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16 December 2020	Consultation Paper on Sustainability Reporting	20/DB/04839	-		b.wammes@nba.nl 020 301 03 71

Dear mr. Liikanen, dear Erkki,

The Royal Netherlands Professional Organisation of Accountants (NBA) appreciates the request to share comments on the “Consultation Paper on Sustainability Reporting” (hereafter consultation paper), issued by the IFRS Foundation on 30 September 2020.

Koninklijke Nederlandse
Beroepsorganisatie
van Accountants

The main messages of our response are summarized below:

1. Introduction and major observations

Welcoming the initiative:

NBA welcomes the initiative of the IFRS Foundation to share ideas for enhancing standard setting and standards for sustainability information on a global scale. NBA supports the exploration of ways to improve current practices in setting standards for sustainability reporting in the interest of both users (such as capital providers) and preparers, and in connection with standard setting for financial reporting. Global sustainability reporting standards must respond to the need for harmonized, high quality professional practice for corporate reporting. This will also contribute to enhance comparability of sustainability information enabling a level playing field for global, regional and local business.

Positioning in the field:

In our view, the IFRS Foundation is eminently in the position to play a leading role in the development of sustainability reporting standards. The IFRS Foundation has already has a strong due process for standard setting, a proven governance structure and is widely considered to be independent and authoritative. Furthermore, the initiative would contribute to the desired interconnection between financial reporting and sustainability reporting.

Success-factors:

NBA believes that a system-change for design, adoption and implementation of global, high quality, interconnected, corporate reporting standards takes considerable time. Critical success factors are (1) authoritative leadership, (2) support of current large players, (3) a multi-stakeholder engagement, and (4) legislation and enforcement.

However, this seems to be at odds with the urgent need for timely progress. A more pragmatic solution with prioritisation of actions for the short term is necessary, promoting application of what already exists and what is suitable and measurable, and at the same time continue a proactive search for ways for the more enhanced systemic global approach for the longer term based on a clear widely accepted long term vision.

2. Answers on the questions in the consultation paper

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

Relevance of sustainability information is growing:

We see that investors rely much more on information beyond the annual financial statements for their decision making as isolated financial information appears not to be sufficient anymore for an appropriate consideration of the sustainability and resilience of businesses. Global risks and returns (or opportunities) include environmental and social aspects and internally generated intangibles. These aspects are closely related for meeting global ambitions such as they are stipulated in the Paris Agreement and the UN Sustainable Development Goals. The need to understand the broader context of related risks and returns for businesses is reason that sustainability information has gained relevance.

Urgency and caution:

Organizations struggle to provide consistent, comparable and reliable sustainability information due to the multitude and the inappropriateness of reporting frameworks. There is an increasing need for alignment and convergence on a global scale, but until recently, there was hardly any progress, as initiatives were insufficiently successful by lack of leadership and lack of sense of urgency. The need is urgent indeed; nevertheless, standards must be developed with caution.

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

Welcoming a global solution:

In our view the IFRS Foundation is a suitable body to take up the leadership role in the process towards a set of global sustainability reporting standards. After all the IFRS Foundation has a very strong reputation and is widely considered to be legitimate, credible, authoritative and independent. The IFRS Foundation may well facilitate the desired development 'in convergence' in a timely way.

Welcoming a connected solution:

The two-pillar initiative of the IFRS Foundation would, importantly, imply that standard setting for sustainability reporting will be structured in connection with standard setting for financial reporting. We see advantages for both pillars. Appropriate reporting standards for sustainability are still non-existent or immature; they will be developed in an experienced standard setting environment with a strong independent governance structure. Furthermore, we see that the application of reporting standards for financial information may currently not sufficiently reflect the short, and long term, constraints and impacts of the sustainability agenda. The initiative would enable cross-pollination, thus contributing to a high-quality coherent set of standards for 'inclusive' corporate reporting.

b. If not, what approach should be adopted?

In our view, for a timely global solution there no other comparable candidate, based on the arguments listed in Q3a.

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?

Authoritative leadership:

In our view standard setting for sustainability reporting should be structured in such a way that the principles of public interest, credibility and legitimacy of standards are safeguarded. For this reason, the NBA is welcoming the initiative of the IFRS Foundation to explore ways to improve current practices in setting standards for sustainability reporting by the creation of global, independent, authoritative international standard setting board for sustainability information in the interest of both users (e.g. capital providers) and preparers. The IFRS Foundation is an authority in standard setting for corporate reporting and is widely recognized for its due process and strong and independent governance structure, so in our view the development of a SSB under the governance structure of the IFRS Foundation, is an appropriate approach.

Opportunities for proper IFRS application in the context of sustainability:

“The potential interplay of IFRS requirements with sustainability issues is quite far reaching”. This is what Hans Hoogervorst highlighted in a keynote speech in the IFRS Foundation virtual conference of 28 September 2020: “The more urgent sustainability issues become and the more stringent public policy towards a zero-emission future becomes, the more financial statements will be affected by these developments”. Financial decisions tend to be taken on the basis of the financial accounts including cash flow assumptions, that at present may not reflect completely the short, and long, term constraints and impacts of e.g. climate change. The IFRS Foundation overseeing both standard setting for financial reporting and sustainability reporting may offer a suitable structure for proper considerations on purposeful interconnected standard setting and guidance, within the global sustainability agenda.

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)?

Requirements for success:

The NBA would agree with the elements or conditions for success as listed in paragraph 31, but we would not consider these as requirements that must be fulfilled at the moment of inception. A pragmatic approach in the early stage is important in order to achieve progress in a timely manner. In the answers to the questions here below we will share our considerations on other success-factors and prioritization.

Timely progress through the support of large players:

Timely progress is not easy, but we realize that this may be the case for any widely accepted global solution. For timely progress the support of current large bodies in standard setting is important. The new SSB should use and should go further on what has already been properly developed, avoiding to reinventing the wheel. Current large players in the Corporate Reporting Dialogue have shown recently willingness to share their legacy, as published in their joint statement of 11 September 2020, and also the new Value Reporting Foundation (the SASB/IIRC-merge) expressed to be open for collaboration with the SSB.

Engage with the network:

The IFRS Foundation may seek the support of IOSCO, UN and the FSB for the SSB-initiative; their support would enable an easier engagement with regional and national players in the field of sustainability reporting. For the IFRS's, 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 implementation of a strong governance and the recognition and acceptance of the sustainability reporting standards. We consider it crucial to liaise with the EU as Europe shows leadership in setting criteria for sustainable businesses and the EU anticipates a European body for the development of sustainability reporting standards. For a global solution it is desirable that the EU- and SSB initiatives are complementary and compatible.

A proper funding base:

The proposal for a separate SSB and its ambitions has implications for long term commitments for funding. The precondition of a multi-stakeholder approach (see Q4) may create a pathway to a broad-based funding model.

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?

Multi-stakeholder engagement in the standard setting process:

We acknowledge that the IFRS Foundation has a proven governance structure and oversees a state-of-the-art due process for standard setting. The IASB is well-known for carefully balancing the interests of preparers and users of corporate reporting. The multi-stakeholder feature as a major distinctive characteristic for sustainability reporting. Engaging a wider range of expertise, skills, experience in a transparent way is therefore a precondition for a high-quality corporate reporting standard setting. The participation of larger and more diverse group of independent but experienced players at both standard-setting levels and oversight is necessary to safeguard that the interests of preparers and all stakeholders are properly balanced. A transparent nomination process must be part of the well-designed governance structure.

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

Sustainability-reporting brings new features:

Despite the large number of frameworks sustainability reporting is still relatively immature; concepts and metrics are in a developing stage. Characteristics of sustainability reporting show that there are commonalities and differences with financial reporting. Sustainability-related new features are: multi-capital focus, extended future outlook, connectivity of information, extended boundaries covering the organisation's supply chain and beyond, double materiality (impacts for the company, outside-in, and impacts for society, inside-out). Another specific feature that cannot be underestimated is the extended target audience. We already referred to the multi-stakeholder engagement under Q4. The new features require different players, expertise, skills and experience in the due process of standard setting for corporate reporting and oversight.

Technology as a facilitator:

Currently technology provides digitalisation of financial reporting based on a generic taxonomy. Likewise, standards for sustainability reporting should enable the use of a taxonomy and digitalisation of corporate reporting or interconnected reporting. Technology would thus contribute to achieve global consistency in metrics and measures.

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?

The power of legislation and enforcement:

It is recognized that global standards generally be preferred, but what is expected to be achievable? Support of all key players, including regional and national politics and authorities, is a condition for success but is a major challenge. In the absence of timely progress, it is likely that European or national standards will further emerge. It must be acknowledged that Europe shows leadership in the field of regulation and legislation for setting sustainability criteria for businesses and for transparency thereon. This underpins that Europe is a regional authoritative power for legislative requirements and enforcement measures. Legal requirements in this context are a good basis for creating a proper level playing field for both linear and circular businesses in terms of transparency. The European Commission recently pronounced intentions to assign EFRAG to develop a European set of NFI-corporate reporting standards while revising the NFR-Directive. The SSB-based proposal builds on voluntary application anticipating political endorsement by regional and national authorities; the IFRS Foundation lacks endorsement- and enforcement - processes. In our view, the IFRS Foundation may take due notice of the EU initiatives.

Collaborative approach:

The SSB is expected to issue standards for metrics and disclosures that are suitable for global proportionate application. Initiatives on regional and national levels should be complementary to the global solution and vice versa. Regional and national initiatives should not create a barrier for the development of a coherent global set of standards. In our view the IFRS Foundation should engage where possible for the purpose of convergence of initiatives. A global approach is also in the interest of the EU and national jurisdictions. In an optimal situation regional and national initiatives should be compatible with what has been generally developed for the global scale.

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?

Scope and prioritization:

In the view of the NBA there are arguments for giving priority to the establishing of high-quality sustainability reporting standards on climate-related disclosures, but we think the SSB should broaden its general scope as from inception. Climate-related sustainability factors are currently at the forefront in the discussions on impact and enterprise value. However other environmental sustainability factors are, or will soon be, equally relevant and interlinked, such as the use of air, water and land and the impact on biodiversity. In terms of ESG also social topics, such as child labour, modern slavery, income-inequality, and governance-related topics are, or will soon be relevant as well for corporate reporting. We acknowledge that it is not possible to develop sustainability reporting standards for all these (and more) topics as from the start, but the SSB should initially develop a clear vision on how these topics would fit in a coherent framework for sustainability reporting.

Sustainability information or multi-capital information:

In our view financial information in silo has no future, nor does sustainability information in silo. The need to understand the total context of risks and returns is reason that the line between financial information and sustainability information is fading. In order to achieve connectivity of information we see that organizations are preparing corporate reports based on a multiple capital approach in the Integrated Reporting Framework or in the Core and More framework or the Management Report. We see examples based on Integrated Reporting (IIRC), Core and More reporting (Accountancy Europe) and reporting on climate related financial aspects (TCFD). Sustainability information has become more

relevant for the primary users of corporate reporting: the providers of financial capital. A major part of sustainability information may therefore be considered as pre-financial information or extra-financial information. How would two separate pillars for financial information and sustainability information safeguard connectivity of multiple capital information? This trend towards integration and more 'inclusive reporting' should be taken into account in designing structures and processes for future-fit standards for corporate reporting. The proposed SSB under the IFRS Foundation might be good basis to deal with this issue.

Need for a conceptual framework:

In our view the new SSB should draft standards on narrative and measurement for performance indicators that have universal relevance for (nearly) all companies. Additionally, users seem to need appropriate more contextual performance measures for sustainability, like we know solvency, profitability and liquidity for financial reporting. Long lists of performance indicators appear to be not useful for decision-making purposes. Current reporting practices for sustainability lack such a common conceptual framework for context. Contextual measures like 'impact' and 'long term value creation (LTVC)' or 'enterprise value' seem to gain ground, but are still difficult to measure. Organizations are struggling to translate this kind of contextual measures in a more corporate language; narratives are inevitable to learn the context. LTVC is included in the Dutch Code for Corporate Governance, based on Dutch company law, and we see similar developments elsewhere. Further development of these or other contextual measures for sustainability reporting or 'context-based inclusive reporting' - including general accepted ratio's or alternative performance indices - is essential for a future-fit set of corporate reporting standards.

Need for a general sustainability reporting format:

We wish to emphasize that there is a need for an appropriate interconnected format for corporate reporting, which includes sustainability. An appropriate generally accepted format for sustainability information is not yet available. The traditional format and generic features for financial reporting: Balance Sheet, Profit and Loss Account, Cash Flow Statement, Notes and Management Report, seem not easily be used or extended for sustainability reporting purposes. In our view format-related aspects and general features for sustainability reporting should be part of the overall interconnected standard setting process for corporate reporting. The proposed SSB under the IFRS Foundation might be good basis to deal with this issue, given the IASB experience in the field.

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

Appropriate definitions:

In our answer on Q7 we highlighted the need for a broadened scope. In Q8 the consultation paper refers to the issue of definitions in the context of the remit of the SSB. Currently there are no clear terms or definitions for the range of subject matters and/or topics that the SSB is supposed to cover in the proposal. We see terminology being used such as non-financial information (NFI), pre-financial information, extra-financial information, sustainability reporting, ESG-reporting and extended external reporting. Clear definitions on subject matter and topics are welcomed but moreover we wish to emphasize that in our view the IFRS Foundation - with the anticipated two pillars IASB and SSB in mind - should cover the complete range of future-fit corporate reporting standards. In the consultation paper it does not become clear whether the SSB would cover also SDG-related NFI-elements such as diversity, anti-fraud, anti-corruption, AML, cybersecurity, privacy, fair taxes etc. We would recommend to include all relevant (material or potentially future material) topics for corporate reporting in this initiative for the purpose of the development

of a complete and coherent set of reporting standards.

Principle based, topic related standards in a top-down structure:

Sustainability reporting standards should contribute to better transparency but should not be normative in sustainability terms. The focus should be on fostering consistency, comparability and reliability of information. Therefore, standards must be principle-based for an appropriate application of professional judgement to avoid a compliance-oriented approach. To some extent a normative character is inevitable to safeguard comparability. A generic top-down structure including contextual measures, subject matters or topics, generic indicators and disclosures might be useful as a basis for more specific industry-based indicators.

Measures should be applicable beyond reporting:

Management of modern business entails a broader understanding of the resources and relationships they use for creating enterprise value. Businesses need therefore interconnected information across multiple capitals for better decision making in terms of mission, strategy, risk-management, corporate governance and performance monitoring. Standards for measures and indicators must be suitable and applicable in the total set of functions within modern business management of which sustainability reporting is only one function out of many. In this context we wish to refer to the EU initiative for a taxonomy for sustainable (or green) investments.

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

Use the materiality lens to avoid a reporting overload:

Materiality is a core element to consider in standard setting for corporate reporting to achieve relevant, balanced and decision-useful information, while avoiding a reporting overload. For an adequate materiality lens for all stakeholders from both the outside-in and inside-out perspective (whenever relevant) the question raises how to make it practical in terms of quantitative and qualitative cut-offs in an interconnected approach. Learning from financial reporting (IFRS) seems a proper approach but the new NFI-features (see under Q5.) make it challenging.

Investor focus:

The NBA would agree with the investor focus in the SSB-proposal. Sustainability information is relevant for a wider group of stakeholders as the business model and related activities of an organization have an impact on society. Sustainability topics become material when and to the extent the business' impact on society has an impact on the organization. Currently investors need increasingly information on a wide range of sustainability topics to gain a clear view on impacts and enterprise value creation for the purpose of stewardship and public benefit. This kind of investor focus in the materiality concept may imply that the information need of other stakeholders are also met. Part of the sustainability objectives may even be handled and covered in the mainstream (financial) report itself and in an increased way in the future. Currently we already find sustainability-related information in a mainstream report that relates to long term value creation, which information is (supposedly) prepared with the same materiality perspective as financial information for the purpose of connectivity with financial information. This perspective is consistent with TCFD recommendations and expectations of investors. In terms of connectivity the natural fit between sustainability information prepared with the lens for financial information could be taken on board first because this is relatively quicker to achieve. Reporting on impacts with a different - or double - materiality lens should be seriously considered but in terms of enterprise value creation,

business viability and connectivity of information, we might experience that the notion of double materiality is quite dynamic and might be a time lag matter in the end.

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?

Added value of assurance being recognized:

The IFRS Foundation is not the authority to prescribe assurance on sustainability reporting, but we acknowledge the appropriate considerations in the SSB-proposal concerning the need for accurate, reliable and comparable data and the added value of assurance in the context of public interest. We wish to emphasize here that the responsibility for reliable information lies with the company's management. The purpose of an assurance engagement is to investigate and report on whether and to the extent the information is reliable or not and compliant with the relevant requirements.

Consider 'assurability' of sustainability reporting in the standard setting process:

As sustainability reporting is still relatively immature, assurance on sustainability information is still relatively immature. Currently we mostly see limited assurance. For sustainability reports we see challenges in terms of subject matter identification, norms for information value, suitable criteria for reporting and measurement, materiality determination and availability of evidence. These challenges directly link with the necessary conditions for enabling assurance. With the design of sustainability reporting standards, the 'assurability' of information – with the conditions here mentioned in mind – should indeed be taken into consideration. As the distinction between financial information and sustainability information is fading, interconnected reporting may become mainstream in the future. Assurance providers are then expectedly requested to provide reasonable assurance on the total range of corporate reporting. The SSB may consult the IAASB guidance on EER-assurance (Extended External Reporting), which is currently a draft in the final stage. This guidance is being designed not only for assurance providers; major parts of the guidance are relevant for other stakeholders such as preparers, users and standard setters.

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

Sustainability standards or sustainability reporting standards:

The proposed name of the new pillar under the IFRS Foundation is 'Sustainability Standards Board'. Based on the current mandate of the IFRS Foundation and the IASB the new SSB's mandate is supposed to entail developing 'sustainability reporting standards' and not 'sustainability standards'. The objective of the latter is setting standards or requirements for a sustainable business model, which is something for technical experts, scientists and furthermore on a regional or national level also for politicians and legislators. The IFRS Foundation may reconsider the name of the board, depending the intended focus. Perhaps Sustainability Reporting Standards Board (SRSB) is an option.

Beyond listed entities:

The SSB-proposals encompass sustainability reporting standards for larger companies e.g., listed entities. We consider that it may be a good approach to start with the listed entity environment with an open mind. Nevertheless, it would be recommendable to design a set of sustainability reporting standards in such a way that they become the leading edge for further future development of global sustainability reporting standards for private companies, SMEs (similar to IFRS for SMEs) and the public sector (similar to IPSASs).

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'B.J. Wammes', written over two horizontal lines.

Berry J.G. Wammes