

QUESTIONNAIRE RESPONSE

IFRS FOUNDATION CONSULTATION PAPER ON SUSTAINABILITY REPORTING

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THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

This questionnaire response represents the view of the PRI Association and not necessarily the views of its individual members.

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SUMMARY OF PRI'S POSITION ON SUSTAINABILITY REPORTING

The lack of high quality, relevant and comparable corporate sustainability data remains one of the central challenges faced by investors seeking to integrate sustainability risks into their processes and increase their contribution to sustainability outcomes.

Therefore, the PRI is working with its global network of signatories to advocate for meaningful and globally comparable company disclosure, to promote the inclusion of material sustainability information alongside other financial data and to encourage consolidation and harmonisation of reporting standards and regimes.

In our view, a system of globally comparable sustainability information should adopt an “end-to-end” perspective, designed to fulfil the data needs of users and preparers of sustainability information and to support their decision making. Principally, sustainability reporting should:

1. Provide current and forward-looking information to assess the full range of sustainability risks and opportunities.
2. Enable investors and other stakeholders to consistently assess and compare a company's sustainability performance and alignment in the context of long-term sustainability goals and thresholds.
3. Recognise the relevance of global and local sustainability objectives in contextualising and tracking a company's sustainability performance.

In order to deliver on the needs as set out above, the PRI believes the current corporate sustainability reporting system needs to evolve into a future state where:

- Reporting provides comparable and consistent indicators and metrics not only on company level, but also on activity and asset level.
- Corporate sustainability reporting is mandatory and comparable across markets, sectors and activities, both on the financial materiality of sustainability issues and a company's sustainability performance.
- A globally harmonised corporate sustainability reporting framework is underpinned by an appropriate long-term governance structure to support maintenance of such a framework.
- Company target setting, progress tracking and reporting is done in the context of global social goals and environmental thresholds.

The PRI welcomes the IFRS proposal as a significant step towards realising a system for globally comparable corporate sustainability reporting. If established, we see a key role for a Sustainability Standards Board (SSB) in establishing a set of principles for all aspects of corporate sustainability reporting and identifying a common set of metrics serving both financial and sustainability purposes.

The key recommendations in our response are:

- Establish a roadmap with a clear timeline to provide market participants, policy makers and other stakeholders a clear outlook on the development process for a global sustainability reporting framework.
- Cover all sustainability topics and build on existing initiatives to ensure consistency and comparability for capital markets. For climate-related risks and opportunities, the primary

framework of reference should be the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD).

- Adopt a modular approach to harmonisation that builds on a shared set of standards across markets and recognises the different perspectives and needs across jurisdictions and stakeholders.

QUESTIONNAIRE RESPONSE

QUESTION 1

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?

PRI RESPONSE:

Yes, there is a clear need for globally harmonised sustainability reporting standards in order to support investment decision-making that prioritizes and incentivizes sustainable investment and outcomes.

Corporate sustainability reporting is critical to the ability of investors to take into consideration material environmental, social and governance (ESG) risks and opportunities, and increasingly important to understand corporate and investor activity in meeting sustainability goals. However, PRI signatories state that the consistency, comparability, and quality of corporate reporting is a substantial barrier to their investment practice.

The PRI encourages efforts by public and private initiatives toward alignment and consolidation of sustainability reporting. A global set of sustainability reporting standards, widely supported and endorsed by public and private stakeholders, would be a significant step towards achieving this.

The PRI supports the IFRS Foundation in expanding its standard-setting activities and playing a role in setting sustainability standards. The globally established status of the IFRS, its robust governance structure and extensive network could give a significant impulse to standardisation of sustainability reporting standards on a global level, provided that the 'key requirements for success' identified in the consultation paper are met.

QUESTION 2

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?

PRI RESPONSE:

Yes. To develop standards in the public interest, the process must be transparent, independent and inclusive towards relevant stakeholders. The widespread adoption of IFRS standards indicate that these attributes are adequately captured in the IFRS Foundation's three-tier governance structure. While adjustments throughout the governance structure might be needed to reflect the broadened

mandate and to ensure adequate expertise on sustainability reporting both from a preparer and user perspective (including investors), it could offer a solid foundation for the development of sustainability standards.

In addition, PRI sees substantial benefits in bringing standard-setting for non-financial reporting together with financial reporting under the same architecture. Sustainability reporting standards should consider the use of sustainability information for decision making based on financial and non-financial factors and identify what sustainability information can also underpin financial reporting by companies. Almost all sustainability issues, to some extent, will have both a financial and a sustainability dimension. Establishing a formal link between standard-setting for financial and non-financial reporting will help to assess the interlinkages between the two and ensure a coherent corporate reporting framework. Therefore, PRI recommends that the link and interaction between the SSB and IASB is clarified and formalised if the IFRS Foundation decides to move forward with its proposal.

QUESTION 3

3. Do you have any comment or suggested addition 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)?

PRI RESPONSE:

The 'requirements for success' set out in the consultation paper are critical and rightly presented as prerequisites for the success of the proposed model. While all listed requirements are important, we believe the most critical at this stage are: (i) achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets; and (ii) working with regional initiatives and established private and public organisations to achieve global consistency and reduce complexity in sustainability reporting. If these requirements are not met, there is a risk that the proposed SSB option adds to the complexity of the landscape for non-financial reporting, instead of being part of the solution.

To achieve a sufficient level of support for SSB standards, it will be crucial that the IFRS Foundation clearly formulates the overarching goals and desired outcomes of its sustainability reporting standard and actively seeks input from investor and business communities and other users of sustainability information to understand *what* and *how* information is used and can be used in the future in their decision-making.

The PRI notes that the above mentioned requirements could also be the most challenging to meet, given they are more closely linked to the choices on the scope of the work of the SSB, both in terms of issues (climate-only) and materiality (focus on financial materiality). Finding a balanced approach that recognises different levels of scope and ambition among jurisdictions and stakeholders will be key to the success of the proposal of the IFRS foundation (see also Question 5 and 6).

Finally, an additional requirement for success of the proposed model will be the ability of an SSB to work at pace in order to keep up with a rapidly evolving landscape. This applies particularly to a standard for climate-related reporting. Work in this area is already well advanced and should be taken up by an SSB without delay considering the urgency of the issue and the upcoming 26th United Nations Climate Change conference (COP26).

QUESTION 4

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?

PRI RESPONSE:

The PRI expects the IFRS Foundation to leverage its global network established throughout the 140 jurisdictions where IFRS standards are used to build buy-in with stakeholders and encourage adoption of the SSB standards once they are available. However, more extensive efforts will be needed to ensure compatibility with and application in key jurisdictions that have not adopted the IFRS standards.

QUESTION 5

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

PRI RESPONSE:

The PRI believes it is critical that the IFRS Foundation works closely with other regulatory bodies and initiatives on sustainability reporting and that SSB standards adopt those that are already understood and well used by companies and investors. Principal among these are:

- The recommendations from the Taskforce on Climate-Related Financial Disclosures (TCFD);
- The International Organization of Securities Commissions (IOSCO)'s efforts to determine which non-financial information is decision-useful for the investors, and its ambitions to use that information to develop a framework for principles-based guidance for future standard setters.
- Voluntary frameworks and standards such as CDP, CDSB, GRI, IIRC and SASB;
- The work of the European Commission and EFRAG on establishing an EU non-financial reporting standard.

In this context, the PRI welcomes the recent statements by the 'alliance of standard-setters' and IOSCO to work closely together on a comprehensive global reporting system, if the IFRS Foundation decides to move ahead following feedback to its consultation paper.

QUESTION 6

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?

PRI RESPONSE:

It is key that the IFRS Foundation recognises differing perspectives across stakeholder groups and jurisdictions on sustainability disclosures. Some jurisdictions may seek to adopt standards for

reporting only on sustainability matters material to enterprise value creation, while others may also seek to adopt standards for reporting on sustainable outcomes (double materiality). In addition, jurisdictions may wish to cater for jurisdiction-specific requirements, perhaps reflecting interactions with financial reporting frameworks different from IFRS, like the Financial GAAP in the United States, or with other regulations and legislation specific to that jurisdiction (such as the EU Taxonomy). As such, the IFRS will need to account of disclosure rules, policies and key performance indicators on sustainability issues adopted by security regulators and stock exchanges when defining standards.

In order to obtain buy-in and support for SSB standards and deliver a global solution for consistent sustainability reporting, the IFRS Foundation should consider a modular approach to harmonisation that allows jurisdictions to move at different speeds, but still acknowledges the different concepts of materiality and the different uses and users of sustainability information. The work of an SSB could focus initially on a core ‘building block’ with sustainability standards grounded in enterprise value creation in order to shift the baseline on sustainability reporting globally. However, in time efforts should also be undertaken to align sustainability reporting initiatives that cover companies’ sustainability performance, which would be the second ‘building block’ of global standards. As a minimum, PRI recommends that the IFRS Foundation and an SSB set out a roadmap that indicates when it expects to bring these areas into the scope of its work.

Where jurisdictions have specific additional information needs, the SSB standards should provide room for “topping-up” global standards with further domestic requirements.

QUESTION 7

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?

PRI RESPONSE:

While the PRI agrees that climate-related disclosures is the most obvious starting point for the SSB given the urgency of the issue and the groundwork done by the TCFD, the reality is that investors require information on a range of sustainability topics that are material to investment decisions.

Therefore, we think it is important that the IFRS Foundation sends a clear signal that all sustainability issues will be within the remit of SSB standards. This will avoid providing an unintended signal that other sustainability issues are not material to investors. Furthermore, existing voluntary initiatives already provide a good basis for the SSB to develop standards across all sustainability topics.

As set out in Question 6, the PRI recommends that the IFRS Foundation and an SSB acknowledge from the outset the need to bring other areas of sustainability reporting in scope over time and set out a roadmap that indicates when work on these areas will commence.

QUESTION 8

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

PRI RESPONSE:

For the reasons set out in Question 7, the SSB should not limit the scope of its work to climate-related risks. Instead, it should send a clear signal that the full range of sustainability issues will be with the remit of the SSB standards, including other environmental, social and governance factors.

QUESTION 9

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

PRI RESPONSE:

Yes, the PRI agrees with a gradual approach that starts with financial materiality, under the condition that there is a clear roadmap for bringing double materiality into scope over time (see Question 6).

QUESTION 10

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?

PRI RESPONSE:

Sustainability information is financially material and used in investment decision-making; it should therefore be as reliable as financial information. External assurance can play an important role in upholding the quality of reporting, providing comfort to users that the standards have been met. Therefore, the PRI recommends that companies' sustainability related information, are subject to third-party assurance in line with a recognised assurance standard. Where feasible, reasonable assurance should be sought.

QUESTION 11

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

PRI RESPONSE:

The PRI welcomes the consultation paper as a first step by the IFRS Foundation towards setting sustainability standards. We see a key role for a Sustainability Standards Board (SSB) in:

- Identifying and establishing the fundamental principles for an effective sustainability reporting system that should underpin the SSB's future standards development process, and eventually a global sustainability reporting system.
- Developing a common set of data and metrics that can be used to reflect both the influence of sustainability factors on a company's financial performance and a company's sustainability performance. This should be supported by an accompanying set of company disclosures, released in a timely fashion, to inform investment decision-making.