

MEMO# 32943

November 24, 2020

ICI Responding to IFRS Consultation on Creation of New Sustainability Standards Board

[32943]

November 24, 2020 TO: Accounting/Treasurers Committee
ESG Advisory Group
ESG Task Force
ICI Global Regulated Funds Committee
SEC Rules Committee RE: ICI Responding to IFRS Consultation on Creation of New Sustainability Standards Board

As you may be aware, the International Financial Reporting Standards Foundation (IFRS) is consulting on whether it should create a second board—the Sustainability Standards Board (SSB)—that would sit alongside the International Accounting Standards Board (IASB).[\[1\]](#) While recognizing that there are some misgivings about the IFRS Foundation taking this on, this initiative has incredibly strong momentum, and we think it is likely to move forward regardless of industry support. Given that context, we think it is essential to be involved in the process, and we propose striking a tone of cautious support for the proposal, while identifying important considerations for the IFRS Foundation to take into account.

We outline below the main areas where we would expect to focus, based on views we have heard from members to date. Please reach out with any additional thoughts or comments. We are happy to discuss further and want to ensure we are accurately reflecting your views. **Comments are due 31 December 2020, and we plan to circulate a draft on 9 December and ask for comments back from you by 16 December.** The complete list of consultation questions is attached for your reference.

Summary of IFRS consultation. The consultation proposes that the SSB would initially focus on sustainability reporting standards for climate-related information. After addressing climate-related risks, the SSB could broaden its scope to cover ESG factors more broadly. The consultation paper indicates that the SSB's approach to materiality would focus on information that is financially material to the reporting company. This approach would more closely align with the IASB's current materiality approach. The consultation paper notes that some stakeholders are interested in developing standards applying a so-called "double materiality" approach that also considers the effects on the environment and society. The paper recommends a "gradualist approach" focused on materiality, but doesn't discount

the possibility that after its initial work the SSB could consider double materiality.

Support from IOSCO, Big 5 standard-setters, and UK FCA. On the same day that IFRS launched its consultation, the 5 big standard setters (SASB, GRI, etc.) sent an open letter to the International Organization of Securities Commissions (IOSCO) calling for the development of a comprehensive corporate reporting system, endorsing the IFRS initiative, and asking for IOSCO's support and assistance.^[2] IOSCO published a response, welcoming the IFRS consultation and noting that IOSCO is keen to see the IFRS and Big 5 efforts come together.^[3] The letter also says that IOSCO stands ready to be involved in the design of the governance aspects of the SSB if IFRS decides to move forward. This aligns with what we have heard from conversations with IOSCO staff. The UK Financial Conduct Authority (FCA) also has submitted a consultation response in support of the IFRS initiative.^[4]

ICI response. We propose to focus our response on how IFRS can best make these standards useful to the investor community as follows. Please let us know if you have any thoughts or feedback on the points below or whether there are any additional points we should include.

- **Support for the consultation's proposed approach to materiality, focusing on information that is decision-useful for investors (rather than a broader, "double materiality" perspective).** Standards should be focused on the information that is most relevant to investors as the primary constituency. Focusing on the investor user and enterprise value creation/financial materiality is consistent with the IFRS Foundation's existing mandate and role.
- **SSB standards should use SASB and TCFD.** IFRS recognizes the importance of building upon the established work of major standard setters. Urge IFRS to leverage SASB and TCFD as existing sustainability frameworks/standards and processes that have broad capital markets support. SASB is particularly important in that it takes an industry-specific approach. One-size-fits-all is not helpful. Also need recognition of different asset class interests.
- **Support climate-first approach.** The consultation proposes to focus initially on climate-related risk given its growing importance to investors and prudential regulators. Beginning with climate will be helpful given increasing regulatory focus on TCFD-aligned disclosures.
- **Address third-party assurance?** Question 10 asks whether the sustainability information to be disclosed should be auditable or subject to external assurance. Do we want to address this question? Is external assurance premature at this time given nascent state and/or lack of infrastructure to perform assurance?
- **Governance structure should focus on input from issuers and investors, not broader stakeholders.** The consultation proposes that the SSB would operate under the 3-tier governance structure of the IFRS Foundation with an independent standard-setting board of experts, governed and overseen by a global set of Trustees that is accountable to the IFRS Foundation Monitoring Board.

We look forward to hearing from you!

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[Attachment](#)

endnotes

[1] The consultation is *available at* <https://www.ifrs.org/projects/work-plan/sustainability-reporting/comment-letters-projects/consultation-paper-and-comment-letters/#consultation>.

[2] The letter from the Big 5 ESG standard-setters to IOSCO is *available at* <https://www.sasb.org/blog/open-letter-to-erik-thedeenn-director-general-of-finansinspektionen-sweden-chair-of-the-sustainable-finance-task-force-of-the-international-organization-of-securities-commissions-iosco/>.

[3] IOSCO's response is *available at* <https://www.iosco.org/library/speeches/pdf/20201029-Erik-Thed%C3%A9n.pdf>.

[4] The FCA's consultation response is *available at* http://eifrs.ifrs.org/eifrs/comment_letters/570/570_27098_MarkManningFinancialConductAuthorityFCA_0_FCA.pdf.

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