability and hence its own value. Such issues need to be covered by the SSB's first version of Sustainability Reporting.

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?

Response:

The standards should facilitate multiple assurance options in a way which provides recognition for the more rigorous options.

Question 11: Stakeholders are welcome to raise any other comment or relevant matters for our consideration

Response point 1: TCFD

It is excellent that IFRS proposes to tackling Climate Change first and to be hoped that proposals for this are sufficiently advanced before UNFCCC COP26 in November 2021 for that COP consider them as part of supporting making TCFD mandatory for large companies.

TCFD's approach on climate change risk with its use of scenarios is good but currently (a) we lack scenarios with sufficient detail for meaningful reporting; (b) companies are wary of being sued if they report on how their business may be impacted in the future.

A key to effective reporting on Climate Change risks and opportunities is for SSB to provide, or otherwise arrange:

- a) High quality scenarios on future climate change published for all to use. Let us call these the 'SSB Scenarios'.
- b) 'Safe harbour' provisions which limit the liability of companies which use reasonable endeavours to report the how their business would fare under each of the SSB Scenarios.

The benefits of this include:

- a) It is easier for companies to report as they do not have to invent the scenarios.
- b) Less risk of companies tailoring scenarios to avoid reporting on points where their businesses fare badly.
- c) The limitations on liability will make companies less reluctant to report.
- d) Investors will be able to compare many companies reporting against the same scenarios. This 'Apples' to 'Apples' comparison should improve capital allocation decisions.

Response point 2: SSB should provide guidance, if not standards, on how sustainability information is communicated

Specifically, that:

1. Companies should, following GRI's example, provide an index on where they have reported against each topic or requirement covered by the sustainability standards. The index is important given information may be in multiple locations²¹. Further, given the information in different locations may be updated at different times, companies should maintain a create complete set of information as of the date supporting each Strategic Report they issue.
2. Organisations which collect sustainability information from companies should be required to provide a soft-copy of this information to the company in a format which it is easy for people to read. Further, they should not be able to prohibit the company from posting this soft-copy on the web²².

End

²¹ For clarity, conciseness and efficiency of both reporters and report users, information will usually be presented in multiple documents:

- As mentioned in response to question 3, it may be best for a company to produce a Strategic Report and one or more Sustainability Report.
- For each report it may be best to have a concise 'current period' report containing 'news' and refer to other online documents for standing information and Excel data tables.

²² The purpose of corporate reporting will be best served if information provided by reporters is freely available rather than locked behind paywalls. Currently some organisations (e.g. DJSI and CDP) ask companies for extensive information and then, completely or partially, place the information collected behind a paywall.