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Re: *Comments on the IFRS Consultation Paper
on Sustainability Reporting*

Contact: Ms. Raquel Zaragoza

December 21- 2020

Dear Mr Liikanen:

EFFAS is very pleased to comment on the IFRS Trustees consultation paper on Sustainably Reporting. As the largest European association representing financial analysts and investors, we welcome this initiative.

The IFRS Foundation experience in setting high-quality standards places the Foundation in an invaluable position to develop global sustainability standards. For users of financial and non-financial information, consistency, transparency and useful disclosures are key elements in the decision process.

Since 2007 EFFAS has been addressing ESG and sustainability related issues through the work of its commission on ESG (CESG)¹. CESG members are fund managers, financial analysts, company representatives and academics from leading European and global sell-side and buy-side firms.

EFFAS comments on the Consultation Paper as follows.

Question 1

Is there a need for a global set of internationally recognized 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?

We believe that there is (1) a need for homogeneous and high-quality sustainability reporting standards and (2) a role for the IFRS Foundation in the definition of internationally recognized sustainability standards.

For investors and financial analysts, consistency, transparency and useful disclosures are key elements in the decision process. Although there are several initiatives providing guidance, there is not a common objective of standardization of non-financial reporting. Furthermore, integration with financial reporting is a step that should be achieved to have a set of reporting standards. A more homogeneous and structured corporate reporting has to be achieved as currently companies' sustainability reporting is presented in many different ways.



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 consider that establishing a sustainability standard board (SSB) operating under the governance of the IFRS Foundation structure should be the end goal. Since many different aspects and steps have to be considered in the process as a first step and before establishing the SSB establishing a Council or similar to evolve into the SSB should be considered. **Time is an important element.** Markets, investors and companies are moving fast in addressing sustainability reporting issues. A balance has to be reached between time and guaranteeing the quality of the standards.

Moreover, coordination and a great deal of interaction between the IASB and the potential SSB will be indispensable to achieve consistency, comparability and integration between financial and non-financial information. This coordination and integration will be key for the success of the SSB.

We think that for the SSB to define and issue high-quality sustainability standards a process similar to the current process to define financial standard should be followed. The experience and track-record of the IASB is a very valuable asset to set high-caliber sustainability standards. Establishing priorities through an agenda consultation and an appropriate due process should contribute to the success of the SSB.

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)?

Regarding the seven points mentioned in paragraph 31, we would like to point out.

a). – before taking the step to create the SSB, we believe that is necessary to have broad support from public authorities, regulators and jurisdictions as well as market stakeholders particularly preparers and investors. The current global relationship of the IFRS is a solid basis to gain input in advance.

b). - given the several initiatives currently addressing non-financial information particularly in Europe (e.g., NFRD, EFRAG Lab..), it is necessary to evaluate how these initiatives will coexist within a context of global standards. Moreover, the recent initiative of the European Union considering issuing European standards has to be thoroughly assessed. Collaboration and agreement to work with the different platforms has to be reached to develop a common ground for the standards and avoid duplication.

EFFAS would like to clearly state how important it is for investors to have uniformity in the requirements while avoiding complexity and duplication in the standards.



The current endorsement process applied in the EU for financial standards could be used for sustainability standards. Introducing a consistent structure for reporting should significantly reduce or eliminate the current segmentation of sustainability and ESG guidance approaches.

c). - as noted above, the SSB should be integrated into the current structure of the IFRS Foundation. To reflect this, the composition of the Trustees would have to be reviewed and adjusted accordingly. **This structure should guarantee the independence of the SSB.**

d). - as in c). - the SSB should be composed of technical members with experience in the field while maintaining a close working relationship with the IASB.

e). - additional funding specifically allocated to cover an extended IFRS structure will be needed. This point deserves a further review and EFFAS, at this point, is not in a position to comment how the fund raising should be obtained.

f). - as already mentioned, it should be a fluent and ongoing interlink between financial and non-financial measurements. Investors have to understand how sustainability metrics are linked to financial information to gauge the impact in valuation. In fact, the gap between financial and non-financial information has to start to be closed as both corporate value creation and shareholders value affects investors' decisions.

EFFAS's members have significant experience in working with both financial and non-financial information and we will be willing to participate in any transition committee and contribute to the successful implementation of a new structure.

g). - we agree. The new structure should not compromise in any capacity the current work of the IASB and the quality of standards.

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?

To reach a global adoption it will be required to attain a broad consensus among stakeholders. Leveraging on the current IASB relationships, the SSB could follow a similar pattern to develop working relationships with public authorities and stakeholders.

As previously noted, in the process of setting sustainability standards and defining metrics, we encourage the IFRS to work with current initiatives to build and reach a common ground. IFRS standards have to add value and avoid overlapping.

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 consider it necessary to work with the existing initiatives to reach support from a broad range of jurisdictions. As noted, an agreement should be reached on the scopes of the initiatives to attain a mutual and beneficial goal. The Foundation knowledge of investors' requirements related



to corporate reporting should be considered when targeting the “end-consumer” of the standards. Coordination between the Foundation and regional regulators will be needed to incorporate regional concerns into a broader approach.

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?

Based on the broad support for the current financial standards, the Foundation could:

- discuss the initiative with its broad base of jurisdictions, regulators and stakeholders to “test the waters” and then gauge the support for the SSB.
- set up an IFRS taskforce, maybe building up on the work done to prepare this CP, including preparers, investors and other key stakeholders, to comprehensively analyze the current initiatives and build on them
- the group should be well-balanced between size and composition to properly represent stakeholders while being efficient.
- this group within a given period of time should present a proposal recommendation of how to proceed.

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?

Climate-related issues are considered by many stakeholders as the more relevant and pressing issue. Although the IFRS should be cautious about being overly ambitious at the first stage, EFFAS considers that since for the past several years social and governance issues have also been addressed in Europe by investors, a broader approach should be contemplated. In fact, in Europe recent issues related to governance strongly affecting investors have been in the spotlight.

Question 8

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

As mentioned in question 7, EFFAS suggests taking a broader view considering a possible two-stage approach.

Question-9

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

Providing relevant information is a key component when defining high-quality standards. For investors the quality of the information is fundamental to take a well-formed investment decision. To achieve this within a framework of consistency, we deem it necessary to develop a Conceptual Framework for sustainability. Omitted or boilerplate information both financial and non-financial should be avoided.



Although we agree with the proposed approach to materiality focusing on sustainability information, we think that the different angles of how this issue affects a company's business model and investor's decision have to be considered. Both are interlinked and providing transparency will benefit market efficiency. Moreover, the end goal should be to reach a broader spectrum of audience as regional legislation, like in Europe, already required a double perspective. However, we should emphasize that timeliness is an important consideration.

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?

Although assurance is preferred, given the time factor, we think that entities providing consistency, usefulness and comparable information is more important. Down the road assurance should definitively be in place.

Question 11

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

To reiterate the timely delivery of sustainable standards.

If you would like to further discuss the views expressed in this letter, please contact us.

Yours sincerely,

Javier de Frutos
On behalf of EFFAS

EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 15-member organizations representing more than 16,000 investment professionals.

¹ *Founded in 2007, the Commission on ESG is a standing commission of EFFAS aiming at facilitating the integration of ESG aspects of corporate performance into the investment process. CESG members are fund managers, financial analysts, company representatives and academics from leading European and global sell-side and buy-side firms. <https://effas.net/about-us/commissions/cesg-environment-social-and-governance.html>*

CESG main responsibilities are:

- *Review and comment on relevant aspects related to reporting, measures and valuation on ESG.*
- *Develop and maintain EFFAS relationship with ESG capital markets stakeholders.*
- *Organize conferences on ESG topics at a European level including corporate presentations.*
- *Represent EFFAS at international conferences related to ESG issues.*
- *Ongoing work in developing EFFAS training & qualification certificate CESGA®.EFFAS Certified ESG Analyst.*