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December 12, 2020

IFRS Foundation
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United Kingdom

Comments on the IFRS Foundation's "Consultation Paper on Sustainability Reporting"

Dear Sir or Madam,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the *Consultation Paper on Sustainability Reporting*.

Principal authors of this comment letter were Christoph Pelger, Gerhard Prachner, Anita Seiwald, and Alfred Wagenhofer. In order to assure a balanced Austrian view on the consultation, the professional background of these authors is diverse.

Best regards,

Romuald Bertl
Chairman

GENERAL COMMENTS

We believe that the consultation is important and urgent. There is a strong momentum particularly in Europe to widen entities' disclosures to sustainability information. If the IFRS Foundation does not act now, there will probably be little opportunity for action later.

Currently, the IASB sets (i) financial reporting standards (ii) primarily for investors. Financial information is connected with non-financial information. The notes and the management commentary include non-financial information that helps to understand and to interpret the financial information and additional information of transactions and events that are not directly included in the financial reports.

A large part of current mandatory non-financial information does not require specific measurement but is mostly descriptive. We believe that there is a demand for more and more standardized non-financial information. The development of such standards may require a new institution, the suggested SSB (Sustainability Standards Board) if such expertise is not sufficiently available in the IASB. The benefit of establishing the SSB is that the IASB and the SSB can connect their standards. Already for that reason, it would be useful to establish an SSB. However, under such an approach, the terms "sustainability standards" and SSB may be misleading and "non-financial" information may be more appropriate.

There is other non-financial information that is of interest to non-investor stakeholders, such as governments, policy makers, NGOs and the broader society. However, the boundary of non-financial information that serves investors and that information that serves other stakeholders is difficult to draw and shifts over time. Many disclosures, which nowadays are deemed relevant by an increasing number of investors, were initially developed due to the demands of other stakeholders.

Thus, we think that it is important not to restrict the perspective of the SSB to investors or capital markets ex ante. Non-financial information should also cover the information needs of a broader set of stakeholders. Accordingly, non-investor stakeholders need to be included in the development process of sustainability standards, so that the number of groups addressed by the SSB substantially increases as compared to the primary stakeholders addressed by the current IFRS. This approach also poses challenges for finding agreements among a broad set of global audiences with possibly diverse views, which might also lead to a stronger politization of the standard-setting process.

SPECIFIC 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 an urgent need for a global set of sustainability reporting standards. Comparability of sustainability information across the world is extremely important, and several phenomena that should be reported, such as risks related to climate change, are global phenomena and affect investors and society globally.

Given its track record in global standard setting, the IFRS Foundation is well positioned and should play an active role in setting standards in this area, particularly concerning non-financial disclosures for investors, but also on other relevant issues.

As we noted above, non-financial disclosures are related to financial disclosures. They can be either complements, for example, by explaining underlying details of financial disclosures, or substitutes, for example, in the area of intangible assets or risk disclosures. If the IFRS Foundation does not engage in sustainability reporting standard setting, its position in financial reporting standard setting could be undermined in the longer term.

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 setting up an SSB under the governance structure of the IFRS Foundation is an appropriate approach. It is a global organization, it is independent, it has expertise in global standard setting and it has relationships with governments, regulators and national standard setters as well as with preparers, auditors and users of corporate reports.

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)?

We believe the requirements listed in paragraph 31 are the most important general requirements. Requirement (a) might be extended to a broader group of stakeholders beyond “market stakeholders”, for example, also including NGOs and society at large.

Requirement (b) might be amended as follows: “working with existing global and regional initiatives to achieve global consistency and to reduce complexity in sustainability reporting.”

A possible additional requirement may be providing an efficient and timely due process for sustainability reporting standards to address the urgency of the topic and the stakeholders' needs.

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. The Foundation has strong relationships with stakeholders in the financial reporting area, and these stakeholders are also important groups interested in sustainability standards. However, the development of sustainability standards for a broader audience would require extending relationships in order to include a wider set of stakeholders, regulators and policy makers outside the financial reporting domain, which have a strong interest in sustainability issues. It is essential to develop these additional relationships in order to support the adoption process and a consistent application.

The Foundation should particularly be aware of the momentum and work in this area within the EU. Recently, the EU has taken a leading role in the non-financial reporting agenda and is working on an environment that supports the application of non-financial reporting standards.

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

A lot of work has already been done in order to develop principles and specific KPIs in sustainability reporting. The Foundation should examine differences in the approaches developed by existing initiatives in a close dialogue with these initiatives, synthesize a common base and choose the most convincing approaches.

We suggest that the IFRS Foundation reaches out and coordinates with CDP, CDSB, GRI, IIRC and SASB, among others. It should consider how know-how and prior work by these existing institutions could be optimally integrated into a future SSB. We have the following suggestions:

- (i) Experience in sustainability reporting could be a criterion for the selection of SSB members. This would ensure that the views of initiatives with this experience are directly available in the SSB's discussions.
- (ii) The SSB could be accompanied by the establishment of a Sustainability Standards Advisory Forum, including representatives of the major existing initiatives, which might play an even stronger role in advising the SSB than the current bodies advising the IASB (IFRS AC, ASAF).

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?

Ideally, if the long-term goals of the existing jurisdictional initiatives are similar, the Foundation should be inclusive and work with representatives from governments and initiatives to reach a convergence of existing approaches to sustainability reporting.

Representatives of jurisdictional initiatives could also become members of the Sustainability Standards Advisory Forum (see our response to Question 5).

We also suggest to closely collaborate with relevant EU institutions to ensure a global and timely solution and application.

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?

Yes. It is very important to rapidly develop global standards, because there are parts of the world with a strong demand for sustainability reporting standards. Particularly, climate-related disclosures are among those areas, which urgently need global standards. Successful standardization is likely to be easier and quicker in climate-related disclosures than in other areas where convergence is still lacking. Building on the experience of working with other initiatives and upon acceptance of such a standard, the SSB could then add further issues to its agenda. Thus, starting with sustainability standards on climate-related disclosures is a reasonable and pragmatic approach.

We note, however, that, ultimately, the development of a framework for non-financial reporting will be also important, especially as there are quite diverse stakeholder groups with differing views and agendas using sustainability-related disclosures. We know from financial reporting standard setting that frameworks

- (i) are typically only developed after specific standards were issued and
- (ii) take a long time to be developed.

While some existing frameworks, such as the framework by the IIRC (2013), might provide a starting point, controversial and lengthy discussions about objectives, scope and characteristics of sustainability reporting will still be possible.

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

An SSB should probably consider broader environmental factors, but – as suggested in our answer to question 7 – that can be done progressively. Climate-related disclosures are a most pressing concern, because climate risks are increasingly considered as risk factor for entities. Other

environmental factors may be or become risk factors as well, or environmental factors may concern governments or a larger society.

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

No. We understand that a double-materiality approach increases complexity of developing non-financial reporting standards. Yet, reporting about the impact of entities on the wider environment is increasingly important. Focusing on impacts that are already considered as risks to the entities by investors is not a sufficiently clear criterion for the definition of the scope of the SSB; moreover, what is relevant to investors can change quickly. We also note that the composition of the SSB and of the technical staff will have to match the scope of non-financial reporting standards and should, therefore, be considered already from the start of the SSB.

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. Non-financial and sustainability disclosures should be subject to reasonable assurance to ensure reliability and acceptance. The standards should, therefore, be developed to be auditable.

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

We note that the composition of the SSB and of the technical staff will have to match the scope of sustainability reporting standards.