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Dear Mr Erkki Liikanen

IFRS Foundation - Consultation Paper on Sustainability Reporting

We appreciate the opportunity to comment on the IFRS Foundation *Consultation Paper on Sustainability Reporting* (the Consultation Paper). We have consulted with, and this letter represents the views of, the KPMG network.

We appreciate the IFRS Foundation's initiative and commitment given an urgent need to improve the consistency, comparability, relevance and reliability of sustainability reporting.

We strongly support the IFRS Foundation's initiative to create a new Sustainability Standards Board (SSB) under its governance structure, recognising the public interest in better informed global capital markets.

We believe that the IFRS Foundation is well-suited to lead the initiative to reduce complexity and achieve greater consistency in global sustainability reporting given:

- its mission to develop global standards that provide transparency, accountability and efficiency to global capital markets;
- its expertise, know-how and due process that would contribute to independent, politically neutral and high-quality global standard setting focused on long-term enterprise value creation; and
- inter-connectivity of non-financial information with financial reporting.

We recognise the harmonisation and streamlining of sustainability reporting is not an easy task but we believe that IFRS Foundation is best placed to help consolidation and to achieve a global consensus building upon existing initiatives and following a building

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block approach based on a robust conceptual framework – i.e. focusing initially on individual aspects such as climate and gradually addressing broader ESG matters, and in the longer term broadening its scope to other aspects of non-financial information including value-relevant information on intangibles such as customer base and corporate brand and reputation.

It is important for the IFRS Foundation to act quickly to establish the SSB, and that the SSB move expeditiously to produce quality standards, given increasing demand for global consistency and calls to reduce complexity in sustainability reporting.

While we recognise that there are some challenges that the IFRS Foundation may face, we believe that key success factors for a future SSB include the following.

- Continue to focus on investors' needs. This would also require a clear mandate backed by effective, independent governance. Departing from the IFRS Foundation's core mission could potentially undermine the IASB's work and create pressure on the SSB to promote public policy objectives.
- Maintain integrity of the IASB's financial reporting work.
- Promote global standards focused on long-term enterprise value creation as a baseline for wider corporate reporting. In doing so, we believe that it will be important to ensure that there is cooperation between the SSB, with its focus on enterprise value creation and an investor/capital markets perspective, and standard-setting organisations like the Global Reporting Initiative that focus on the impact that an entity has on society as a whole for a broader stakeholder group, to achieve interoperability of the SSB's standards. We also believe that it will be important for the SSB to recognise the value of co-existence and interoperability with regional initiatives that address regional and jurisdictional-specific needs, as appropriate.

We have set out our detailed responses to the questions in the Consultation Paper in the appendix to this letter.

Please contact Larry Bradley LBradley@kpmg.com or Reinhard Dotzlaw reinhard.dotzlaw@kpmgifrg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix

Question 1

Is there a need for a global set of internationally recognised sustainability reporting standards?
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(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?
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(b) If not, what approach should be adopted?
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There is an urgent need for a global set of internationally recognised sustainability reporting standards. We believe that the IFRS Foundation has a key role to play in setting these standards considering its capital markets focused mission, its expertise, know-how, due process and governance structure.

In the absence of a broadly accepted and consistent set of sustainability reporting standards, there are multiple challenges for companies including determining what types of ESG information to report, and how to communicate relevant information to stakeholders in a landscape of multiple frameworks and standards. We believe that setting global standards is critical to reduce complexity and promote consistency which is needed by global capital markets.

The Foundation's mission is "to develop standards that bring transparency, accountability and efficiency to financial markets around the world. The IFRS Foundation's work serves the public interest by fostering trust, growth and long-term financial stability in the global economy." Playing a leading role in setting sustainability reporting standards is therefore consistent with the Foundation's mission and allows it to expand its activities into areas of corporate reporting that are non-financial in nature but that are equally relevant to financial markets.

The IFRS Foundation also possesses the relevant structures to legitimize and support the uptake of standards issued under its governance. In our view, the brand and know-how the Foundation has developed in the last two decades will provide the right institutional setup for creating a set of high-quality global sustainability reporting standards and gaining public confidence in corporate reports prepared in accordance with these standards. The Foundation is also best placed to achieve the global consensus required in a timely manner through an established due process. The IASB's work on Management Commentary is demonstrating that its conceptual framework is readily applicable to the provision of non-financial information.

Market transparency requires that companies provide a more complete view of enterprise value creation with interconnectivity between non-financial information and financial information. This needs to be addressed urgently to support effective capital allocation and investment flows in global markets. The importance of non-financial

information for decision-making purposes therefore demands the same rigour in standard-setting, based on the effective due process, as for financial information. The Foundation is certainly well-placed to deliver on this considering it has brought global consistency, and clarity of focus to financial reporting. The public interest requires the same for non-financial reporting so that information is relevant, comparable and reliable for decision making.

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?

We strongly support the development of a Sustainability Standards Board (SSB) to operate under the governance structure of the IFRS Foundation to establish high-quality standards with an aim to promote and achieve further consistency and global comparability in sustainability reporting.

Given the links between non-financial and financial information, strong connections should be made and kept between the SSB and the IASB. We see the work of the two boards to be complementary. We also believe that in order to provide decision-useful information to investors and other capital markets participants, non-financial information should complement, be coherent with and connected to financial reporting. However, we note that it is important not to jeopardise the global reputation and integrity of the IASB's financial reporting work (see our response to question 3).

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)?

While we agree with the requirements for success as outlined in paragraph 31 of the Consultation Paper, we do not consider those as prerequisites for forming the SSB but rather important factors that over time will contribute to the future success of the SSB. For example, building technical expertise may take time and it may be helpful to leverage from the technical resources of existing organisations as much as is feasible. Therefore, we support co-operation and partnership with existing organizations and initiatives. Similarly, it may be impossible to get a global buy-in from all the stakeholders from the outset but a clearly defined mission and framework for

sustainability reporting that is interconnected with financial reporting could help achieve support for the standards.

In particular, we consider the following as critical factors for future success:

- governance structure;
- inter-connectivity with the IASB's financial reporting;
- well-defined scope;
- suitable conceptual framework; and
- timeliness.

Governance structure

We believe it is vital that the IFRS Foundation remains independent and politically neutral while maintaining a global focus.

The global acceptance of standards issued by the SSB will depend on effective governance structures with balanced, politically independent representation. We believe that the IFRS Foundation has the right structures and due process procedures for the SSB to work effectively and achieve such global acceptance.

Inter-connectivity with the IASB's financial reporting

We strongly emphasise that a key consideration in setting up a new SSB needs to be that the integrity and brand of the IASB as a separate standard setter is maintained. The Trustees should be satisfied that the IASB's financial reporting work will not be compromised by the IFRS Foundation's wider role.

In particular, the Trustees should ensure that:

- the mission and scope of work of the IASB and the SSB are compatible and complementary (to the extent possible in relevant areas);
- the Foundation's global reputation and the IASB brand would not be compromised by political differences over standard setting priorities or regional differences in public policy objectives; and
- any necessary changes to Foundation's governance to support the SSB should not undermine the clarity of the IASB's mission.

Whilst the SSB and its staff should operate separately from the IASB, we think that a successful operational approach would combine specialist subject-matter knowledge with general standard-setting experience to support the development of standards that

provide relevant, concise, and coherent information drawing on the IASB's conceptual framework.

We also recognise that in order for the SSB to successfully achieve interconnected corporate reporting, a framework for sustainability reporting should be coherent with and connected to financial reporting. We highlight the IIRC's <IR> Framework as a conceptual framework that is ideally suited to providing the conceptual integrity within which detailed non-financial subject matter/metrics could be specified. It could provide a basis around which the consolidation of existing frameworks, standards and technical expertise could take place.

Scope

In our view, the market demand by investors for non-financial information relevant to long-term value creation encompasses a range of economic, social and governance topics. There is also a need for a wider set of information that is relevant for long-term enterprise value creation (e.g. intangible resources like brand, knowledge and know-how, patents and licences as well as relationships such as customer loyalty, employee engagement, etc). We recommend that the SSB consider designing a roadmap of priorities for its broader scope and further consult on its proposals. We believe that the SSB's governance and operational structures should be designed for this wider role even if the Foundation chooses to focus initially on individual ESG factors such as climate. See our response to question 7.

In addition, in order to promote global recognition and acceptance and to counter the threat of a focus that is too narrow to satisfy the broader needs of the investors, we suggest that the new standard-setting board be named the "International Non-financial Standards Board (INSB)" rather than the SSB. We believe that this will help underscore the board's focus and role in the broader topic of reporting on climate change and sustainability.

Suitable conceptual framework for sustainability reporting

We believe that there is a need for a robust conceptual framework as a starting point with clearly defined reporting objectives. The IASB's discussions on Management Commentary have shown that the key features of the IASB's conceptual framework and the IIRC's International <IR> Framework, as noted in our response above, are readily applicable to the work of the SSB as well. The internal consistency is essential if the work of the SSB and the IASB are to be complementary. Leveraging off these frameworks would allow the SSB to act quickly and balance the need for a conceptual framework with the demand for urgent action.

A conceptual framework is considered a prerequisite to bring order to the multitude of non-financial reporting frameworks currently in existence and to create a consistent set

of standards. It also serves as a starting point to build up specialist expertise in the various areas of non-financial reporting instead of setting the focus on one particular topic prematurely. This would also avoid that any output of the SSB is biased by an initial area of work that is not embedded within the overall objective and thus out of balance with other equally relevant topics. Based on a suitable conceptual framework, the SSB should be able to address the most relevant and urgently needed topics first before broadening its remit into other areas of sustainability reporting.

Timeliness

We believe that timeliness of delivery is a key requirement for success, and we urge the IFRS Foundation to act quickly, given the increasing demand for global consistency and calls to reduce complexity and the current multiplicity of standards for sustainability reporting. The need for timely action is further exacerbated by the urgency posed by climate risk itself. As such, we agree that better reporting of climate related risk deserves more urgent consideration (see our response to question 7).

To enable the SSB to deliver high-quality standards on a timely basis, we think it would be helpful to work with and build upon existing initiatives (subject to an appropriate due process), such as the work of the group of five sustainability standard setters¹, involving technical resources from those organisations as much as is feasible (see our response to question 5) and follow a building block approach – i.e. focusing initially on individual aspects such as climate and gradually addressing broader ESG matters, and in the longer term broadening its scope to other aspects of non-financial information including value-relevant information on intangible resources such as brand, knowledge and know-how, patents and licences as well as relationships such as customer loyalty, and employee engagement.

Question 4
Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?

The IFRS Foundation should use its relationship with its stakeholders to aid the adoption and consistent application of newly developed standards on a global basis. In order to effect the systems change and achieve the objectives outlined in the consultation paper, global support is critical. We encourage the engagement and support of the relevant global bodies such the Financial Stability Board, IOSCO, IMF, UN and World Bank, who have the stature and ability to ensure that a global solution is found.

¹ The leading global ESG reporting organizations – i.e. CDP, CDSB, GRI, IIRC and SASB

Non-financial reporting needs to be elevated to the same level of importance as financial reporting to ensure its uptake and success for informed decision making. This would require recognition and consideration of disclosure requirements that rely on processes outside established corporate reporting processes within enterprises. Although such processes and controls will be necessary to ensure that relevant and reliable information is provided to users, we note that companies will likely face challenges to implement an appropriate and robust control environment to produce high quality non-financial information.

Question 5

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

We recognize that a pragmatic approach to build on existing frameworks and their reporting guidance may be desirable in the short term, for example to address the urgent need for globally consistent climate-related information. As noted above, we believe that the SSB should leverage the work of other sustainability frameworks and standard setters where these frameworks have similar reporting objectives in order to fast track achieving its objectives. In this respect, we note that frameworks developed by established organisations or bodies like the group of five² or the TCFD³ have undergone a due process to a certain extent and could be used as a starting point. We also support co-operation and partnership with the existing organizations (the creation of the Value Reporting Foundation⁴ sets a good example) and other initiatives. Although existing standards may inform the creation of the new global standards, we believe that they should be subject to review and effective due process as soon as practicably possible.

We also stress the importance of a robust conceptual framework that would provide the basis for the SSB's standard setting activities. See our response to question 3 for further discussion on the characteristic of a suitable conceptual framework. Such a framework should allow co-existence and inter-operability with standards issued by other initiatives that for example address aspects of reporting based on regional or sectoral needs and public policy priorities.

² The leading global ESG reporting organizations – i.e. CDP, CDSB, GRI, IIRC and SASB published [Statement of Intent to Work Together Towards Comprehensive Reporting](#) (“Joint Position Paper”) that describes how these frameworks and standards can be interoperable to meet ESG reporting needs

³ Task Force on Climate-related Financial Disclosures

⁴ IIRC and SASB announced their intention to merge on 25 November 2020

We believe that an effective transition plan will also be critical for the success, considering the urgent call for a relevant global set of standards. The transition plan of the SSB should cover the following aspects:

- how it intends to use relevant parts of the IASB's existing work as the conceptual underpinning of its own sustainability standard setting work;
- how it plans to combine existing IASB standard-setting expertise with subject matter expertise from other organisations; and
- how it can build on already established standards and frameworks if they are aligned with the SSB's objectives, or otherwise, how to support inter-operability with others.

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?
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We believe that a global solution should be focused on promoting global standards that are relevant to long-term enterprise value creation as a baseline for wider corporate reporting.

In fulfilling its mandate, we think that it would be helpful for the IFRS Foundation to look at the large economic areas of the world and understand their initiatives on sustainability reporting, while recognising that regional initiatives may be focused on regional priorities and address regional needs and public policy objectives. We think that being informed of those regional needs and initiatives will assist the IFRS Foundation in setting its agenda to establish standards that will gain global acceptance and achieve success. We envisage that the IFRS Foundation would establish a baseline of global standards that are consistent with its capital markets focus upon which regions and jurisdictions can build in order to achieve their particular public policy objectives. In doing so, the IFRS Foundation will need to strike the right balance between stakeholders' demand requiring a fast solution and the variety of public policy ambitions from jurisdictions and regional organisations that will follow individual objectives.

Question 7

If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?

We agree that there is an urgent need to develop standards for climate-related financial disclosure and we agree with the proposal to prioritize climate-related financial disclosures.

However, as explained in response to question 3, while we agree that an initial focus of the SSB would be to develop global sustainability-reporting standards for climate-related information given the urgent need, we recommend considering a broader scope to be covered by the SSB in the longer-term, allowing it to expand into other areas of non-financial reporting that are relevant to enterprise value creation and not be dominated by a single topic of concern. The governance of the SSB should reflect this wider focus from the outset. The new economy is heavily dependent on technology and data, promoting demand for non-financial information also in areas that are not connected to ESG (e.g. intangible resources like brand, knowledge and know-how, patents and licences as well as relationships like customer loyalty, employee engagement, etc).

Question 8

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

As stated in our response to question 7, although we generally agree with an initial focus on climate-related risks, we believe that the SSB should cover a broader area as its mandate. A balanced pragmatism has to be found between acting quickly without losing sight of what stakeholders are asking for. Enterprise value creation is not only impacted by climate-related risks but also by broader ESG factors.

Question 9

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

We agree with the proposed approach to focus on investors' needs. This approach also is consistent with the IFRS Foundation's mission to provide transparency to global capital markets. Any other approach could potentially disrupt the IFRS Foundation's core mission (being capital markets-focused) and would likely require a different governance structure (e.g. different trustee composition, Monitoring Board). We

therefore recommend that the focus remains on investors’ needs, with a framework that allows connecting to other branches of reporting, where appropriate, and that adapts to changing capital markets’ needs, as further explained below.

We recognise that other stakeholders’ needs and public policy objectives will continue to be important branches of reporting. Whilst there will be overlap between the topics of interest to other stakeholders and those that are of interest to the capital markets, the information required by each group of stakeholders will typically be different.

We also recognise that in the long term, societal perspectives and impacts (such as the impact of the enterprise on the environment and on matters such as biodiversity or responsible taxation) are likely to affect enterprise value creation. Accordingly, the approach to materiality employed by the SSB will need to be dynamic as it establishes standards that are relevant and responsive to investor and capital market needs for sustainability information and other non-financial information that is focused on enterprise value creation, and those needs may change over time. We believe that it will be important for the success of the SSB to ensure that there is cooperation between the SSB, with its focus on enterprise value creation and an investor/capital markets perspective, and standard-setting organisations like the Global Reporting Initiative that focus on the impact that an entity has on society as a whole for a broader stakeholder group, to achieve inter-operability of the SSB’s standards with other reporting initiatives that play a role in wider corporate 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?

Given the decision-usefulness of the sustainability information that is intended to be produced by the SSB, we believe that such information should be capable of being subject to external assurance. We also sense that there will be market demand for assurance over sustainability information, and that in some jurisdictions/regions it may become mandatory.

We believe that in the long term, it would be most useful to users if non-financial information included in a company’s annual report would be subject to independent assurance consistent with the assurance provided over financial information. However, we recognise that in the short term, assurance over specific aspects or disclosures of non-financial information in an annual report may be more readily achievable rather than assurance over the entire report.

Many consider assurance to be an important step to ensure that companies report comparable, reliable and consistent sustainability information to investors. For example, IFAC noted in its recent statement⁵ that it believed “that the demand is urgent and real—from investors, policymakers and other stakeholders—for a sustainability reporting system that delivers consistent, comparable, reliable, and assurable information”.

Given our expectation that stakeholders will want global sustainability standards that are capable of being assured, we recommend that the SSB work closely with the IAASB. For example, we recommend that the SSB consider the forthcoming guidance by the IAASB on Extended External Reporting (EER) Assurance in developing sustainability reporting standards.

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

No other comments.

⁵ IFAC issued the statement on 30 September 2020 applauded the IFRS Foundation Trustees in issuing their Consultation Paper and urged its global membership to engage and support