30 September 2020

Open Letter to Erik Thedéen, Director General of Finansinspektionen, Sweden, Chair of the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO)

Re: Working together to meet the needs of the capital markets

From: CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB)

We, as the leading global ESG reporting organisations, whose frameworks, standards and platforms guide the majority of sustainability and integrated reporting globally, issued a statement of intent on 11 September 2020, in which we outlined a shared vision for a comprehensive corporate reporting system.

The joint statement is our response to the growing calls from capital market participants, regulators and other stakeholders for transparent measurement and disclosure of information about sustainability performance, which is increasingly considered to be a fundamental part of effective business management.

Sustainability information is now recognised as critical to investment decisions because it has significant impact on business value and risk. Many of the sustainability impacts that are critical for society are also relevant for enterprise value creation and this relevance is increasingly dynamic. As the global pandemic has shown, sustainability impacts can rapidly become material for companies and their investors.

Our statement of intent is a call for a comprehensive corporate reporting system, which incorporates disclosures that reflect an organisation's significant impacts on the economy, environment and people and those that are material for enterprise value creation. In that statement, we demonstrate how our standards and frameworks could help to establish global sustainability disclosures that meet the needs of the capital markets and other stakeholders. We show how the combination of our standards and frameworks can help address the current confusion and facilitate high-quality, consistent, comparable and verifiable disclosures that illuminate significant impacts on sustainable development, but also delineate the sub-set of that information that is relevant for enterprise value creation.

Earlier today, the Trustees of the IFRS Foundation have published a public consultation that sets out possible ways the Foundation might contribute to the development of global sustainability standards by broadening its current remit beyond the development of financial reporting standards and using its experience in international standard-setting, its well-established and supported standard-setting processes and its governance structure[1].

Taken together, these two steps can lead to the foundation of a global architecture for sustainability disclosures that enable consistent reporting of information that is relevant for enterprise value creation, as part of comprehensive corporate reporting. A key element of this architecture is a conceptual framework for connected reporting, which should facilitate the critical interconnections between financial and sustainability information that is material for enterprise value creation. By developing this connected reporting framework under the oversight of the IFRS Foundation, it would be possible to create greater alignment with the International Accounting Standards Board (IASB)'s Management Commentary Practice Statement, facilitating better disclosures by an entity on its business model and how it creates value, and how it converts that value into cash flows.

Our standards and frameworks can help to create this architecture for global sustainability disclosures that enable consistent reporting of information that is relevant for enterprise value creation, as part of a comprehensive corporate reporting system. Our standards and frameworks act as a starting point for the technical content, while the IFRS Foundation could provide an appropriate governance architecture to achieve global acceptance. Integration with the IFRS Foundation's governance and oversight could deliver internationally-accepted institutional arrangements for sustainability disclosures relevant for the capital markets, ensuring robust governance, rigorous due process and independent standard-setting, within the context of accountability to public authorities who foster outcomes that are in the public interest. This public/private model has proven to be effective in leading to general acceptance and widespread adoption of financial accounting standards.

Starting from an established and well-recognised base, this ambition can be achieved quickly to meet the increasing urgency for corporate reporting that can ensure resilient and efficient markets, enable the allocation of capital to sustainable enterprise, and, when combined with companies' disclosure of all significant impacts on sustainable development, accelerate progress towards achieving the UN's Sustainable Development Goals. Furthermore, given diversity of approach across multiple jurisdictions, we recognise the value provided by a global disclosure platform that offers consistent, comparable data to capital market actors. To that end, our organisations are already undertaking work together, including showing how our current frameworks and standards can be used together, and a tangible example of how the proposed architecture can be applied to climate, by integrating the content of our standards and frameworks along with the elements set out by the Task Force on Climate-related Financial Disclosures (TCFD). These efforts will demonstrate that it is possible to deliver, in a relatively short period, high-quality sustainability disclosures, capable of consistent application, which enable reporting of information that is relevant for enterprise value creation, as part of a comprehensive corporate reporting system. It will also demonstrate an architecture that can be applied across a broad range of sustainability and governance issues.

[1] Per the Consultation Paper on Sustainability Reporting, released on September 30th, 2020

IOSCO can play a leading and critical role in accelerating the system change by facilitating cooperation among the necessary elements of this global architecture for consistent reporting of sustainability information that is relevant for enterprise value creation, as part of a comprehensive system of corporate reporting. This role would fit with IOSCO's focus on information that is relevant for investors and other primary users of financial statements, as is the focus of the IASB.

Sustainability disclosures are at the point now that International Accounting Standards were at the turn of this century. IOSCO's support in 2000 in establishing new governance arrangements for what is now the IFRS Foundation was critical to the Foundation's success. As then, IOSCO's clear support and assistance are critical to success.

In our view, IOSCO's engagement with these initiatives as they develop will help to ensure that they evolve in a way that achieves the objective of an architecture that enables consistent reporting of information relevant for enterprise value creation, as part of a comprehensive corporate reporting system. Action by IOSCO would minimise the risk of global and jurisdictional fragmentation and support the information needs of global capital markets, in the public interest. This reflects the fact that businesses have global supply and value chains, face global risks and have global investors. Likewise, global investors manage global portfolios and need comparable information across all of their portfolio companies.

We have suggested a building block approach that recognises the importance of structural connectivity between reporting to providers of capital making economic decisions and reporting to meet the needs of a broad range of users. The first block of sustainability disclosures would focus on sustainability impacts that affect company performance, risk profile, economic decisions and enterprise value creation. The second block would address all significant impacts on the economy, environment and people, thereby providing a comprehensive picture of a company's positive and negative contribution to sustainable development and value creation. A third building block could accommodate specific jurisdictional requirements to support local public accountability. We believe that this approach will meet the need for globally consistent disclosures for capital markets, while allowing sufficient flexibility for local policy priorities. Such an approach would foster collaboration, acceptability and adoption across a broad range of jurisdictions.

A critical feature of the harmonisation that we seek to achieve is that we eliminate duplication and ambiguity between frameworks and disclosures that are focused specifically on reporting sustainability information that is material for enterprise value creation and those that also address reporting of significant impacts on sustainable development. This requires putting an architectural feature in place to ensure agreement, wherever possible and appropriate, on a set of global sustainability topics and related disclosure requirements. Achieving this would ensure that companies can collect information about performance on a given sustainability topic once and use that information to meet the needs of different users and their objectives. The result would be reduced confusion and cost for both producers and users of sustainability information and would likely encourage companies to invest in the robust controls and data systems necessary to ensure high-quality information comparable with financial reporting. Putting this architectural feature in place from the outset, along with establishment of the related governance and funding model, is critical for a solution that can be efficiently implemented by companies.

Bridging the building blocks effectively will require appropriate governance procedures to ensure that there is consistency between and among the disclosures, and these procedures are certain to evolve as experience grows.

We have made a joint commitment to work together to achieve a comprehensive corporate reporting system. Our statement was facilitated by the Impact Management Project, the World Economic Forum and Deloitte, whose support of this initiative, together with the Roadmap issued concurrently by the International Federation of Accountants (IFAC), demonstrate significant alignment among parties as to the way forward. Our joint statement has received several statements of support from other organisations with global influence. These include Accountancy Europe, the Association of Chartered Certified Accountants (ACCA), Center for Audit Quality (CAQ), Institute of Chartered Accountants in England and Wales (ICAEW) and the CFA Institute.

We write to express our commitment to work closely with IOSCO and the IFRS Foundation to drive towards the vision laid out in our joint statement of intent. We will continue to use our best endeavours in the public interest to achieve the comprehensive corporate reporting system that the world so urgently needs.

Sincerely,

Paul Simpson, Chief Executive Officer, CDP

Mardi McBrien, Managing Director, CDSB

Eric Hespenheide, Chairman, GRI Board of Directors

Charles Tilley OBE, Chief Executive Officer, IIRC

Janine Guillot, Chief Executive Officer, SASB