

December 18, 2020

IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear IFRS Foundation Trustees,

Re: Consultation Paper on Sustainability Reporting

Chartered Professional Accountants of Canada (CPA Canada) appreciates the opportunity to respond to the IFRS® Foundation Trustees on the Consultation Paper on Sustainability Reporting (Consultation Paper). We commend the IFRS Foundation for considering a leadership role in enhancing the quality of sustainability reporting globally. Leveraging our expertise and global networks, we would be pleased to provide support to the IFRS Foundation as you progress this important work.

CPA Canada is one of the largest national accounting organizations in the world, representing more than 220,000 members. CPA Canada supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and also conducts research into current and emerging business issues. Responses to this Consultation Paper will also be submitted by the Canadian Accounting Standards Board, Public Sector Accounting Board, Auditing and Assurance Standards Board and their oversight bodies, the Accounting Standards Oversight Council and the Auditing and Assurance Oversight Council.

CPA Canada agrees there is a growing and urgent demand for a single set of internationally recognized sustainability reporting standards. A single set of high-quality sustainability reporting standards has the potential to bring significant benefits to organizations, investors, the global economy, and society at large.

We support the IFRS Foundation expanding its remit to sustainability standard-setting. The IFRS Foundation has credibility and history as an international standard setter. The creation of a Sustainability Standards Board (SSB) is aligned with the IFRS Foundation's mandate to serve the public interest and can drive greater interconnectivity between financial and non-financial reporting.

A broad range of sustainability areas require standards that are globally accepted and applied. We believe that standards on climate should be the initial priority given its pervasiveness and urgency followed by the broader range of sustainability areas. We also agree that setting requirements that meet the needs of investors is an appropriate starting point for such standard-setting activity. Our reasons for the above positions are explained further in the Appendix to this letter.

CPA Canada has long recognized sustainability as a key business issue. Our activities in this area extend over 25 years and we have a significant portfolio of resources that encourage a more holistic view of performance and support our members as they navigate the business, reporting and assurance implications of sustainability issues. Some recent initiatives include guidance for boards and public companies on environmental and social issues,¹ research with institutional investors,² and various publications on enhancing climate-related disclosures in financial reporting in both the private and public sectors.³ We have also provided input on government policy initiatives related to sustainable finance.⁴

In formulating our response to the Consultation Paper, we have drawn on our knowledge of sustainability reporting practices and challenges. We have also engaged in extensive consultations with approximately 100 stakeholders including subject matter experts, investors, preparers, directors, regulators, academics, auditors, and standard setters. Our outreach included representatives from the mining and oil and gas sectors which are important to the Canadian economy and have done significant work in sustainability reporting.

Prior to an SSB beginning operations, we believe input from stakeholders should be obtained on a more detailed proposal that provides information on the scope of the proposed SSB activities and other key matters. Stakeholders we consulted found it difficult to express a firm view on the IFRS Foundation's proposal without additional information such as details about how the board will be established and operate going forward.

Among other things, we believe the following key issues and questions should be addressed to minimize a potential expectations gap between what stakeholders expect (based on the Consultation Paper) and what the SSB ultimately delivers:

Nature of the standards

We believe sustainability standards should be built on sound principles and provide sufficient detail for consistent application. Another issue is whether the standards should be industry-specific or, like IFRS, industry agnostic. We heard that the extent of environmental and social impacts is heavily dependent on the industry sector and it is important this be considered in the development of the standards. We believe the SSB should produce general standards but also develop a process for establishing industry-specific guidance that will be needed to achieve comparability on industry-specific issues.

Another important question is whether the standards will focus on historical information or also consider forward-looking information. Regulatory environments do not always support the disclosure of forward-looking information and assurance of such information may be more challenging. Nevertheless, we think meeting the needs of users requires the reporting of forward-looking sustainability information such as plans to meet net zero and other targets.

The Consultation Paper also does not address whether the standards will focus exclusively on disclosure or address other important areas including identification of key metrics, definition of items to be reported and how quantified items should be measured.

1 www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/sustainability-environmental-and-social-reporting/publications/a-primer-for-environmental-social-disclosure

2 www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/mdanda-and-other-financial-reporting/publications/investor-interviews-on-climate-disclosure

3 www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/mdanda-and-other-financial-reporting/publications/climate-change-disclosure-decision-making/climate-change-publications

4 www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/sustainability-environmental-and-social-reporting/publications/unlocking-the-potential-of-sustainable-finance

Relationship with regulators, governments, and regional bodies

As noted in the Consultation Paper, it will be very important to have regulatory and government support for the standards produced by the SSB. Unless the SSB's standards are required to be adopted, the SSB will simply add another set of standards to the current mix. We do not believe that voluntary adoption of the SSB standards will achieve the objectives of consistent global sustainability reporting.

However, we recognize that around the world, there are different laws and requirements on several aspects of sustainability (e.g., greenhouse gas emissions and diversity) that may require some variation in reporting. In the IFRS Foundation Trustee webinar on the Consultation Paper, there was reference to the SSB setting core standards and other bodies adding supplemental standards to address local requirements and circumstances. While this may be necessary, it is not clear to us how this would work. It seems to move away from the concept of a single standard setter and potentially lead to a lack of consistency in reporting. We are also unclear what "regional bodies" are and how this concept would apply to a jurisdiction like Canada. (The Consultation Paper refers to regional public policy initiatives in the EU.) It is important this concept of core and supplemental standards be further clarified.

Applicability of the standards

A key question that needs to be addressed is to which entities the standards would apply. Sustainability standards could be used by large public companies, smaller public companies, private companies, not-for-profit organizations (NFPOs) and public sector entities. Public companies may be required by regulators to use the standards while private companies and NFPOs may be required to use them by investors, lenders or members.

During our outreach, we heard concern about the potential burden of sustainability reporting on smaller organizations with limited resources. This is very important for Canada as the vast majority of our public companies are very small compared to those in a jurisdiction like the United States. For many smaller organizations, investors and lenders can obtain specific information they need outside of formal reporting. The SSB should consider the cost/benefit and scalability of its standards for smaller organizations. One option might be to introduce tailored requirements within the standards based on size of the organization or other criteria.

Users of reporting

In setting sustainability standards, consideration should be given to the broad range of users of this information. From our consultations, there is considerable variability in how investors use sustainability information particularly between larger asset managers and investors and smaller ones. For the SSB's standards to be useful to the broad range of users, education will be necessary. While this may not be directly within the mandate of the SSB, it will be important to ensure the necessary education takes place if the standards are to be used by the full range of users of corporate reports.

Timeliness

During our consultations, we heard repeatedly that there is an urgent need for sustainability standards. The time taken by the International Accounting Standards Board (IASB) to develop financial reporting standards was often referred to as not being consistent with the urgent need for sustainability standards. The Consultation Paper gives no indication of a timeframe to set up an SSB or a timeframe to produce standards.

We believe that there is a need to move quickly on the establishment of the new board while ensuring it is set up to operate in an effective manner. We also believe that there is an urgent need for an SSB to produce standards in a timely manner while following appropriate due process to ensure high quality standards. How to achieve timeliness, high quality standards, and appropriate due process should be carefully considered before embarking on standard setting activities.

Work with existing bodies

Existing bodies (e.g., SASB, GRI) have already done much work on sustainability reporting; their frameworks and guidance are currently recognized by some investors and stakeholders and have been adopted by corporations internationally. An SSB should consider the extent to which it could use existing material as a basis for its standards. For example, the SSB could identify gaps in existing sustainability guidance and standards that should be addressed.

Our detailed responses to the questions in the Consultation Paper are provided in the Appendix to this letter.

We appreciate the opportunity to participate in this important consultation. We would be pleased to discuss our comments in greater detail and answer any questions you may have related to them. Please contact Rosemary McGuire, Director, Research, Guidance and Support (rmcguire@cpacanada.ca).

Yours truly,



Charles-Antoine St-Jean, FCPA, FCA
President & CEO, CPA Canada

Appendix

Question 1

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

We agree that there is an urgent and pervasive need for a single set of internationally recognized sustainability reporting standards for the reasons noted in the Consultation Paper.

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

We support the IFRS Foundation playing a lead role in setting international sustainability reporting standards. As noted in our cover letter, additional information is needed on strategic aspects of the IFRS Foundation's proposal regarding how an SSB would operate.

Currently there are several bodies producing recommendations on sustainability reporting. While many of them are widely viewed very positively, the world has not coalesced around any one set of recommendations. This has resulted in variability in sustainability reporting. We do not see any likelihood that any of the current sets of recommendations will become the globally accepted standards in the foreseeable future. We therefore agree there is a need for a single body to be established as the standard setter in this area.

(b) If not, what approach should be adopted?

N/A.

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?

We agree with the points in the Consultation Paper in favor of the establishment of an SSB.

Further, sustainability reporting needs to be coherent with financial reporting. There is likely to be some overlap between financial reporting and sustainability reporting standards; some aspects of sustainability reporting may be most appropriately included in the financial statements such as the impact of climate risk on asset recoverability. More broadly, users of corporate reports need financial, sustainability and other information about a company that is interconnected to help them understand the company, its performance and future prospects. Having both the financial and sustainability reporting boards operate under the governance structure of the IFRS Foundation will create synergies and make the necessary co-ordination more effective.

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 agree with the requirements for success listed in paragraph 31.

The development of a conceptual framework and strategic plan (including a mission statement) are important to guide the SSB's work going forward and to provide transparency for stakeholders in order to minimize a potential expectations gap.

Standard setting is a key part, but only one part, of the reporting environment. Financial reporting has a long history and the financial reporting environment is well developed with trained practitioners (accountants); processes to capture, aggregate and control data; assurance; use of technical experts; and users who understand the reporting under the standards. If an SSB is to be successful, it will have to consider how to encourage/facilitate the other elements of the sustainability reporting environment. Standards that are not understood and properly applied will be of limited value.

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?

We agree that the IFRS Foundation could use its relationships with stakeholders to aid in this.

Question 5

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

See our response to Question 6.

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?

We recognize that much excellent work has been done on sustainability reporting by several bodies. Many of the resulting recommendations have been well received by corporations, investors, regulators, and others. As noted in our cover letter, one of the early tasks of an SSB should be to review this work and to identify:

- what might be directly incorporated into SSB standards
- what might need enhancing before being incorporated into SSB standards (the need for measurement guidance and metrics were mentioned in our consultations)
- what are the gaps in the existing recommendations that need to be addressed in order to have a comprehensive set of sustainability standards.

This review should draw upon the expertise of individuals working with the existing initiatives by involving them in the process. At the same time, the review must be driven by the objectives and criteria established by the SSB, including those regarding due process.

This review should then be used to develop a workplan and a timeline that should be communicated to stakeholders so there is a common expectation of when standards will be developed.

Assuming the SSB initially focuses on a subset of sustainability topics, this review should also initially focus on the same subset (e.g., climate). One issue of importance in this review is the degree of prescriptiveness the SSB deems appropriate for sustainability standards. Some of the sustainability recommendations issued by existing bodies are high level, leaving a lot of room for interpretation in their application and potentially resulting in information being presented in an overly favorable light. If comparability is a key objective of sustainability reporting, then the standards will need a sufficient level of specificity. This might require modifying recommendations from existing bodies to provide more guidance on their application.

If an SSB is established, it is also important that it is recognized as the authoritative standard setter in the same way as the IASB. A single standard setter is a necessary condition for globally consistent reporting; however, there may be a need for industry-specific interpretation of certain SSB standards or other forms of supplemental guidance that the SSB does not have sufficient resources to supply. These might be provided by one or more of the existing bodies. It would be important that this guidance be fully consistent with the SSB's standards.

As noted in our cover letter, the issues of core vs. supplemental standards and the relationship with regional bodies need to be clarified.

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?

We think there is a need for global consistency across a broad range of sustainability reporting topics. The long-term objective of the SSB should therefore encompass the full range of sustainability reporting, which should be defined by the SSB, so it is clear what is and is not within scope.

However, it is not practical for the SSB to take on this broad scope all at once. As a new organization, it will need to focus its resources more narrowly to be effective. This is necessary to allow it to produce an initial set of standards in a timely manner. This will also have the benefit of building credibility with stakeholders. So, from a practical viewpoint, we support an initial focus on a subset of sustainability reporting topics.

Within the range of sustainability topics, we agree that climate is the greatest priority, given the urgency of climate change, and therefore should be the first area to be addressed by the SSB. However, the scope of "climate" and "climate-related financial disclosures" will need to be determined as there are different understandings of these terms.

The SSB's strategic plan should also include a timeline for expanding into the sustainability areas that it does not currently address.

Question 8

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

For the reasons discussed in our response to the previous question, we agree that the SSB should initially focus narrowly on climate reporting.

We do not see climate reporting being limited to risks – for example, we think it also should encompass current performance and opportunities and plans to improve future performance.

Question 9

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

We agree that the SSB should initially focus on the investor perspective. It is important for the SSB to begin with a narrow, well-defined focus so it can issue standards in a timely manner and establish its credibility as a sustainability standard setter.

We agree that a broader view of the impact of a company on societal sustainability is important. Given the different aspects of sustainability and different views of their relative importance, it is not clear how this should best be addressed. More research is needed before a broader view can be put into place and we encourage the SSB to undertake such research. (In 2019, CPA Canada published *Disclosing the Impact of Climate Change: A Process for Assessing Materiality*.⁵) Based on the outcomes from this research, the SSB should consider over time whether and how it should adopt a double materiality focus.

We believe the two views of materiality are not mutually exclusive. The investor view will capture part of the broader, societal view to the extent this might affect future cash flows of the company. For example, investors but also others will be interested in a company's plans to respond to government regulations that will affect the company's operations (e.g., greenhouse gas emissions) and to anticipated climate change impacts. For some companies there is concern over their social license to operate and this is also of interest to both investors and others.

⁵ www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/sustainability-environmental-and-social-reporting/publications/assessing-materiality-of-climate-change

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?

Independent assurance enhances the quality and reliability of reported information. We heard in our consultations that third-party assurance would enhance user confidence, but that the specific form of assurance that would be most suitable needs to be determined. We heard concerns that the current audit standards and process may not be fully “fit for purpose” for sustainability reporting (e.g., forward-looking information is important in sustainability reporting and assurance would have to address this). We think more work needs to be done to consider how assurance should be provided for sustainability reporting and by whom. We note that the International Auditing and Assurance Standards Board has a significant project on extended external reporting assurance which may be helpful in this regard.

Some of the stakeholders we consulted suggested that, as an interim step, management should be required to provide some form of certification over the effectiveness of internal controls over sustainability reporting.

Question 11

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

Our cover letter identifies several issues the IFRS Foundation should consider.