To the Trustees of the IFRS Foundation

London, United Kingdom

Submitted electronically

The Hague, 17 December 2020

Ref: B20.26

Subject: Eumedion response to the Trustees' Consultation Paper on Sustainability Reporting

Dear Trustees,

Eumedion appreciates the opportunity to respond to the 'Consultation Paper on Sustainability Reporting', that was issued by the IFRS Foundation on 30 September 2020. Eumedion is the dedicated representative of the interests of 50 institutional investors, all committed to a long term investment horizon. Eumedion aims to promote good corporate governance and sustainability in the companies our participants invest in. We regard globally recognised financial and sustainability standards as a critical part of the global financial infrastructure, since investors are dependent on the quality of these standards for allocating their own and entrusted capital. Such standards are instrumental for responsible and engaged investors to live up to their fiduciary duties. Together our participants invest over € 6 trillion of capital in equity and corporate non-equity instruments.

First, we would like to complement the Trustees with producing a consultation paper that breathes a clear willingness to expand the Foundation's mission into sustainability reporting. Eumedion is and has been an active proponent of such an expansion ever since the publication of our green paper 'Towards a global standard setter for non-financial reporting'[1] in October 2019, our position paper 'Towards a global, investor focused standard setter for corporate non-financial reporting'[2] and the related feedback statement[3] in July 2020 on this matter. We consider the vision tested in the Trustees' consultation paper to be very well aligned with the views we expressed earlier.

[1] https://www.eumedion.nl/clientdata/215/media/clientimages/2019-10-green-paper-international-non-financial-information-standard-setter.pdf?v=191128110859
[2] https://www.eumedion.nl/clientdata/215/media/clientimages/Position-paper-standard-setter-non-financial-reporting.pdf?v=200706132241
[3] https://www.eumedion.nl/clientdata/215/media/clientimages/Feedback-statement-Green-Paper-NFI-def.pdf?v=200724150641

Before providing detailed answers to the posed questions, we would like to highlight our key messages:

- Eumedion fully supports further developing the option of creating a Sustainability Standards Board (SSB) under the umbrella of the IFRS Foundation;
- We suggest that the Trustees no longer distinguish between 'single' and 'double materiality'. Either a corporate reporting topic, narrative or an indicator of impact or performance, is deemed as potentially material for responsible and engaged investors, or it is not. If it is potentially material for investors, it should in principle fall within the scope of either the IASB or SSB to set standards on.
- We urge the Foundation to interpret the 'criteria' in paragraph 31 as 'goals' instead of conditions that need to be met before further exploring the option to create a Sustainability Standards Board.
- There is a real risk that the existing 'alphabet soup' of sustainability frameworks spills over to a like-wise divergence in practices amongst jurisdictions. Eumedion therefore advises to fast track as much as possible the diligent establishment of the SSB. The sooner the SSB is established, the better it can provide a global alternative for the already emerging legal initiatives of local jurisdictions.
- The SSB should from the start make inroads into other areas of Sustainability Reporting, without compromising the expedient development of a standard for climate-related disclosures.

Please find our responses to the questions of the consultation paper below.

If the Trustees would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Martijn Bos (martijn.bos@eumedion.nl, +31 70 2040 304).

Yours sincerely,

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Question 1 Is there a need for a global set of internationally recognised sustainability reporting standards?

Yes, we see a clear need for a global set of internationally recognised 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, investors, non-governmental organisations and the wider society are increasingly becoming aware of and vocal on sustainability performance and other non-financial topics. Investors that integrate sustainability factors in their investment, engagement and voting decisions have become mainstream and rely heavily on the quality of corporate reporting. The ultimate beneficiaries of investment portfolios also increasingly expect institutional investors to act as responsible investors. Many institutional investors would not be able to live up to their fiduciary duty if they were to ignore sustainability factors. Many companies have become more committed to long-term value creation for all stakeholders, including the wider society. This is reflected in the corporate annual reports of a continuously increasing number of companies.

For the purpose of our entire response, we would like to define ‘Sustainability Reporting’ as a company’s reporting that is material for investors on Environmental Social and Governance (‘ESG’) topics, together with the narrative that explains the company’s ability to create long-term value for all of its key stakeholders. It should be evident from the start that the ambition of the IFRS Foundation (‘Foundation’) is to cover all the investors’ needs for corporate reporting by its two boards, the International Accounting Standards Board (IASB) and the envisaged Sustainability Standards Board (SSB).Companies struggle to provide relevant and comparable Sustainability Reporting, as many frameworks have emerged and none of them cover the full breadth of topics. Where there is overlap between the frameworks, it remains unclear how meaningful the differences between them are. This poses a major challenge for companies. It poses a major challenge for investors that want to understand how a company creates long-term value and how a company lives up to the valid needs of society where non-financial performance matters. A global and coherent framework for Sustainability Reporting would ensure comparability, enhance cost efficiency and improve reliability of non-financial reporting. It would form a basis from which individual jurisdictions could endorse, mandate and enforce global standards.

We note that, ideally and ultimately, the SSB standards cover topics that are relevant for many companies in many jurisdictions. The SSB should in our view not only issue generic standards and metrics that apply to most 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 sustainability information that is specifically relevant for them.

Question 1(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?

Eumedion fully supports the Foundation in expanding its mission into Sustainability Reporting.

The Foundation has a very strong and proven governance structure and is widely considered to be both authoritative and independent. Its authority benefits from the reputation that it and the IASB have built up over the past decades as 140+ jurisdictions require its International Financial Reporting Standards ('IFRS') for listed entities. We consider the target audience of the Sustainability Reporting, in our view investors, to be well in accordance with the Foundation's existing target audience. The Foundation oversees a state-of-the-art due process for standard setting. Under the oversight of the Foundation, the IASB is well-known for carefully balancing the interests of preparers and users of reporting. We consider the Foundation to be the most suitable body to take on this important oversight role.

Eumedion expects that these strengths will help overcome its current limited involvement in Sustainability Reporting. In a way, this current limited involvement could well prove to be a strength as well, in a sense that the SSB can independently and more quickly make harmonising choices where the existing frameworks overlap and differ in their approaches. Eumedion considers the 'Statement of intent to work together towards comprehensive corporate reporting'[4] by the five leading sustainability and integrated reporting organisations and the subsequently announced merger between Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC)[5] to be promising and very helpful as their efforts will facilitate an expedient standard setting process at the SSB.

Another factor in favour of the Foundation establishing an SSB is that there is a strong interconnectedness between financial and non-financial reporting. Having both boards under the same umbrella of the Foundation helps to efficiently safeguard this interconnectedness in the standard setting process as well.

If the Foundation would issue global Sustainability Reporting standards, it does not necessarily mean that other local or global initiatives are obsolete. Eumedion could imagine that under a 'hybrid model' the Foundation would set global standards that focus on metrics that are relevant for potentially many, but not necessarily all, companies around the globe. Within the scope of these standards, additional reporting requirements could be introduced by regional jurisdictions (such as the European Union (EU)) that focus on matters that are particularly important to these regions. It could also occur that the views between jurisdictions on a specific topic are too divergent to be addressed by a global standard setter, in which case there may be a valid need for certain jurisdictions to revert to local standard

[4] https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf
[5] On 25 November 2020, SASB and the IIRC announced their intention to merge into the 'Value Reporting Foundation'.

setting. Such a ‘building block’ approach should still promote relevance and comparability at a global scale, while facilitating more jurisdiction-specific needs of stakeholders.

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?

Yes, Eumedion favours the development of an SSB under the governance structure of the Foundation. Like the IASB, the SSB would become part of and benefit from the existing strong independent governance structure and due process for standard setting. We expect this to result in high quality standards for Sustainability Reporting. Additionally, we expect that the SSB will also act independently from local jurisdictions, and continue to diligently balance the interests of all key stakeholders involved, as the Foundation already does.

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. The development of Sustainability Reporting standards is in a very different phase of maturity and would take too much attention of the existing work of the IASB. It is essential that the development of Sustainability Reporting standards will not hinder the IASB in maintaining and further enhancing its financial reporting standards.

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)?

Eumedion 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 conditional that would indicate the success of the Foundation’s endeavors 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. Eumedion 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 to this consultation should allow the Foundation to utilise its financial resources and use any third-party contributions to further investigate the creation of an SSB; albeit that these expenditures can be expected to be rather limited compared to the funding of an actual SSB in operation. And because of the urgent need for global standards on Sustainability Reporting, we would favour the SSB to already start with sustainability projects even though the factors as indicated in paragraph 31 may not yet be fully met.

However, we would like to emphasise the importance of goal ‘b’: ‘Ensuring the current mission of the IFRS Foundation is not compromised’. Investors have benefited hugely from the work of the

Foundation and it predecessors over the past five decades. Financial reporting in accordance with the standards of the IASB will remain as relevant in the future as they are today for investors. IFRSs will continue to require further development and refinement. We do consider it inevitable and acceptable that the SSB initiative to some extent will draw on resources of the IASB, the staff and the existing (consultative) bodies in the Foundation's governance structure. However, while we are very supportive of the Foundation's efforts towards the creation of an SSB, it remains paramount that the mission of the IASB on financial reporting is not compromised.

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?

Eumedion expects that broad 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, the Financial Stability Board, the United Nations (UN), individual jurisdictions, standard setters, regulators, preparers and users in the 140+ jurisdictions that already require the application of IFRS.

Question 5 How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

Eumedion would suggest that the SSB takes as a starting point for standard setting the excellent work of the existing initiatives such as the Taskforce for Climate-related Financial Disclosures (TCFD), the SASB, IIRC, the Global Reporting Initiative, CDP, the Climate Disclosure Standards Board, the UN, the World Economic Forum and the EU. This could 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. We are more agnostic towards 'how' the cooperation with some of the organsiations responsible for the existing initiatives materialises. The chosen approach could also differ per existing initiative. However, the SSB should remain independent and will need to ensure that input from the existing initiatives, if necessery, is transformed to be in line with its own (envisaged) conceptual framework and that the SSB follows its own high quality due process before issuing standards as we expect that the quality of the SSB framework will prove to be crucial for the long-term widespread adoption and success of the SSB standards.

There is a possibility that some jurisdictions outpace the SSB in setting local standards. There is a real risk that the existing 'alphabet soup' of sustainability frameworks spills over to a like-wise divergence in practices amongst jurisdictions. An effective way to prevent ending up with such unnecessary deviations between jurisdictions would be to fast track as much as possible the diligent establishment of the SSB. The sooner the SSB is established, the better it can provide a global alternative for the already emerging legal initiatives of local jurisdictions. Once established the SSB can develop good working relations with those jurisdictions and share any of its preliminary thinking and facilitate the emergence of harmonised standards among jurisdictions where feasible.

The SSB and the Foundation's staff could also start to cooperate with existing initiatives by executing 'joint outreaches' with one or several existing initiatives on any specific topic. This may be beneficial for getting up to speed on the subject matter, get a clear understanding whether any differences between existing practices are meaningful and for expanding the Foundation's network.

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?

The Foundation has developed strong ties with a network of 140+ regional and local jurisdictions for its IFRSs. 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 also adopted a taxonomy for sustainable activities.

Eumedion acknowledges the EU's strong commitment to a sustainable future and we would welcome a leadership role of the EU that clearly recognises the global nature of the challenges faced; the need for, ultimately, global reporting standards; and the necessity of a governance structure of the standard setter that ensures independence and fosters international buy-in from jurisdictions whose commitment to a sustainable future is similar to the EU's. Against this background, Eumedion is pleased that the European Commission's Executive Vice-President Mr. Dombrovskis reiterated his stance that *'… non-financial reporting standards would be open, transparent and inclusive, as we want to avoid fragmentation of global capital markets'*[6]; and ESMA's chair Steven Maijoor's 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.'*[7].

Despite the envisaged fast track, but diligent, establishment of the SSB, the SSB could turn out to be lagging local reporting requirements on specific topics. This could be mitigated if the local jurisdictions recognise the importance of global Sustainability Reporting standards. Subsequently, similar duplicate local reporting requirements should then (ideally) be dissolved. It would be beneficial for global standards if local jurisdictions prioritise setting reporting requirements on those relevant local topics that prove, or are most likely to be, too difficult to set global standards on by the SSB. Eumedion remains confident that the Foundation's involvement herein will remain part of the discussion on how to realise this vision. The Maystadt and subsequent reviews have provided ample evidence that the

[6] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FLetter%2520EVP%2520annexNFRD%2520%2520technical%2520mandate%25202020.pdf
[7] https://www.esma.europa.eu/sites/default/files/library/esma32-67-642_european_financial_forum_2020_-_12_february_2020_-_speech_steven.pdf

existing endorsement process for IFRSs does provide the EU with great influence, while still resulting in near-global standards. A constructive stance from the EU towards the Foundation's initiative to create an SSB would be extremely beneficial for the important goal of accomplishing ultimately global sustainability standards. We would like to see a constructive dialogue in a cooperative manner between the EU and the Foundation to further establish how they can most effectively work together.

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?

Question 8 Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

Eumedion is of the opinion that the ultimate ambition of the Foundation should be to cover all the needs of responsible and engaged investors for corporate annual reporting through the combined efforts of the IASB and the SSB, without leaving any blank areas on the corporate reporting map.

The merit of a climate-first approach is that there is a widespread consensus around the world that both the wider society and individual companies face climate risks, and that most companies have, either individually or in aggregate, an impact on climate. Climate change is an urgent and global issue where the need for a uniform set of global reporting requirements that foster transparency and comparability is evident. The need is so evident, that there is a risk of reporting fragmentation as some individual jurisdicitions step in by setting diverging local requirements.

We suggest that the first priority of the SSB indeed should be to prepare and finalise a standard on climate-related disclosures, thereby building on the work of TCFD. The SSB should not waste valuable time and also further develop the organisation, execute an agenda consultation and start making inroads into other areas of Sustainability Reporting from the start without compromising the expedient development of a standard for climate-related disclosures. Especially as ambitions of local jurisdictions to set requirements on ESG reporting are understandably increasing. The longer it takes for the SSB to start harmonising at the global level, the more difficult it may become to reach global consensus. Local jurisdictions may be setting requirements on topics that ideally are set at the global level, or requirements that are not as coherent, or not as well aligned with other parts of corporate (financial) reporting, or requirements that do qualify on their own as excellent standards but are just not harmonised with the requirements of other jurisdictions.

The development of a conceptual framework is needed as well. We see a risk in developing a high quality conceptual framework while only getting hands-on experience on a single, or a few, topics. The SSB's ambition to set standards for all reporting that is material for investors on ESG performance, together with the narrative that explains the company's ability to create long-term value for all of its key stakeholders, should be reflected in the governance of the Foundation and the SSB. A sufficient diversity in expertise, beyond climate-related topics, should therefore be established among the staff, the Board members, the Trustees, and the Monitoring Board.

Question 9 Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?

We suggest that the Trustees no longer distinguish between 'single' and 'double materiality'. In our view these terms make an unnecesary and rather artifical split in the concept of materiality. Either a corporate reporting topic is deemed as potentially material for investors, or it is not. If it is potentially material for investors, it should in principle fall within the scope of either the IASB or SSB. As asserted in our response to question 1, many investors have significantly evolved over the past decade. We see merit in an SSB gauging materiality through the lense of the evolved investor that wishes to understand how a company creates long-term value and how a company lives up to the valid needs of the wider society where ESG performance matters. If the activities of a company have an impact on the wider 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. We see a solution to defining materiality for the SSB in a proper definition of the target audience. In our view responsible and engaged investors should become the target audience of the SSB. This definition could be incorporated in the conceptual framework of the SSB. Since the target audience for financial reporting and the target audience for Sustainability Reporting essentially is the same investor, the existing conceptual framework of the Foundation might over time be amended to accommodate both the IASB and the SSB.

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.

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?

Yes, the quality and reliability of the management report and sustainability information relies as much on proper standards as on a proper audit process. Therefore the SSB should take verifiability into account, just as the conceptual framework already requires for setting financial reporting standards. External auditors need to develop appropriate assurance approaches to the various topics covered by the SSB. The auditor's reports have gone through a major transformation over the past decade. External auditors provide more insight what their activities encompassed and now explain what their key audit matters were. Still, the external auditor's centre of attention is effectively limited to providing reasonable assurance on financial reporting. However, investors rely as much on the management report for their decision-making. Currently, responsibilities for external auditors regarding the quality and reliability of the management report differ amongst jurisdictions. European law requires among other things that the external auditor states whether, in the light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit of the financial statements, there were material misstatements in the management report identified.[8] This no longer meets today's societal needs. External auditors should provide at least limited assurance[9] on the entire management report, irrespective of whether a matter bears any relation to the financial statements. Reasonable assurance should at least be applied to certain non-financial KPIs.

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

We have no futher comments.

[8] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, article 34.
[9] 19 The IAASB definition of 'Limited assurance engagement' can be found here: https://www.ifac.org/system/files/publications/files/IAASB-2018-HB-Vol-2.pdf, page 127-128.