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31 December 2020

IFRS Foundation Trustees
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Dear Trustees,

RESPONSE TO CONSULTATION PAPER (CP) ON SUSTAINABILITY REPORTING

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the CP above published by the IFRS Foundation Trustees in September 2020.

ISCA sought views from its members through a one-month public consultation and from the ISCA Corporate Reporting Committee which includes experienced practitioners from large accounting firms.

We appreciate the IFRS Foundation's initiative to engage stakeholders on the demand for sustainability reporting standards and support its endeavours to address the need for consistency in reporting and comparable information.

We understand the International Financial Reporting Standards (IFRS Standards, formerly known as the International Accounting Standards or IAS) were conceived to overcome diversity in financial reporting standards across different jurisdictions. Since then, these standards are adopted by 144 jurisdictions. By having a single global standard, the comparability and transparency of financial reports all around the world are greatly enhanced.

The current state of sustainability reporting is not unlike the earlier years of financial reporting before the development of the IAS, as many stakeholders desire for better comparability. The development of IFRS Standards has largely achieved that for financial reporting. This suggests that the global position and vast experience of the IFRS Foundation make it well placed to take on the important role of developing a set of globally adopted sustainability reporting standards, catalyse universal adoption of these standards and replicate its success in financial reporting.

Therefore, we support the IFRS Foundation's proposal to create a Sustainability Standards Board (SSB) alongside the International Accounting Standards Board (IASB). We are also happy to provide our feedback to the questions asked in the CP as follows.

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?

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 reasons and stakeholder views obtained from the Trustee Task Force's informal engagement that there is an urgent need to improve the consistency and comparability in sustainability reporting. Increased meaningful reporting adhering to a set of internationally recognised and widely adopted sustainability reporting standards is key to raise accountability and accelerate remedy action towards pressing climate and sustainable development goals.

Further, we understand that the IFRS Foundation's decision to create the SSB and address this urgent need hinges on whether it will create a global framework for consistent standard-setting and not add to the complexity. We agree that to avoid causing more fragmentation, it is of paramount importance that any standards developed by the IFRS Foundation must strive to be the single most widely adopted standards globally, which may be accomplished by using its relationships with stakeholders and building upon and working with existing initiatives.

In this regard, the IFRS Foundation is well positioned to play a role in setting these internationally recognised and widely adopted standards and expand its standard-setting activities into this area, including the development of a SSB alongside the IASB. We agree based on the following reasons which are also stated in the CP.

- The SSB will be well equipped to set sustainability reporting standards by adapting the standard-setting process, due process procedures and network of the IFRS Foundation.

- By maintaining a close organisational and working relationship, the SSB and IASB can create synergies and develop linkages between non-financial topics and financial outcomes. This is a major consideration as the qualitative and quantitative reporting of the financial impact of non-financial issues is an emerging focus of investors, as evidenced by the rapidly growing interest in recommendations by the Task Force on Climate-Related Disclosures (TCFD), and should be an eventual goal of the IFRS Foundation in the not-too-distant future.

- The IFRS Foundation has established relationships with important stakeholders such as public authorities and regulators which can help to facilitate the consistency and comparability in reporting by promoting the widespread global use of the standards. These relationships could also be important to achieve longer term goals, such as the International Auditing and Assurance Standards Board (IAASB) when the demand for assurance over sustainability information grows.

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)?

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?

We agree broadly with the requirements for success as listed in paragraph 31 but would like to emphasise the following considerations that are critical for the success of the SSB.

<u>Addressing the complexity of sustainability reporting</u>

Sustainability risks and opportunities are diverse and could vary according to jurisdiction of operations, industry, business model and other factors. Companies even within the same industry or in contiguous locations could have material environmental, social and governance (ESG) factors that are unique to themselves. Even for the same ESG factors, indicators and their measurement methodology may not be consistent among companies. In order to meet compliance requirements, a company may often prefer to report on generic matters typical among its industry peers over unique issues that are more material to it.

These underscore the complexity of developing robust sustainability reporting standards that meet the informational needs of investors and other stakeholders. The SSB needs to develop universally applicable standards that increase consistency and comparability in sustainability reporting and still remain applicable to the unique sustainability context of individual companies.

The need therefore arises for SSB to seriously explore and consider the possibility of setting different tiers of reporting requirements linked to set operating parameters of companies, such as their size or nature of operations. This could take reference from the following approaches:

- The IFRS Standards for Small and Medium-Sized Entities (SMEs) is a stand-alone set of financial reporting standards which takes into account the costs to SMEs and the capabilities of SMEs to prepare financial information and focuses on the information needs of users of SME financial statements.

- More pertinent to sustainability reporting, there are two options for preparing a report in accordance with the Global Reporting Initiative (GRI) standards: the Core option specifies the minimum information needed to understand the company, whereas the Comprehensive option builds on the Core option by requiring additional and more extensive disclosures.

Avowedly, this will be a complex task but nonetheless a step worth discussing so as to avoid the development of blunt instruments of comparison among companies which in turn may serve to compound the issue rather than resolve the problem at hand.

For instance, a large company could meet minimal sustainability reporting standards with minimal effort. In this case, it would be arguable whether this provides sufficient informational value in terms of comparability with another company that is of similar size but holds itself to a higher standard of reporting. It could be worthwhile for the standards to explicitly require the same quality of reporting from larger companies that is differentiated from a more elementary level expected of smaller companies and provide the additional disclosures to achieve this quality.

Ensuring adequate representation from all major economic blocs or regions and maintaining political independence

The IFRS Foundation and the SSB need to continue engaging and working with stakeholders and other initiatives to provide a clear choice in sustainability reporting standards and in turn, promote global consistency and comparability in sustainability reporting.

To develop a global solution, it is vital for such stakeholder engagement to ensure that representation from all major economic blocs or regions is adequate. Specifically, Southeast Asia is dependent on agriculture, natural resources, forestry and the use of non-local labour, among other areas. Especially for these areas, standard-setting must keep the Association of South East Asian Nations' (ASEAN) requirements and contributions to the adoption of sustainable development in view. More areas of concern may be identified in the course of engaging ASEAN, or other regions, and should be addressed sufficiently.

Presenting a comprehensive global solution also entails being politically independent in fact and appearance, which the SSB accomplishes by both seeking and addressing regional inputs.

Considering the role of accountants

We agree with the importance of building effective synergies with financial reporting, especially if the standards are to explore the interconnectedness between financial reporting and sustainability reporting at the later stages of development. This is also consistent with developing areas such as integrated reporting and quantification of the financial impact of non-financial issues.

When developing linkages between financial reporting and sustainability reporting, the SSB and IASB need to leverage their relationship and have discussions around their respective oversight of topics that are disclosed in both types of reporting. This will minimise the duplication of effort and maximise coherence between financial reporting and sustainability reporting, especially when both of these are typically presented together in the same annual report of a company. Topics that could be of interest to both the SSB and IASB are intangible assets, which could include important climate issues like emissions allowances, and going concern, which is affected by sustainable development considerations. One thing that both types of reporting have in common is the potential contribution of the accountant to making meaningful disclosure.

Accountants are already familiar with the financial reporting standards, including the qualitative characteristics of useful financial information, and know where to obtain the non-financial data to prepare the financial information based on their understanding of the operations of the company. These attributes are usually complemented by a code of professional conduct and ethics that binds professional accountants to safeguard the credibility of the reporting that they are involved in preparing.

The same accountants that prepare high quality financial statements could play a similar role in preparing sustainability reports. By incorporating the role of the accountant into the sustainability reporting standards, the standards could build on the existing knowledge and experience of accountants and expand their capabilities to streamline both financial and non-financial reporting processes in the company. This further contributes to the synergies between financial reporting and sustainability reporting.

However, it could be anticipated that there could be some level of apprehension from preparers who apply these sustainability reporting standards but are not from accounting backgrounds. Should the intent be that these standards are to be applied by sustainability practitioners who do not have a background as accountants, the sustainability reporting standards should be developed with these preparers in mind.

<u>Ensuring that information reported in accordance with the standards is assurable and verifiable</u>

In order to enhance the credibility of sustainability reports, companies may eventually seek independent external assurance on their sustainability reports as their sustainability reporting capabilities mature and/or to meet filing requirements or regulations. Therefore, ensuring that information reported in accordance with the standards is assurable and verifiable will encourage the use of the standards globally as sustainability reporting becomes a mainstay in jurisdictions worldwide.

Sustainability reporting standards could improve the verifiability of reported information by incorporating a common understanding of indicators, data sources and collection, measurement methodology, disclosure of qualitative and future-oriented information and other challenges. Reference could be taken from how the financial reporting standards address the challenges above relating to judgmental issues, such as the impairment of assets or defined benefit plans, and in turn provide direction for possible audit procedures over them. In a similar manner, the SSB needs to develop requirements that are clear and understandable to both companies and practitioners.

In this respect, the IFRS Foundation's working relationships with the IAASB could play a crucial role. Collaboration between the IFRS Foundation and the IAASB is mutually beneficial in helping both bodies further their individual objectives and provide much-needed clarity to both companies and practitioners. This is evidenced by the IFRS Foundation and IAASB's recent initiatives which expressed similar concerns for the growing importance of sustainability matters to corporate reporting and investors' informational needs.

For example, the IAASB, with the support of the World Business Council for Sustainable Development, issued its proposed non-authoritative guidance on extended external reporting (EER) assurance. EER encapsulates integrated reporting and sustainability reporting. The guidance addresses challenges that practitioners commonly encounter in applying ISAE 3000 (Revised) in EER assurance engagements.

One of the objectives of IAASB's guidance is to strengthen the influence of EER assurance engagements on the quality of EER reporting and engender greater user confidence in the credibility of EER reports. It acknowledges that one factor that supports the credibility of EER reports is a sound EER framework for reporting which is aligned with users' information needs. The SSB's standards could fill this role in boosting the credibility of EER reports.

In our response to IAASB's public consultation on its proposed guidance, we highlighted key points of EER assurance that should be presented more prominently in the guidance and challenges that require more guidance. The challenges include practical challenges in determining whether the preconditions for EER assurance are met and identifying qualitative subject matter information for assurance. These are issues that could be resolved by engaging the SSB and further highlight how collaboration could benefit both the SSB and IAASB.

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?

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?

In pursuing the important endeavour of harmonising sustainability reporting standards for global application, the IFRS Foundation should stay true to its mission "to develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world". The sustainability reporting standards developed by the IFRS Foundation should retain the focuses on enabling investors to make informed economic decisions and improve capital allocation across the world and becoming of vital importance to regulators by facilitating the reporting of globally comparable information.

In order to both further these objectives and maximise implementation of meaningful sustainability reporting by companies, the IFRS Foundation can engage its stakeholders to promote the use of the standards. By leveraging its relationships with regulators such as central banks, market regulators and public policy makers, it could seek their views and encourage the standards to be considered in sustainability-related regulations, thereby promoting adoption by companies and catalysing global application. Engagement and collaboration with the International Organization of Securities Commissions (IOSCO), whose membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions, may prove to be effective in this aspect.

For example, the Singapore Exchange (SGX) requires listed companies to prepare an annual sustainability report and issued a sustainability reporting guide to provide guidance on the expected structure and contents and the preparation of the sustainability report. The SGX also disclosed in its 2020 annual report that it will be consulting the public on providing further guidance to climate-related disclosures, in line with the recommendations by the TCFD.

This is an example of how financial centers are turning their attention to sustainability reporting and climate-related disclosures and have issued guidances to provide direction in these areas. The IFRS Foundation possesses the international recognition to provide trusted sustainability reporting standards which complement existing requirements. In this manner, a well-coordinated global solution is provided to companies which are required to issue sustainability reports.

Such acceptance could be achieved by continuing to engage stakeholders via exposure drafts and active outreach, both of which are already conducted regularly by IASB. Via such stakeholder engagement, regional perspectives must be understood and incorporated into the sustainability reporting standards to encourage these regions to apply the standards meaningfully, as mentioned earlier.

As a means to contribute to the success of this entire exercise, the IFRS Foundation needs to promote and speak about the new sustainability reporting standards in the same breath as when it speaks to accountants about financial reporting standards. Only when both non-financial and financial reporting standards are promoted and dealt with *together*, will this effort gain the seriousness that it deserves.

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

As stated in the CP, diverse approaches, numerous reporting frameworks and their objectives pose the threat of increasing fragmentation globally. The IFRS Foundation's global position and relationships put it in good stead to engage stakeholders and other major reporting frameworks to work towards a common solution.

There are several initiatives with a similar approach to that of the SSB. These initiatives seek to build upon the existing standards and reporting frameworks to develop a single reporting framework widely adaptable for non-financial reporting. They include, but are not limited to, the following:

- In September 2020, the Sustainability Accounting Standards Board (SASB), the GRI, the Climate Disclosure Standards Board (CDSB) and the Climate Disclosure Project (CDP) issued a Statement of Intent to provide joint market guidance on how their frameworks and standards can be applied in a complementary and additive way. They envision this model to link sustainability disclosures to financial reporting standards and integrate the elements set out by TCFD. Further, they have also committed to engaging with the IOSCO and the IFRS Foundation.

- In September 2020, the International Business Council of the World Economic Forum, in collaboration with the Big Four accounting firms, prepared the white paper *Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*. The white paper identifies a set of universal, material ESG metrics for companies to begin reporting. The metrics are capable of verification and assurance; organised under four pillars that are aligned with the SDGs; and drawn from existing standards and disclosures.

- The United Nations Conference on Trade and Development issued the *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* (SDGs). An objective of the guidance is to assist entities to provide baseline data on sustainability issues in a consistent and comparable manner that would meet common needs of the different stakeholders of the SDG agenda. It selects common sustainability indicators based on current reporting practices and leading reporting frameworks and provides for each indicator a measurement methodology and accounting sources for data collection. The guidance is still in the process of development.

As evident above, there is significant overlap between the SSB and these initiatives in their objectives, approaches, as well as major players involved. The common objectives and willingness to collaborate demonstrate the significant opportunity for all the major players to pool their resources, coordinate and work more efficiently together. Via such collaboration, the formation of the SSB may even provoke consideration about whether similar initiatives can be consolidated into one focused framework, thereby reducing confusion arising from the number of available reporting frameworks.

Regardless of the number of existing frameworks, there remains a current need for a single global solution for consistent and comparable sustainability reporting. The IFRS Foundation is best placed to deliver this solution by being the clear choice for sustainability reporting to jurisdictions for filing or reporting purposes. The SSB must, and would, avoid adding to the complexity of selecting from existing initiatives by clearly differentiating from existing options available.

Collaboration between the SSB and other initiatives is crucial to ensure that the introduction of the SSB does not cannibalise global efforts to develop critical sustainability reporting standards and capacity building to apply those standards. For example, the SSB and other initiatives could identify existing requirements and reporting capacities and build on them, instead of introducing new requirements which would require capacity building in a different direction altogether. Mapping of similar requirements between the initiatives would also be important to minimise incremental effort to learn and apply new initiatives and also identifies core skills that companies need to possess in sustainability reporting.

Consistent with the IFRS Foundation's mission, we envision that the SSB's standards for its sustainability reporting will primarily be used to meet reporting and filing requirements by the different jurisdictions, and standards from other initiatives can complement its sustainability reporting for other kinds of non-financial reporting. In this manner, each initiative will develop a clear role in the marketplace and minimise confusion.

Finally, the SSB can also build on accumulated experience and knowledge of challenges in implementing sustainability reporting by appointing the subject matter experts from the existing initiatives and reporting frameworks to the board.

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?

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

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

The climate exigency makes it imperative that standards are developed swiftly to address the urgent need for a clearly preferred set of standards that improves consistency and comparability and reduces complexity in reporting on climate issues. Therefore, initial plans for the standards could focus on addressing climate-related financial disclosures with a single materiality approach.

To achieve this initial objective, the SSB could build on the ongoing momentum in convergence and alignment of climate related disclosure under the TCFD recommendations. We note that, in addition to the SGX, a number of jurisdictions are exploring embedding the TCFD recommendations in policy and guidance and possibly even to the extent of requiring TCFD disclosures through legislation and regulation. The TCFD shares a similar focus to help companies provide better information to support informed capital allocation, and the close fit between the TCFD objectives and the SSB's immediate goals allows the SSB to shorten the standard setting process by leveraging the TCFD's existing work.

Notwithstanding the above, the SSB's approach must avoid understating the impact of the other ESG factors that are also integral to the sustainable development of a company's business and operations. Upon its establishment, the SSB must already plan ahead to include in its work plan the issuance of standards for other areas of sustainability reporting in a prompt and timely manner. Thereafter, the interrelationship between these factors should also be explored as it provides high quality disclosure on the impact that sustainability has on the organisation.

As the title of the International Business Forum's white paper mentioned above suggests, a key premise of sustainability reporting is for the company to be accountable to its stakeholders. Sustainability reporting also enables companies to heed the call in SDG Target 12.6 to adopt sustainable practices and to integrate sustainability information into their reporting cycle, and it is important not to undermine the existing accomplishments by the international community to draw attention to the lesser known ESG facets crucial to sustainable development and the overall achievement of the SDGs. We note these issues are commonly sustainability risks and opportunities which ultimately affect economic decisions. For these reasons, we agree with the stakeholders that the Trustee Task Force consulted that users of the SSB's standards should report on key ESG issues, and not just the climate-related ones, that are material to its key stakeholders. This also entails applying a double materiality approach.

The proposed approach should therefore develop a clear roadmap that covers all aspects of sustainable development and its related reporting, going beyond only climate related reporting, including the streamlining of existing requirements based on the interactions between the SSB and other existing initiatives. We suggest a phased approach of issuing climate-related reporting standards on a single materiality approach before expanding into ESG reporting on a double materiality approach. This would allow companies to take the first step in their sustainability reporting journey while the standards are in the midst of expansion to include other ESG factors and a double materiality approach.

Consequently, a proposed timeline for development and implementation of the standards and related guidance should be given for capacity building and planning. As iterated earlier, the roadmap and timeline should incorporate a participatory approach to the standard setting process and consider including due process for stakeholder engagement to ensure that key stakeholder needs are addressed.

Should you require any further clarification, please feel free to contact Mr Donaphan Boey, Manager, Technical: Financial & Corporate Reporting, from ISCA via email at donaphan.boey@isca.org.sg.

Yours faithfully,

Ms Ju May, LIM
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TECHNICAL: Financial & Corporate Reporting;
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