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IFRS Foundation
Attn. Erkki Liikanen, Chair of the Trustees of the IFRS Foundation
London
United Kingdom

Our ref	:	RJ-IASB 496 J
Direct dial	:	(+31) 20 301 0391
Date	:	23 December 2020
Re	:	IFRS Foundation Consultation Paper on Sustainability Reporting

Dear mr. Liikanen, dear Erkki,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to the "Consultation Paper on Sustainability Reporting" (hereafter consultation paper), that was issued by the IFRS Foundation on 30 September 2020.

1. Introduction

Our main observations are summarised below:

- *Overall view on sustainability reporting standards:* The DASB is in favour of global sustainability reporting standards. One global set of sustainability reporting standards will fulfil the urgent need for convergence of the many frameworks that are currently available for sustainability reporting. This will also significantly improve comparability and clarity of sustainability information and will create a level playing field for all companies around the globe.
- *Role of IFRS Foundation:* In our view, the IFRS Foundation has the opportunity to play an important and leading role in the development of sustainability reporting standards. We believe that the IFRS Foundation has important fundaments: a strong due process for standard setting, a proven fit-for-purpose governance structure and a widely recognized independent and authoritative position. Such fundaments are indispensable for a global standard setter in this domain.
  We also see as an important advantage that standard setting by the IFRS Foundation will safeguard interconnectedness between reporting standards for financial information (IFRS) and for sustainability information, in such a way that 'disclosure overload' could be avoided and synergies between financial and sustainability standards can be optimized. In addition, standard setting processes by the IFRS Foundation also consider verifiability of reported information.
  The IFRS Foundation also has strong connections with more than 140 jurisdictions, which are anticipated to be required for a jurisdictional platform for sustainability reporting.
- *Global perspective:* Before taking on the proposed role as standard setter it is essential to obtain a sufficient level of global support from overarching public authorities such as the United Nations and OECD as well as the

EU; from global regulators such as IOSCO and the FSB; as well as market stakeholders, such as investors and preparers in key markets. This support is instrumental for global recognition, acceptance and adoption of sustainability reporting standards.

- *Impact on role IASB:* Irrespective of the developments in the area of sustainability reporting standards the DASB is of the opinion that the current mission and resources of the IFRS Foundation or IASB, in the area of financial reporting, should not be compromised.
- *Sense of urgency:* In the area of sustainability reporting and the role of companies in society, there is an increasing need for reporting on non-financial information. It is expected that the process to get to the IFRS Foundation fulfilling its ambition as a (global) sustainability reporting standard setter could take many years. Assuming the Trustees will approve of the foundation of the SSB, DASB recommends to already start sustainability reporting projects in parallel with activities for the foundation of the SSB. This by closely collaborating with leading international and regional bodies or initiatives (such as GRI, the Value Reporting Foundation (announced merger of IIRC and SASB), TCFD, UN and the EU) and build on their work – where possible – in order to achieve the objective of sustainability reporting standard setting in the most effective, efficient and pragmatic manner. This collaboration should strengthen the adoption and application of widely recognized sustainability standards.
- *Regional versus global:* There is the risk that regional areas could take a different path or at a quicker speed to reach to locally or regionally recognized sustainability standards. The DASB advises the IFRS Foundation to consult with key stakeholders in this field, to scan similar initiatives and cooperate with these regulatory bodies to make maximal use of parallel projects and harmonize standards where possible. We would like to see a constructive dialogue in a cooperative manner between the EU and the IFRS Foundation to further establish how they can most effectively work together.
- *Competence building:* Standard setting for sustainability reporting requires other expertise and relationships with other stakeholders than for financial reporting. For the IFRS Foundation to be able to play its role in sustainability standard setting it will need to build competences in the area of non-financial reporting from a wide variety of backgrounds such as technical experts, preparers, users and Trustees to ensure high quality reporting standards.
- *Enterprise value creation:* The IFRS Foundation has concluded to commence with standards for climate related disclosures. Although this is a very important starting point and aligns with societal expectations, the DASB is of the opinion this scope is too limited. We recommend the IFRS Foundation to deliver a long-term vision and planning on (wider) sustainability reporting, to clarify the scope and target audience of the global standards in the coming years, and how this will complement and align with the activities of other sustainability standard setting bodies such as the Value Reporting Foundation, GRI, UN, EU and TCFD.

2. Answers per question

Q1 - Is there a need for a global set of internationally recognised sustainability reporting standards?

Yes, the DASB is of the opinion that there is a need for a global set of internationally recognized sustainability reporting standards.

The attention of investors and other stakeholders for corporate reporting beyond the annual financial statements has increased significantly over the last decade. Stakeholders, such as customers, employees, suppliers, pensioners and investors are becoming increasingly more involved in the company's role on sustainability and other non-financial performance. Investors that integrate sustainability factors in their investment, engagement and voting decisions have become mainstream and rely heavily on the quality of corporate reporting. It is anticipated that institutional investors will translate their fiduciary duty through evaluating the company's sustainability performance. Many companies have become more committed to long-term value creation for a wide variety of stakeholders. Especially for front-runners, this is increasingly being reflected in companies' annual reports.

The current diverse situation, with many frameworks for reporting on non-financial information, can be perceived as too complex for prepares, can reduce comparability between companies and can become difficult for stakeholders to base their (investment) decision on. One global coherent framework will ensure comparability, enhance cost efficiency and improve reliability of reporting non-financial reporting.

a. If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?

Yes, in the view of the DASB, the IFRS Foundation has the opportunity to play an important and leading role in developing the sustainability reporting standards. The IFRS Foundation has a proven track record and due process for standard setting, is widely recognized for its fit-for-purpose governance structure and its widely recognized independence.

Additionally, if the sustainability reporting standards are issued by a separate body of the IFRS Foundation, interconnectedness between sustainability information and financial reporting requirements will be better safeguarded than if other standard setters would take the role as standard setter for sustainability reporting.

If the IFRS Foundation would issue global sustainability reporting standards, it does not necessarily mean that other local or other global initiatives are obsolete. The DASB could imagine that under a “hybrid model” the IFRS Foundation would set global standards (as a baseline) that focus on metrics that are relevant for companies around the globe. Within the scope of these standards, additional reporting requirements could be introduced by regional jurisdictions (such as the EU) that focus on matters that are particularly important to these regions. Such a “building block” approach would still ensure comparability and a level playing field at a global scale, while potentially also enabling regional additions or facilitating local requirements. The IFRS Foundation could provide the global baseline that others can apply or build upon.

If the IFRS Foundation would refrain from creating a Sustainability Standards Board (SSB) under the governance of the IFRS Foundation, the sustainability reporting standards could be issued by other parties, such as the OECD, IOSCO, UN, the Value Reporting Foundation or GRI. However, the DASB would like to emphasize the need for one widely recognized standard setting body. Irrespective of which body would determine the sustainability reporting standards, a global authoritative body, like the IFRS Foundation, would need to have a proven due process for standard setting to ensure the standards are widely recognized and adhered to. The challenge that the IFRS Foundation faces due to the lack of experience on the subject matters of ESG reporting, albeit to a lesser extent, would also be applicable to alternative bodies, as none of them cover the full breath of both narrative and measurement we would expect the Sustainability Standards Board to set standards on.

Additionally, when another body would take up this role, the resulting standards for sustainability reporting would probably lack adequate interconnection with the financial reporting standards. This would create new complexities for companies in applying the different frameworks and for stakeholders when using the published financial and non-financial information.

b. If not, what approach should be adopted?

A global approach is desirable, see comments under a.

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?*

Yes, in the view of the DASB, the development of an SSB under the governance structure of the IFRS Foundation is an appropriate approach to achieve this. Like the IASB, the SSB should also implement a strong governance structure and due process for standard setting, which could result in high quality standards for sustainability reporting. Additionally, we expect that the SSB will also act independently.

A combination of the IASB and SSB in one single board, that issues both financial and sustainability reporting standards, does not seem to be a viable solution for the short term. Standard setting for sustainability reporting requires other technical expertise than standards for financial reporting. As the development of sustainability reporting standards is still in its starting phases, it is essential that the development of sustainability reporting standards does not hinder the IASB in maintaining and further enhancing the, more mature, financial reporting standards.

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 DASB agrees with the view that the points listed in paragraph 31 are important elements for success, although not all of them are requirements that need to be fulfilled at the start of the SSB. We would agree that most of the elements mentioned should be labelled as 'goals' and indeed some as conditions precedent for success of the Foundation's endeavours after having created an SSB. However, in the current early development phase it is rather impractical to make the choice to 'further develop' the SSB option conditional to these 'criteria', as stated in paragraph 31. The DASB considers it unrealistic that these criteria could all be fulfilled if the Trustees do not first choose to further develop the SSB option. A positive response from stakeholders on this consultation should allow the IFRS Foundation to utilize its financial resources and potentially use third-party contributions to further investigate the creation and incorporation of an SSB; albeit that the funding of these activities would than still be rather limited compared to the funding of an actual SSB in operation. Because of the urgency, we would favour the SSB to already start with sustainability projects even though the factors as indicated in paragraph 31 are not yet fully met (see also Q11).

Irrespective of the developments in the area of sustainability reporting standards the DASB is of the opinion that the current mission and resources of the IFRS Foundation or IASB in the area of financial reporting, should not be compromised.

Q4 - 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 DASB is of the opinion that the support of international stakeholders is instrumental for the key objective of the adoption and application of the SSB's reporting standards globally. These stakeholders include IOSCO, FSB, the United Nations, the EU, local governments, standard setters, regulators, preparers and users in the 140+ jurisdictions that already require the application of IFRS.

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

We recommend the SSB to build on the knowledge, standards and best practices of the existing (global and local) initiatives such as TCFD, the Value Reporting Foundation, GRI, CDP, CDSB, UN, WEF and the EU. This will help accelerate SSB's standard setting process and will also support future recognition and adoption of the SSB's reporting standards by these initiatives and their stakeholders. The shared vision of the Value Reporting Foundation, GRI, CDP and CDSB to work together towards comprehensive corporate reporting, as published in their joint statement of 11 September 2020, increases the importance and opportunities for the IFRS Foundation to cooperate with these organizations.

In this respect, we also refer to the white paper of World Economic Forum "Measuring Stakeholder Capitalism - Towards Common Metrics and Consistent Reporting of Sustainable Value Creation" of September 2020. The whitepaper defines a (core and expanded) set of universal metrics and disclosures that can be used for ESG reporting. It is based on the extensive work that has already been done by organizations, such as GRI and the Value Reporting Foundation.

We recommend to add the goal that the SSB should endeavour to take the knowledge, standards and best practices of the existing (global and local) initiatives as a starting point for the standard setting process[1]. This could

[1] On 30 September 2020 CDP, CDSB, GRI and the Value Reporting Foundation announced that they are already undertaking work together, including showing how their current frameworks and standards can be used together. A tangible example of how the proposed architecture can be applied to climate, by integrating the content of their standards and frameworks along with the elements set out by the TCFD.

accelerate SSB's standard setting process and will also support future recognition and adoption of the SSB's reporting standards by these initiatives and their stakeholders. The Trustees of the IFRS Foundation should be aware that starting to build high quality reporting standards from scratch would otherwise require too much time. The SSB should remain independent and will need to ensure that input from the existing frameworks, if necessary, is transformed to be in line with its own (envisaged) conceptual framework. In addition, the SSB should follow its own high-quality due process before issuing standards.

With the role of the IFRS Foundation at a global scale there is the risk that regional areas could take a different path or at a quicker speed to reach to locally or regionally recognized sustainability standards. In order to prevent the IFRS Foundation deviating significantly from other initiatives the DASB advises the IFRS Foundation to consult with key stakeholders in this field, to scan similar initiatives at regional level and cooperate with these bodies to make maximal use of parallel projects and harmonize standards where possible.

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?

For the International Financial Reporting Standards, the IFRS Foundation has made use of a network of initiatives from (140+) regional and local jurisdictions. This network can also be used for the recognition and acceptance of the sustainability reporting standards.

In recent years, the EU has proven its leadership role in the area of non-financial reporting. Since 2014, the non-financial reporting directive (NFRD) requires large listed companies to publicly report information on a broad range of ESG matters. The NFRD is supplemented with non-binding guidelines, aimed at helping companies report relevant, useful, and comparable information. In 2020, the EU launched a taxonomy for sustainable activities, also accompanied with extensive implementation guidance how to disclose the information in line with the taxonomy. The DASB recommends the IFRS Foundation to scan the developments on the EU initiatives and collaborate to move towards a set of, where possible and achievable, harmonized sustainability reporting standards.

We note that, ideally and ultimately, the SSB standards cover topics that are relevant for many companies in many jurisdictions. This could potentially include setting standards that have relevance for certain sectors only. In itself it is not problematic if in some cases the SSB turns out to be lagging local reporting requirements on specific topics, as long as the local jurisdictions recognise the importance of global SSB standards whenever they become available. Subsequently, similar duplicate local reporting requirements should then (ideally) be dissolved. A natural area of attention for local jurisdictions to set reporting requirements on, are those relevant local topics that prove, or are most likely to be too difficult to set global standards on by the SSB. We feel supported by EU Commissioner Mr. Dombrovskis statement that *'… non-financial reporting standards would be open, transparent and inclusive, as we want to avoid fragmentation of global capital markets'*[2]; and ESMA's chair Steven Maijoor notion that *'Given the global reach of the challenges posed by the transition to sustainability, Europe can play a leading role in promoting this consolidation at international level. It would not only be short-sighted but also detrimental for investors – who typically operate in global financial markets – to build a set of corporate ESG disclosure standards that is only regional.'*[3] A constructive stance from the EU towards the IFRS Foundation initiative to create a SSB would be extremely beneficial for the important goal of accomplishing ultimately global sustainability reporting standards. We would like to see a constructive dialogue in a cooperative manner between the EU and the IFRS Foundation to further establish how they can most effectively work together. From the keynote speech of EU Commissioner Mrs. McGuinness at the launch of the Climate Disclosure Standards Board report on 7 December 2020, we understand that the EU is willing to cooperate to achieve a global set of standards: '*The EU already has an ambitious legal framework on sustainable finance, including the Taxonomy Regulation and the Sustainable Finance Disclosure Regulation. The Commission intends to put forward a proposal for new legislation on sustainable corporate governance and due diligence. This creates a set of expectations for company reporting that are specific to Europe.*

[2] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FLetter%2520EVP%2520annexNFRD%2520%2520technical%2520mandate%25202020.pdf

[3] https://www.esma.europa.eu/sites/default/files/library/esma32-67-642_european_financial_forum_2020_-_12_february_2020_-_speech_steven.pdf

And it leads us to believe that there needs to be a European solution to the standards question. At the same time, we need to make progress towards greater global alignment of sustainability reporting requirements. We will support initiatives that contribute to that goal, while keeping our flexibility to go further and faster in accordance with the EU's own political ambition.'

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

The DASB agrees with the IFRS Foundation that, given the societal focus areas, the development of climate-related financial disclosure standards could be given priority. However, from the start it should be expanded to incorporate other elements of sustainability reporting given that the emphasis of key stakeholders is moving to areas outside climate related disclosures. Therefore, the DASB is of the opinion that the current wording of the scope is too narrow as the SSB should familiarise itself from the start with other areas of sustainability reporting.

On the other hand, we understand that sustainability reporting covers a wide range of subjects and that it could be a challenge to simultaneously develop reporting standards for so many wide-ranging topics.

We note that there is a sense of urgency to adopt a (global) set of sustainability reporting standards. We therefore would advise the IFRS Foundation to create a vision and plan on the development of the standards with the objective to provide clarity to stakeholders (investors, supporting jurisdictions, preparers and other standard setters in this area) on timing and scope.

Although there is merit in ensuring climate-related disclosure standards are developed with priority, a much broader approach must be applied from the start. This should be reflected in the governance and strategy of the IFRS Foundation/SSB. The expertise of board members should not be limited to climate-related topics or for the preparation of a conceptual framework for sustainability reporting. For the purpose of our entire response, we would like to define 'sustainability reporting' as a company's reporting that is significant to investors on ESG-performance in combination with the narrative on the company's ability to create long-term value for its key stakeholders. This ambition should be the leading underlying thought in setting up the internal organization and governance of the IFRS Foundation and SSB (e.g. in attracting new Trustees and technical experts) and for the design of a fit-for-purpose conceptual framework on sustainability reporting standards.

It is very important that the SSB executes an agenda consultation and subsequently drafts a mid to longer term vision and planning.

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

We agree with the IFRS Foundation that the SSB should initially focus its efforts on the sustainability information most relevant to investors and other market participants. Historically, the target audience of the IFRS Foundation is limited to investors. As explained in our response to question 1, investors are increasingly using non-financial and sustainability information when evaluating investment opportunities, including what impact a company has on the environment and society. Additionally, companies are recognizing that long term value creation should be realized for all stakeholders and is not limited to only profitable growth. By focusing on enterprise value creation, the information needs of a wide range of other stakeholders can also be met.

Additionally, the difference between single and double materiality is diminishing. Either a corporate reporting topic is deemed as potentially material for investors, or it is not. If it is potentially material for investors (i.e. relevant to enterprise value creation), it should in principle fall within the scope of either the IASB or SSB. If the activities of a company have an impact on society, it will sooner or later also impact the company (e.g. reputational damage, government action, reduced access to capital). Consequently, many sustainability topics will become relevant for external disclosure, even under the application of a single materiality approach.

Irrespective of what materiality approach the SSB sets off with, we recommend that the SSB introduces a materiality assessment, to enable preparers to limit the sustainability topics to those that are relevant for investors and other stakeholders and prevent disclosure overload in the annual reports.

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?

As discussed in question 9, non-financial information is gaining relevance for investment decisions by investors. From this perspective, not only financial information but also the non-financial disclosures should be subject to external assurance. That the standard setting process of the IFRS Foundation already considers the verifiability of the information reported in conformity with the issued reporting standards, is a benefit in this respect.

However, we note that it may not be necessary or feasible to provide reasonable assurance for all sustainability disclosures for the following reasons:

- The level of assurance should be primarily determined by the needs of the users.
- For different sustainability topics different levels of assurance could apply. For example, for generic metrics such as carbon emissions, a reasonable level of assurance could be feasible. For other topics such as social policies, providing even limited assurance could be challenging.
- The auditable information should be assured against a benchmark or policy, which for some elements of non-financial information may be difficult.
- Assurance requirements should not hinder the issuance of sustainability standards nor the sustainability reporting by companies.
- Companies need time to bring the non-financial information to the same maturity level as the information in the financial statements (e.g. the design and implementation of effective internal controls over non-financial reporting).

Finally, we refer to the Extended External Reporting Assurance project of the IAASB that encapsulates also reporting on environmental, social and governance matters.

Q11 - Stakeholders are welcome to raise any other comment or relevant matters for our consideration.

We strongly support the initiatives of the IFRS Foundation as outlined in the consultation paper. Because of the urgency, we would favour the SSB to already start with the first sustainability projects even though the factors as indicated in paragraph 31 are not yet fully met (for example - assuming that the Trustees will approve the foundation of the SSB - the DASB believes that the sustainability reporting initiatives could already start with limited funds and with part-time resources, including the support of existing bodies such as the Value Reporting Initiative, GRI, TCFD, UN and the EU).

The SSB should in our view not only issue generic standards and metrics that apply to all companies, but should also consider industry specific disclosures, to meet particular information needs of users. Within these requirements there should be sufficient room for companies to disclose additional non-financial information that is specifically relevant for them.

Please do not hesitate to contact us should you require further information on these comments.

Yours sincerely,

prof. dr. Peter Sampers
Chairman Dutch Accounting Standards Board