FESE response to IFRS consultation on sustainability reporting

Brussels 18th December

Q1 - Is there a need for a global set of internationally recognised sustainability reporting standards? (a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area? (b) If not, what approach should be adopted?

We believe that there is a need for a global set of internationally recognised sustainability reporting standards. IFRS Foundation can certainly play a role in setting these standards and expand its standard-setting activities into this area.

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?

N/A

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)?

FESE would welcome if IFRS would work to promote convergence of existing standards, rather than proposing a new set of standards. In particular, IFRS could leverage progress already made by the TCFD. The TCFD framework provides the foundations for reporting of climate-related financial information and is a globally recognised standard. It will be important for IFRS to build on this to avoid first-movers having to make significant adaptations to any new framework on climate data. In addition, any proposal for a new standard should also consider and build upon the work conducted by GRI, SBAS, EU Taxonomy/EFRAG and monitor the developments under the review of the NFRD and its guidelines.

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?

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

Further global consistency would be best achieved by the IFRS working together with existing stakeholders. An inclusive and transparent way to do so would be to launch a call for interest and have a broad representation of different sectors, approaches and angles. We believe that the methodology used by the European Commission for the creation and governance of the High-Level Expert Group on Sustainable Finance and later the Technical Expert Group could be a source of inspiration. Interim reports and final reports could be prepared after being subject to transparent public consultations.

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?

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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?

If the IFRS Foundation were to establish an SSB, we believe it should initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting. This would be consistent with the current standards available into the market. However, future workstreams around the S and G of ESG should also be prepared.

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

While a focused definition of climate-related risks is certainly important, we believe IFRS should consider broader environmental factors.

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

The materiality discussion should consider the overall discussion that the European Commission is developing around the framework for the NFRD and its review. Double-materiality criteria should be taken into account. The NFRD has a double materiality perspective, as follows: 1.The reference to the company's "development, performance [and] position" indicates financial materiality. Climate-related information should be reported if it is necessary for an understanding of the development, performance and position of the company. This perspective is typically of most interest to investors. 2.The reference to "impact of [the company's] activities" indicates environmental and social materiality. Climate-related information should be reported if it is necessary for an understanding of the external impacts of the company. This perspective is typically of

most interest to citizens, consumers, employees, communities and civil society organisations.

An increasing number of investors need to know about the climate impacts of investee companies to better understand and measure the climate impacts of their investment portfolios. To avoid inconsistencies and regulatory arbitrage, IFRS should closely monitor the ongoing discussions on this subject.

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?

N/A

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

FESE would suggest the following topics for further consideration:

1. IFRS should avoid any tick-the-box approach but insist on materiality (and even double materiality – please see Q9); sustainability accounting standards should ideally be embedded into financial accounting standards. The goal is to enhance investor protection via robust data support. These standards will only work if they are of good quality and advance practices.

2. The broadest possible application should be aimed for, to achieve a level playing field.

3. Templates (similar to financial reporting templates) would be helpful.

4. Finally, SMEs play an important role which makes it necessary to encourage SMEs to disclose sustainability data. Financial market players engaged in promoting SMEs should support these to continuously broaden their disclosures of sustainability data. Although we recognise the need to avoid increasing the overall regulatory burden on SMEs, non-financial matters may pose material risks and opportunities to businesses irrespective of their size. Better sustainability-related performance could lead to lower funding costs, fewer and less significant business interruptions, stronger consumer loyalty and better relations with stakeholders.

We believe that any extension of reporting requirements targeting SMEs needs to be carefully assessed and followed by a cost-benefit analysis. We would support the introduction of voluntary specific simplified standards for SMEs (as defined in MiFID). This would cater to investors' need for transparency but place a more proportionate burden in terms of further administrative costs for SMEs. In principle, requirements should include all companies but we also recognise the need for flexibility in order not to overburden small companies and therefore believe that size and complexity of undertakings should be considered when developing such requirements.

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