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17 December 2020

To the Trustees of the IFRS Foundation

Comments on the *Consultation Paper on Sustainability Reporting*

The Integrated Reporting Committee (IRC) of South Africa is an association not for gain in South Africa founded in 2010. Its objectives are to promote and develop integrated reporting and integrated thinking in South Africa considering the international harmonization of integrated reporting and the recommendations of the King Reports on Corporate Governance.

We appreciate the opportunity to comment on the *Consultation Paper on Sustainability Reporting* (Paper) issued by the IFRS Foundation in September 2020 and our responses to the consultation questions are in the annexure that follows.

Our comments process included initial development by the IRC of South Africa's technical Working Group and input from the IRC's organization, corporate and honorary members before going to the IRC Board for discussion and approval. The Board approval process was led by Lead Board member Mr Russell Loubser. Professor Mervyn King (Chair of the IRC, Chair Emeritus of the IIRC and the GRI) and Professor Suresh Kana (Deputy Chair of the IRC and a Trustee of the IFRS Foundation) recused themselves from the approval process.

Yours sincerely,

Leigh Roberts CA(SA)

Chief Executive Officer

Integrated Reporting Committee of South Africa



Annexure

Question 1

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

We believe there is a need for a global set of internationally recognised sustainability reporting standards to enable more comparable and consistent reporting. We support consolidation that achieves simpler and easier reporting for organizations and that assists in reducing their reporting burden.

Organizations face increasing pressures and costs in meeting the mounting demands for disclosure. Each year, new standards, guidance, regulations and investment products reliant on public information or data requests are released, which add to the reporting burden. These may originate from and target different stakeholders leading to organizations preparing different outputs to ensure stakeholders' issues are appropriately considered. Further, some are broadly phrased necessitating the need to develop internal guidelines to support the disclosures, while others incorporate metrics that are not consistent across the same topic - both issues leading to reporting inconsistency.

Whilst IFRS is adopted in many countries it is not the only set of accounting standards applied globally. The analogous question therefore arises as to whether a single set of international sustainability standards could realistically be developed despite it being a desired goal. Moreover, the regulators in each country may mandate the use of international sustainability standards together with their own national requirements further detracting from the goal of global consistency.

a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?

We submit there are both benefits and risks to the IFRS Foundation playing a role in expanding its activities into the area of sustainability standards reporting.

The benefits include:

- Experience and standing in standard-setting activities, supported by sound governance and due process.
- Experience in the development of a conceptual framework for financial reporting standards which can be applied in developing a similar one as the foundation for sustainability reporting standards.
- Existing relationships with stakeholders in various countries may facilitate the uptake and application of the resulting sustainability standards.
- There is significant opportunity for sustainability reporting standards to become widespread – leveraging off the existing global network for financial reporting standards. The same can be

said for the integrated report, being the ‘head of the octopus’ or ‘umbrella’ report which connects financial and sustainability reporting reflecting the holistic view.

There are risks and concerns that will need to be addressed to enable the IFRS Foundation to decide on the depth of the role it can play. These include:

- A clear path needs to be set out explaining the vision and direction for global reporting standards in the years ahead. Specifically, how financial reporting and sustainability reporting will come together within an integrated reporting framework. This is essential to mitigate the risk of financial reporting and sustainability reporting developing separately and thus regressing the strides of integrated reporting, as the connecting force between the two, over the past ten years.
- It is imperative that the ground-breaking work of all the main sustainability organizations, the International Integrated Reporting Council (IIRC) and the IR national bodies should not be lost.
- Consideration must be given to the existing standards used in sustainability reporting and the option of using or basing future standards thereon.
- There is a risk that the sustainability standards produced are financially focused and become a “tick box” exercise for disclosure in terms of consistency, rather than focussing on the material issues to the organization and the needs of stakeholders. Care must be taken that the standards are not at entry level, but rather reflect the sophistication of current reporting.
- Sustainability reporting requires a broader mindset than that applied to financial reporting - not all effects can be monetised or quantified. The view of materiality and the limited initial focus on climate change as expressed in the Paper are concerning as they indicate the IFRS Foundation’s shareholder mindset and financial view of materiality. This is much narrower than the sustainability and integrated reporting perspectives.
- As there are a multitude of organizations and stakeholders in the sustainability reporting landscape, consultation and inclusion of all the main players will be vital to success. It is not clear how it is envisioned that such collaboration will happen in a credible and inclusive way and with the right leadership.

We note that the IFRS Foundation should have a role to play in the development and uptake of international sustainability reporting standards and that there will be benefits for sustainability reporting. It is unclear, though, as to whether that role is a leading one or a facilitating role among the existing standards and sustainability organizations, because the risks and concerns outlined above will have to be addressed.

The IFRS Foundation will also have to consider its role in the light of the fast-changing international sustainability reporting landscape, including the recent announcement by the IIRC and the Sustainability Accounting Standards Board (SASB) of their intent to merge.

We emphasize the urgent need to set out the vision for the future of global reporting standards that develops both financial and sustainability reporting and connects them in an integrated reporting framework.

b) If not, what approach should be adopted?

Please refer to Question 1a and Question 2.

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?

The development of an SSB is needed if a global set of sustainability reporting standards is to be developed. This formal structure will serve to ensure there is proper governance and oversight into the standards output. As addressed in Question 1, we are unclear, at this stage, as to whether the SSB should be housed under the IFRS Foundation because of the risks and concerns listed. Further, and as stated under Question 1, the IFRS Foundation will have to be cognizant of, and indeed work with, the recent developments in the international sustainability reporting landscape.

Housing the SSB under any of the existing organizations could prompt the view that the leading organization will feature more prominently in the standards output. The creation of an independent SSB comprising all the main organizations offers a solution, but it is important that there is a collaborative and inclusive process.

Regardless of where the SSB is housed, a multi-stakeholder approach will be key. Further, it will be critical to have the right skills represented, and under the IFRS Foundation scenario, this may mean changes to the existing governance structures and processes.

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)?

- The largest hurdle will be ensuring there is a sufficient level of global support from the multitude of stakeholders involved. Currently, it is not clear as to how this collaboration and inclusion will take place. This needs to be mapped out and should focus on the inclusive collaboration of all the main players, as well as working with national bodies already dealing with sustainability reporting and integrated reporting in various countries around the world.
- Emphasising the spirit of collaboration will be critical to the success of an SSB: the metrics, disclosures and other sustainability information already developed and available in the marketplace should be leveraged.
- Building on to point d), there is a need to ensure there is a balanced mix of skill and technical expertise not only at the SSB member level but also for any sub-task or working groups.
- Given the size of this proposed project the matter of funding is critical. Have the plans for funding been mapped out? Given that several bodies in the sustainability reporting space are already being funded this could potentially limit the pool of interested funders in the outputs of the new SSB.
- Expanding on point f), and in the spirit of building effective synergies with other forms of reporting, a success factor will be the upfront acknowledgement of how integrated reporting will be positioned as the connecting force between financial and sustainability reporting. It is imperative that the work of the IIRC and the IR national bodies should not be lost.

- Clarity on transition processes and time-frames will be a success factor. A quick time-frame that will progress rather than hinder a new global reporting system is needed to avoid a messy transition that risks fragmenting sustainability reporting even further and loss of traction for sustainability reporting.

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, relying on existing relationships and the credibility of being a global standard-setter is arguably one of the strongest points of motivation for this initiative. It will be critical that the IFRS Foundation, as well as the other organizations involved in this process, use their relationships to encourage adoption. The IFRS Foundation will, however, need to expand and develop relationships with others beyond the shareholder/ financial realm, such as the corporate governance bodies.

Sustainability reporting and disclosures need to be elevated to the same level of importance as financial reporting to ensure fully informed decision-making. The IFRS Foundation's relationship with those in financial reporting can facilitate this. Further, the IFRS Foundation could consider its global role in advocating for mandatory sustainability reporting and integrated reporting.

Question 5

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

Please consider our earlier comments in this regard. This project will be a journey and it is key that the users of the end product see a collaborative and supportive approach between the various organizations contributing to sustainability reporting frameworks and standards.

There are many existing sustainability initiatives, and it will be important that these are mapped out to determine what approaches are already undertaken, where differences exist, areas of overlap, and identify missing elements. Key to putting this into a set of global sustainability reporting standards is an overarching conceptual framework that appropriately contextualizes how the underlying requirements fit together. Collaborating with all the main sustainability organizations to ensure inclusion and achieve the goal of global comparability is considered to be crucial.

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?

Aligning to the comments above in Question 5 and elsewhere, it is by ensuring collaboration and buy-in with various jurisdictional initiatives and leveraging off any work/ output from these areas. This would include the following activities:

- Working with national bodies dealing with sustainability and integrated reporting.
- Conducting a detailed investigation of existing reporting models and frameworks and regulatory requirements, including their successes and failures.
- Considering the existing technical reports and surveys covering the experiences of organizations in countries where sustainability and integrated reporting have gained traction.
- Considering the available academic research.
- Identifying any jurisdiction-specific sustainability themes or topics and investigating existing standards on these topics to map how these could be best dealt with in a global standard.

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?

No, a linear approach is not ideal as there are many key sustainability issues that need to be addressed now and many of these sustainability issues are interconnected. Further, a linear approach will result in organizations facing a hybrid of using new SSB standards for one area and existing frameworks and guidance for other areas. It is suggested that a collaborative approach will be, and will be seen to be, more inclusive.

Further, it is suggested that developing a conceptual framework may be the starting point which encompasses a broader sustainability and ESG scope. The conceptual framework will then lend itself to directing the topics that fall under it. Whilst climate risk is high on the agenda of many stakeholders, it is one of many important aspects.

All the major sustainability standards already cover climate disclosures and climate issues. This therefore may not be an area to re-invent, but rather one which can be enhanced by any actions of the SSB.

The sustainability space is extensive, and the wide-ranging array of topics display dynamic shifts in priority across sectors and across jurisdictions over time. It is understood that development of standards is a more time-consuming process requiring sufficient investment of time and consultation to ensure a proper output - and hence there is a further risk, that should only one topic be selected at a time, other issues similarly deserving of priority may be neglected.

Question 8

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

As per our comment to Question 7, the focus should be on broader ESG/ sustainability factors and risks.

Question 9

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

No. It is acknowledged that initially focusing on investors may encourage the importance of evaluating sustainability disclosures and will obtain buy-in to ensure that such information is fully considered in decision-making. However, there is significant risk that sustainability disclosures will be weighted towards financial aspects and that there will be slow progress in broadening this perspective. Material information and material matters must be considered from the widest perspective covering the effects of a relevant issue on the organization, as well as the organization's impacts/ effects on the six capitals (aka society and environment in which it operates).

Further, as mentioned in earlier comments, there are many different forms and requirements for sustainability reporting. If the SSB standards were to focus only on that which is material to investors, it would result in organizations still being required to consider and meet the additional disclosure and information needs of other stakeholders - thereby detracting from creating a global set of standards that is decision-useful across all key stakeholders.

Paragraph 50 refers to investors as well as "other market participants". Further explanation is needed as to the nature of these stakeholders.

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. Information should be assurance-friendly, that is, the information has appropriate subject matter, suitable criteria, and proper process and controls supporting the generation of the information are in place.

The information may not need to be subject to external assurance. It should be up to each organization to assess its combined assurance approach and the various levels of defence available in assessing the type of assurance needed. The materiality of information will also drive the type of assurance, for example, external assurance may be seen as appropriate for material disclosures. Collaboration with the IAASB will be essential in this area.

Question 11

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

- Reporting is an output, a means to an end and not the end in itself. The aim is to achieve behaviour change: for organizations this is in understanding and managing risks,

opportunities and impacts/ effects related to sustainability matters, and for stakeholders to use the information to make fully informed decisions.

- It will be key to understand at the outset, before any decision is taken, as to whom the output from the standards is aimed at i.e., define the users/ stakeholders.
- We emphasise that the important role of integrated reporting and the use of the globally accepted *International <IR> Framework* be clearly set out as a crucial feature of the global reporting system. The IRC of South Africa has adopted and recommends the 'octopus model' approach to an organization's corporate reporting suite. In this model, the integrated report is seen as the 'head of the octopus' being a concise, understandable communication of value creation, preservation and erosion showing the connectivity of financial and sustainability information as drawn from the detailed, subject-specific financial and sustainability reports (being the 'arms' of the octopus). For reference, *FAQ: The Octopus Model Approach* www.integratedreportingsa.org