23 December 2020

The Impact Investing Institute's response to the IFRS Foundation's Consultation Paper on Sustainability Reporting

Dear IFRS Foundation Trustees,

The Impact Investing Institute warmly welcomes the proposal of the IFRS Foundation and commends the Foundation for showing leadership in and commitment to developing the sustainability reporting landscape. We appreciate the opportunity to share our views and have outlined our position in response to the *Consultation Paper on Sustainability Reporting* below. Responses to specific consultation questions are provided in the annex to this letter.

Summary

About the Impact Investing Institute

The UK Impact Investing Institute ('the Institute') is an independent non-profit organisation, which aims to accelerate the growth and improve the effectiveness of the impact investing market.

The Institute was formed in 2019 from the merger of two UK government-backed initiatives - the UK National Advisory Board on Impact Investing and the Taskforce on Growing a Culture of Social Impact Investing in the UK.

We have strong ties with key UK government departments, the City of London and stakeholders across sectors and around the world – including investors, businesses and NGOs. Our core funders are the Department for Digital, Culture, Media, and Sport, the Foreign Commonwealth and Development Office and the City of London Corporation. We also receive support from firms within the financial sector and a panel of leading law firms and are the UK member of the Global Steering Group on Impact Investing. We play a role in shaping policy to support and enable impact investing in the UK and globally.

Our key recommendations

The Institute warmly welcomes the proposal of the IFRS Foundation, including the establishment of the Sustainability Standards Board (SSB). We believe that there is a need for an international architecture to oversee global sustainability reporting standards, and to facilitate their translation into different country or region-level requirements. The IFRS Foundation is well-placed to set sustainability reporting standards that focus on the disclosure of sustainability matters material to enterprise value creation in the short-, medium- and long-term.

However, for the SSB to keep pace with global developments[1], the IFRS Foundation must situate its plans for a SSB in a clear roadmap that sets out how it will work with other actors to achieve a comprehensive corporate reporting system that meets the needs of all users.

[1] EU has committed to double materiality in their guidelines for non-financial reporting and the Sustainable Finance Disclosure Regulation (defined as 'principle adverse impacts').

We therefore urge the IFRS Foundation to demonstrate its commitment to the following key concepts:

1. **Dynamic materiality.** A rapidly evolving economic landscape means that what appears financially immaterial today can quickly prove to be business-critical tomorrow – as highlighted by Covid-19.[2] Given its existing remit to set standards which help providers of capital make economic decisions, it seems like a natural progression for the IFRS Foundation to focus on sustainability disclosures that are reasonably expected to affect enterprise value. However, we echo the GRI in asserting that sustainability reporting constitutes a key source of information relevant to understanding long-term implications to financial statements.[3]

   To be credible as a sustainability standard-setter, the SSB will need to show how it draws from the full universe of sustainability matters – including those identified as material to global public interest in relation to sustainable development. This could be via the establishment of a committee or other institutional arrangement with appropriate multi-lateral public interest oversight. The concept of double materiality – as the consultation paper acknowledges – is already included in other significant regulatory and policy developments, including the EU guidelines for non-financial reporting and Taskforce for Climate-related Financial Disclosures (TCFD). An effective, comprehensive corporate reporting system must not only cater for both approaches to materiality but recognise that materiality is dynamic and build in processes for interoperability and harmonisation between the two.

2. **Inclusive stakeholder engagement and representation.** Multi-stakeholder capitalism is a rapidly evolving concept that is increasingly influencing corporate reporting standards: corporate reporting not only serves the capital markets, but broader society too. The work of the IFRS Foundation in developing a SSB must reflect this, by engaging with and appointing representatives from multi-stakeholder groups from the outset at both technical and trustee level – including individuals with deep expertise of impact investing. This will enable sustainability reporting standards developed under the SSB to reflect the feedback from market participants and other stakeholders, inflecting them with credibility and ensuring compliance.

   The Institute has a proven track record of engaging with stakeholders across sectors and around the world. We would welcome the opportunity to support the IFRS Foundation in its engagement with relevant UK representatives. We could also help the IFRS Foundation identify individuals with experience in impact investing to its technical board and board of trustees.

3. **Interoperability between enterprise-value focussed sustainability reporting standards and wider sustainability disclosures.** Multi-stakeholder representation at trustee level of the SSB will also support the establishment of a robust feedback mechanism between the SSB and whichever institutional arrangement is set up to focus on wider sustainability disclosures (i.e., those material to global public interest in relation to sustainable development. See Qs 1 and 9 for a proposed governance architecture). This relationship must be viewed by the IFRS Foundation as central to developing a sustainability disclosures framework that can respond effectively to shifting materiality boundaries.

4. **Integration of existing sustainability reporting standards.** In order to facilitate the rapid development of sustainability reporting standards focused on enterprise value creation, we

[2] Double and dynamic: understanding the changing perspectives on materiality, SASB blog, by Donato Calace (September 2020)
[3] GRI responds to IFRS consultation paper on sustainability reporting (December 2020)

strongly recommend the IFRS Foundation integrates existing standards developed by other bodies (e.g., SASB, GRI, TCFD), rather than recreate them.

5. **Impact and outcomes measurement, not purely risk mitigation.** An organisation's impacts are the changes (positive or negative, caused directly or indirectly, wholly or partially, intended or unintended) in social, environmental, or economic outcomes caused by its activities. Stakeholders (consumers, investors, civil society, policy makers) increasingly expect organisations to report transparently on their impacts and the way in which an organisation contributes to the planet, people and the economy. Outcomes and impact measurement consider the actual changes experienced by stakeholders as a result of an organisation's activities, taking into account local contextual factors. This paints a more complete picture of an organisation's activities, helping companies to uncover risks and opportunities and helping stakeholders hold boards and asset managers to account.

   Reporting on outcomes is important for users of the information who want to interpret the extent to which organisations enable sustainable development. By comparing outcomes to relevant evidence-based thresholds as well as context-specific development priorities (for example, articulated in the SDGs), users of sustainability reporting can determine the extent to which different organisations are contributing positively and negatively to the global goals.

6. ***All* sustainability (environmental, social and governance) matters are important and interconnected.** We recognise that work must start somewhere, and that climate represents both a pressing concern and an area where standards are most advanced – and we therefore understand the need to accelerate the standardisation of climate related disclosures. However, an organisation's impacts on society extend well beyond climate. This is encapsulated by the UN's Sustainable Development Goals (SDGs), which articulate a broad range of environmental and social challenges that need addressing to ensure well-being and security for people and the planet, now and into the future. Sustainability factors are deeply interconnected, and any reporting framework developed by the SSB must accommodate the relationships – and at times unclear distinction – between environmental, social and governance factors that are relevant to enterprise value by considering them all.

We encourage the IFRS Foundation to recognise the vital role it could play in catalysing progress towards truly harmonized governance of all types of corporate reporting which appropriately connects reporting on impacts that are relevant to enterprise value with those that also matter to people, the planet, and the economy. To ensure this reporting system functions effectively and accounts for the dynamic nature of materiality, we strongly recommend that the IFRS Foundation builds feedback mechanisms between the two types of sustainability-related disclosure into its processes from the outset.

Yours sincerely,

Sarah Gordon
Chief Executive, Impact Investing Institute

Annex: full consultation response

Question	Comments
Question 1: 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?	• Yes, there is a need for a global set of internationally recognised sustainability reporting standards. Sustainability reporting standards should be global. Supply chains are global; investors and capital flows are global; urgent challenges such as climate change or pandemics can only be tackled globally. Global standards can effectively counter the risks of regional solutions not meeting the needs of cross-border capital flows and multinational expertise, as well as the risks of gaps in participation by some countries. • There is a lack of standardisation and a plethora of competing standard setters. One study carried out in 2016 found there were almost 400 reporting approaches categorised as focused on sustainability.[4] Despite numerous approaches, there are only a handful of standard setters that have invested heavily to build independent and representative governance structures, similar to those of financial standard-setters. Progress amongst these more developed approaches is encouraging – we welcome the recent announcement by the five global framework and standard setting institutions ((CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB)) of their intention to work together towards a shared vision of comprehensive corporate reporting, and to work with the IFRS Foundation and global market regulators through the International Organisation of Securities Commissions ('IOSCO'). We also note the proposed merge of the IIRC and SASB, and the announced collaboration between SASB and GRI. However, there is still more to be done to improve coherence between standard setters so that stakeholders are able to compare and evaluate the performance of different organisations. • Conceptually, the IFRS Foundation is well-placed to set sustainability reporting standards, particularly those that help users delineate which company impacts affect drivers of enterprise value: it has strong experience in setting international reporting standards which (a) are developed and overseen by a well-established governance structure and highly skilled experts, and (b) reflect feedback from market participants and other stakeholders. This lends credibility to the standards set by the IFRS Foundation and ensures a high level of compliance. Sustainability reporting standards of this kind would represent a significant step forward and be a critical piece of a broader corporate reporting system that meets the needs of all users. • However, it is vital that the IFRS Foundation's work in this area includes contributing towards a truly harmonized governance of *all types* of corporate reporting. Investor preferences are changing. Through its engagement with a broad range of

[4] Growing a Culture for Impact Investing in the UK: Better reporting, Impact Investing Institute (October 2018)

Question	Comments
	investors, the Institute sees rapid growth in investor demand for disclosures that reflect all significant impacts on people the planet, and the economy. We therefore see a scenario where the due processes for developing financial disclosures, sustainability disclosures related to enterprise value, and sustainability disclosures that reflect wider impacts on stakeholders are brought together, to sit alongside each other under one corporate reporting foundation. • An international committee (or other institutional arrangement) with broad multi-stakeholder consultation processes and appropriate multi-lateral governance needs to uncover all sustainability disclosure matters and develop those that serve global public interest. Processes must also be developed to assist translating these disclosures into different country- or region-level requirements, and to ensure connectivity with the sustainability-related financial disclosures developed by the SSB. This corporate reporting architecture could sit above the IASB and the SSB, and the committee that develops disclosures for significant impacts and, through its own due process, formally ensure connectivity between all types of disclosure. The IFRS Foundation could play a lead and catalysing role in achieving this arrangement. • Under this scenario, with evolving investor preferences and truly harmonized governance, it may be possible to innovate the nature of corporate reporting even further, recognising that there are already initiatives underway that are developing assessment methodologies that would integrate performance on sustainability disclosures with Financial GAAP to assess the total value contribution of business to society. • Critically, we urge the IFRS Foundation to uphold its commitment to "build upon the established work of the aforementioned organisations and accumulated knowledge in this area" and to set out at an early opportunity how it intends to work with others to achieve this. There is a wealth of expertise to build on to develop global standards and regulation in this complex area.
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 – we believe it is the appropriate path to take. Creating the SSB will provide the necessary framework and governance to achieve the mission of the IFRS Foundation in relation to sustainability reporting – and a mechanism to reduce complexity and help streamline sustainability reporting. • However, it needs to function within an architecture that allows for the effective and independent exploration of the *full range* of sustainability matters: both those that are related to enterprise value and those that reflect wider impacts on stakeholders, and that span climate, environmental, social and governance matters.
Question 3: Do you have any comment or suggested additions on the requirements for success as listed	• The consultation document states that the SSB "will build upon the established work of the aforementioned organisations and accumulated knowledge in this area" (paragraph 35). This commitment should have a corresponding requirement for

Question	Comments
in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?	success: the SSB should include in its criteria for success the need not only to "build upon" but to *integrate* the work of other organisations. • This goes beyond criteria point (b) – "working with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting" – since a number of the initiatives which the proposed SSB needs to build upon are global (including TCFD, SASB, GRI, IIRC, CDSB and CDP).
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?	• Yes – we believe the IFRS Foundation should use its existing relationships with stakeholders to aid the adoption and consistent application of SSB standards globally. However, this should be ○ on an independent and separate basis from the IFRS Foundation's other activities, as it is critical that the sustainability reporting standards are developed on the basis of their own merits; and ○ as part of a strategy for broad multi-stakeholder engagement that integrates as wide-a-possible range of views relevant to the public interest.
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 strongly recommend that the SSB not only "build upon" but integrate the existing standards developed by other bodies rather than recreating them. This would facilitate a more rapid development and adoption of the standards, in response to increasingly urgent demand. • Active engagement and collaboration with market participants, interested parties and wider stakeholders relevant to public interest should create the conditions for the IFRS Foundation to obtain the necessary mandate to set and monitor sustainability reporting standards and facilitate high levels of compliance. • Critically, the IFRS Foundation should also appoint a fully inclusive range of representatives both to the board of trustees and the technical board.
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?	• Well established jurisdictional sustainability reporting initiatives could provide a basis for the IFRS Foundation's own standards. For example, the EU's adoption of the 'double materiality' concept in their proposed Sustainable Finance Disclosure Regulations. We discuss this further at question 9. • The IFRS Foundation can then assist in the translation of global reporting standards into different country level requirements and nuances, similar to its approach with respect to financial statements.
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	• We urge the IFRS Foundation to acknowledge the interdependence of environmental and social outcomes and the urgency of other sustainability matters, such as biodiversity loss and health inequality, by setting out a plan for the development of standards for the *full range* of sustainability matters.

Question	Comments
other areas of sustainability reporting?	• An organisation's impacts on society extend well beyond climate. This is encapsulated by the UN's Sustainable Development Goals (SDGs), which articulate a broad range of environmental and social challenges that need addressing to ensure well-being and security for people and the planet, now and into the future. • Climate-related impacts and social impacts are, in many cases, inextricably linked. For example, we can only measure and manage the successful transition to a low carbon economy if we understand its impact on skills and job markets. Not to understand these interdependencies risks perverse and disruptive political movements. • Furthermore, the interconnection of the environmental and the social goes beyond a narrow focus on climate change. A growing body of research is rendering visible links between broader environmental and social impacts: the coronavirus pandemic, in particular, has shone a light on the social consequences of biodiversity loss.[5] • For reporting organisations, the full range of sustainability matters are critical components of a business model with implications for strategy, influencing both near- and long-term prospects. Examples of important social outcomes include fair treatment of suppliers' or employees' well-being, consumer protection, ensuring wider consumer access to products and services, anti-corruption, diversity and inclusion and respect for human rights through the supply chain. • Organisations' motivations for managing and reporting on sustainability matters differ but span purpose, differentiation, regulatory requirement, risk management, brand reputation and stakeholder engagement. An increasing body of evidence shows that organisations which embed consideration of a range of sustainability matters into their business models derive benefits that deliver outperformance for investors.[6] Conversely, those that do not do so can find their commercial success hindered and their brand value eroded. For example, rising global tax scrutiny indicates that whether a company pays taxes may increasingly be recognised as an issue that affects the value of a company (i.e. relevant to enterprise value),[7] as well as being an important driver of justice and global equality which enables governments to provide quality public services and promote economic development (i.e., an impact factor).[8] A commitment to business ethics to eliminate corruption and bribery and greater transparency in accounting and taxation strategy are therefore key issues for investors and other stakeholders. • In addition, recent research shows significant increased investor demand for the inclusion of social and governance matters in sustainability reporting[9] in light of the pandemic and issues of equality and inclusion.

[5] OECD Policy Responses to Coronavirus (COVID-19) Biodiversity and the economic response to COVID-19: Ensuring a green and resilient recovery, 28 September 2020
[6] Digging Deeper into the ESG-Corporate Financial-Performance-Relationship, DWS (2018)
[7] Why it's time to talk about corporate tax avoidance, Schroder's Perspective, by Anastasia Petraki (June 2020)
[8] Topic Standard Project for Tax, GRI
[9] Institutional Investor Trust. Special Report: Institutional Investors US Results, Edelman (2020)

Question	Comments
Question 8: Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?	• In our view, it is critical that the IFRS Foundation takes a broader definition of climate-related risks which incorporates wider environmental matters, rather than focussing narrowly on climate change and greenhouse gas emissions, for the reasons outlined in our answer to Question 7. • Important environmental outcomes include, for example, an increase or decrease of water usage, environmental degradation, biodiversity loss or plastics in our oceans, which may not fall under a narrow definition of climate-related risks. These environmental impacts are no less urgent than climate change and therefore should be considered from the outset.
Question 9: Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?	• Materiality is a dynamic concept. The extent to which a company's significant impacts on people, the planet or the economy drive creation of enterprise value can change rapidly. For example, when it was uncovered that Boohoo had failed to pay its employees a minimum wage, £1bn was quickly wiped from its enterprise value. Company impacts can become financially material gradually or quickly. Therefore, a company's understanding of all of its significant impacts on people, the planet, and the economy is a necessary precursor to its ability to identify and report upon those sustainability outcomes that also drive creation of enterprise value. • It is a natural and appropriate extension of the IFRS' role, and within its existing remit, to focus on disclosure of how sustainability matters influence enterprise value in the short-, medium- and long-term. We believe that disclosure of such information constitutes financially material information for investors. However, for the IFRS Foundation to keep pace with global developments[10], and to accommodate a "broaden[ing] of its scope as it proceeds with its work", the suggested focus on sustainability matters relevant to enterprise value must be contextualised within a plan and roadmap to work with others to achieve a comprehensive corporate reporting system that meets the needs of all users. • Investors and others who use sustainability information for economic decision-making understandably require disclosures from companies which clearly delineate which impacts a company understands as affecting its business model and the drivers of its enterprise value. • Equally understandable, though, is the concern of some stakeholders—increasingly including investors—that filtering down to only the impacts which are reasonably likely to affect enterprise value may not provide the complete picture and may miss out important information for users with objectives other than economic decision-making. These users require companies to disclose on all impacts that are significant to people, the planet, and the economy. • We think this reality creates both a responsibility and an opportunity for the IFRS Foundation. The universe of sustainability matters that address significant impacts on people, the environment and the economy is the same universe that a SSB under the IFRS Foundation would assess on the basis of the potential relevance for enterprise value. To be credible as a sustainability standard-setter, the SSB has a responsibility to show how its due process draws from sustainability matters that are relevant

[10] EU has committed to double materiality in their guidelines for non-financial reporting and the Sustainable Finance Disclosure Regulation (defined as 'principle adverse impacts').

Question	Comments
	to global public interest, as established through multi-stakeholder consultation. This could be achieved through a formal mechanism that enshrines the SSB's collaboration with a committee (or other institutional arrangement) with appropriate multilateral oversight, and that identifies the universe of sustainability matters that are relevant for sustainable development. • Interoperability between the SSB and such a body will be essential. Not least to meet the needs of both investors and wider stakeholders, but because – as we are seeing more and more in today's Covid-aware economic landscape – things that appear irrelevant to enterprise value today can quickly prove to be business-critical tomorrow.[11] As the GRI have noted, sustainability reporting thus constitutes a key source of information relevant to understanding the long-term implications to financial statements.[12] As such, we urge the IFRS Foundation to engage with and appoint diverse multi-stakeholder representatives to the SSB, at both technical and trustee level, from the outset. This would facilitate connectivity between the disclosures that each body develops, which not only ensures that both approaches to materiality are available, but accounts for shifting boundaries between them.
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 – we believe that sustainability reporting should be subject to assurance which renders all sustainability reporting reliable. Assurance for information in the annual report should be equivalent in robustness to that for financial reporting. • Technology and data providers need to help validate impact measurement and reporting by gathering evidence to substantiate claims and comparing to and contrasting with relevant market data. This already happens to a limited extent (e.g. to support the issuance and application of use of proceeds for green/sustainable/ social bonds). The requirement needs to be proportionate to the size of the organisation to avoid excessive additional assurance costs. • In addition, initiatives that work on advances in the use of existing publicly disclosed information, and/or widely adopted survey data, on a sector or theme basis, should be encouraged; e.g. those from the World Benchmarking Alliance, or from ShareAction's Workforce Disclosure Initiative. This will allow organisations, data preparers, investors, users and other stakeholders to work together on practical improvements in reporting and disclosure. • For sustainability measurement and reporting to be credible, it requires high quality independent assurance and assurance requires triangulation (validation of data through cross-verification from more than two sources). In our view, therefore, a triangulated assurance standard will be essential to ensure the credibility and robustness of nonfinancial reporting.
Question 11: Stakeholders are welcome to raise any other comment or relevant matters for our consideration.	We believe that an effective and comprehensive corporate reporting system must commit to looking at organisational impacts, and any standards developed as part of this system should focus on the measurement and reporting of social, environmental and economic outcomes:

[11] Double and dynamic: understanding the changing perspectives on materiality, SASB blog, by Donato Calace (September 2020)
[12] GRI responds to IFRS consultation paper on sustainability reporting (December 2020)

Question	Comments
	• Impact is a change in an outcome caused by organisation. An impact can be positive or negative, intended or unintended. • An organisation's 'impacts' are the changes (whether positive or negative, caused directly or indirectly, wholly or partially, intended or unintended), in sustainability outcomes caused by its activities. An 'outcome' is the result of an action or event, which is an aspect of sustainability well-being. An example of an environmental outcome is of the level of water usage or carbon emissions; of a social outcome, fair treatment of suppliers' or employees' well-being; of an economic outcome, job creation or destruction, or geographic dislocation; and a governance outcome is transparency in accounting and tax practices, shareholder permitted to vote on key issues and the avoidance of illegal practices including bribery and corruption. • Reporting on sustainability outcomes provides organisations with a more effective form of measurement for uncovering risks and opportunities than traditional ESG reporting, which focuses on an organisation's activities or outputs (rather than changes in outcomes) and how it can manage issues to avoid harm, mitigate financial risk and manage its reputation. This is especially the case in relation to many social issues, where local contextual factors influence outcomes, and so measuring outputs is insufficient in painting a complete picture of the impacts of an organisation's activities. • Sustainability outcomes should therefore be considered key components of a comprehensive corporate reporting system, key influences on business strategy and key factors in investment and stewardship decisions. Where necessary, these outcome measures can be supplemented with additional disclosures that help to connect them with the business model and enterprise value. Reporting in this way has the potential to enable the transformation of capital market systems whilst also meeting society's need for a sustainable future. • Additionally, stakeholders (consumers, investors, civil society, policy makers) increasingly expect organisations to report transparently on their impacts. Reporting on outcomes is therefore important for users of the information to be able to interpret the extent to which organisations enable sustainable development. By comparing outcomes to relevant evidence-based thresholds as well as context-specific development priorities (for example, articulated in the SDGs), users of sustainability reporting can determine the extent to which different organisations are contributing positively and negatively to the global goals.[13]

[13] Sustainable Development Goals Disclosure (SDGD) Recommendations, by Carol A Adams with Paul Druckman and Russell C Picot (January 2020)