

24 December 2020

Mr Erkki Liikanen
Chair IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Email: commentletters@ifrs.org

Dear Mr Liikanen

CONSULTATION PAPER ON SUSTAINABILITY REPORTING

On behalf of the Australian Council of Superannuation Investors (ACSI), thank you for the opportunity to make a submission in relation to IFRS Foundation's Consultation Paper on Sustainability Reporting.

Established in 2001, ACSI exists to provide a strong, collective voice on environmental, social and governance (ESG) investment issues on behalf of our members, who include 37 Australian and international asset owners and institutional investors. Collectively, our members own, on average, 10 per cent of every ASX200 company, on behalf of millions of beneficiaries. Our members recognise that ESG risks and opportunities have a material impact on investment outcomes.

Along with our members, we are significant users of sustainability disclosures from ASX300 companies. It is clear that there would be benefit in consistency of standards, better assurance and comparability across the market. We agree that sustainability reporting is continuing to increase in importance for investors, and to stakeholders more broadly. This reflects the financial materiality of a broad range of environment, social and governance issues that impact value over the long-term.

Where we have comments on the questions raised by the Consultation Paper, they are set out in this submission. I trust they are of assistance.

Please contact me or Kate Griffiths, ACSI's Executive Manager – Public Policy and Advocacy, should you require any further information on ACSI's position.

Yours sincerely



Louise Davidson AM
Chief Executive Officer
Australian Council of Superannuation Investors

Q1. 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?

Investors would benefit from consistency of standards, better assurance and better comparability. Therefore, a global set of internationally recognised sustainability reporting standards would be a significant step forward.

There are also challenges in developing such a set of standards. We believe that to position for success, standards would need to incorporate the significant expertise already in the market. To that end, it will be important that the IFRS Foundation works with the existing organisations to harmonise the landscape, rather than adding an additional set of standards. By collaborating in this way, the IFRS Foundation could play an important role in linking sustainability measures with the traditional financial reporting measures, building on the collective commitment to drive towards the goals of creating a coherent and comprehensive corporate reporting system outlined in the joint [Statement of Intent To Work Together Towards Comprehensive Corporate Reporting](#).

Q2. 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?

Our view is that a Sustainability Standards Board could be a positive development. However, as set out above, to ensure the legitimacy of such a Board, it would be necessary to collaborate with the existing standard setters, so that the considerable existing sustainability reporting knowledge is leveraged in a way that also draws upon IFRS's expertise in implementation and dissemination of standards that can be audited and integrated with traditional financial reporting measures.

Q3. 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)?

The requirements for success should also incorporate a quality and importance indicator, (perhaps at point (a) of paragraph 31), to make it clear that global support will most likely only come from a set of standards that facilitate the provision of high-quality information that is fit for purpose and reflects the importance over the long-term of material sustainability issues both locally and globally.

Q5. How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

IFRS should seek to collaborate with the existing initiatives, given that the aim is one set of standards which are broadly accepted. It is also likely that there is scope to update existing financial reporting standards to reflect and incorporate sustainability issues (in addition to the development of a global set of internationally recognised sustainability reporting standards). For example, there is already some guidance and practical examples of how climate change risk is incorporated into financial reporting.

Q6. 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 we outline in responses to questions 1 and 2, broad collaboration will be necessary to reduce the risk of fragmenting the market.

Q7. 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?

There is no doubt that climate change is a significant risk that requires urgent global action. However, there are important relationships between material environment, social and governance risks (including climate change) that are increasingly inseparable. Effective capital allocation decisions and ongoing stewardship require an evaluation of a broad range of factors, including performance on the full range of material environment, social and governance issues. Therefore, while we appreciate the urgency in respect of climate change, to promote success and broad acceptance of a set of standards, there must be balance so that if climate change is prioritised, there must also be a clear timetable for addressing the further issues.

Q8. Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

See our response to question 7.

Q9. Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?

We note the practical challenges of double materiality model, and that addressing double materiality would substantially increase the complexity of the task.

However, the concept of financial materiality is used differently across the market, for example accountants will often focus on recognition and measurement in the financial statements - which can often emphasise the short-term. In the sustainability context, many investors are referring to environment, social and governance issues that provide insight into drivers of enterprise value, and go to current and future market value, with a long-term focus. Successfully reflecting the longer-term financial materiality of ESG issues will be key to the success of the proposed standards.

Q10. 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?

We agree that standards will need to support independent external assurance, to promote integrity and acceptance across the market.