

IFRS Foundation

Consultation Paper on Sustainability Reporting

A response from the Chartered Institute of Public Finance and Accountancy

18 December 2020

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

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Our ref: Responses/ 201218 SC0263

IFRS Foundation Consultation Paper on Sustainability Reporting

CIPFA is pleased to present its comments on this Consultation Paper.

CIPFA is a professional accountancy organisation, and a member of IFAC. Uniquely among IFAC members, CIPFA's principal focus is promoting high standards in public sector governance and public financial management (PFM).

CIPFA champions improved PFM, having regard to the interactions and connectedness of all parts of public sector financial management. Our work is international in scope. Keystone documents in the international arena are our publication *Public Financial Management: a Whole System Approach*, and *International Framework: Good Governance in the Public Sector* which was developed jointly with IFAC.

CIPFA also strongly supports the work of the International Public Sector Accounting Standards Board (IPSASB) which develops International Public Sector Accounting Standards (IPSAS) for use by governments and other public sector entities around the world.

Why CIPFA is responding to this consultation

A key element of CIPFA's work is the development of guidance on public sector reporting of various kinds, and this involves both the generation of sector specific material, and the effective adaptation or re-use of private sector standards and guidance where these are sufficiently relevant and of appropriate quality. Perhaps uniquely among IFAC members, we are also a statutory 'relevant authority' for public sector standard setting on financial reporting in UK local government.

CIPFA monitors all consultations on IFRS pronouncements and responds to consultations on all major projects, except where these are specifically focused on private sector issues. IFRS standards are implemented in various ways by public sector entities in several countries; they also inform the development of IPSAS standards.

CIPFA's consideration of issues in relation to sustainability reporting has mainly operated within the context of specific reporting required by governments, and through application of the International <IR> Integrated Reporting Framework to public sector organisations. CIPFA has also monitored recent discussions in the Corporate Reporting Dialogue discussions around alignment between the various corporate reporting frameworks and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Against this background, CIPFA is interested in proposals intended to enhance sustainability reporting through the development of international standards.

As explained in our response to Question 1, sustainability reporting is very relevant to the public sector, and many public sector organisations have substantial impacts on the natural environment, economy and society. We would therefore urge any sustainability reporting SSB to have some engagement with public sector stakeholders.

CIPFA would also be pleased to engage with the SSB on how its standards read across to public sector reporting, or how they might be adapted to work in that context

Questions for Consultation

More detailed responses to some of the individual questions for consultation are provided in the attached Annex.

We hope this is a helpful contribution to the deliberations of the IFRS Foundation.

Questions for Consultation

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?

Reflecting on whether there is a need for such global standards, CIPFA does not collect information on the views of markets or investment regulators, as our stakeholders are mainly public sector accountants and governments. However, we are aware of the lack of alignment between the various frameworks which report on sustainability and value creation. Some argue that there are too many standard setting frameworks and this reduces comparability in reporting. There is also a risk that comparability will be further reduced, given plans to create a European standard setter for Non-Financial Information reporting, which will encompass sustainability information. We therefore see potential benefits in rationalisation and alignment.

Against this background, CIPFA is somewhat cautious about supporting the creation of another corpus of standards unless this can be done in a way which supports rationalisation and alignment. There may be advantages in having the IFRS Foundation behind an SSB, as discussed below, but there would be a more convincing basis for change if this could be taken forward combined with other rationalisation – for example by having the new SSB take forward and build upon the ambit, staff and existing body of pronouncements of one of the current standard setters.

In relation to sub-questions (a) and (b), CIPFA agrees that the IFRS Foundation is well positioned to develop frameworks and due process for sustainability reporting that will attract support from the G20 and regulator groups such as IOSCO, which will aid adoption of sustainability reporting requirements around the world. However, some detailed changes to overall governance would seem appropriate, so that the overarching governance of the sustainability SSB would have a wider perspective than that of capital market authorities: for example, by reviewing or expanding the membership of the Monitoring Board to include representatives of public authorities who are directly aware of governmental sustainability objectives and agendas in a variety of jurisdictions.

Additionally, sustainability reporting is not just relevant to companies and investors: many public sector organisations also have substantial impacts on the natural environment, economy and society. The IFRS Foundation proposals do not reflect on the needs of these entities, but it would be appropriate for some consideration to be given to the wider context. Standards developed for company reporting could perhaps be beneficially applied or adapted for use by a wider range of entities, and as a consequence there would be benefit for the SSB to have some engagement with stakeholders in public sector reporting. This might be in line with current engagement between the IASB and the International Public Sector Accounting Standards Board (IPSASB) in the area of financial reporting. CIPFA would also be pleased to discuss with the SSB how its standards read across to public sector reporting, or how they might be adapted to work in that context.

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?

CIPFA would support such an initiative if the approach taken to standard setting is appropriate, as discussed in responses to other questions.

A new SSB under IFRS Foundation oversight would be well placed to develop reporting which is connected with financial reporting, which might help rationalise voluntary reporting, or provide regulators with tools to develop mandated reporting.

As mentioned in responses to later questions, in CIPFA's view, wider sustainability reporting should go beyond matters directly connected with financial reporting. The SSB would then need to engage with wider stakeholder groups.

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?

IFRS Trustees, members of the IASB, and technical staff already have relationships with national standard setters, regulators, and other stakeholders worldwide. These relationships are an advantage of a sustainability standards board being established under the aegis of the IFRS Foundation, and could help persuade jurisdictions to adopt the standards for mandatory or recommended reporting.

As discussed in our response to Question 1, there would be benefit for the SSB to have some engagement with stakeholders in public sector reporting, which would potentially facilitate consistent reporting in the wider public sector context.

Question 5

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

It is vital to preserve as much as possible from existing sustainability initiatives, and not to disrupt reporting in areas where the SSB has not yet, or will not, develop standards. The collaborative work of CDP, CDSB, GRI, IIRC, and SASB should serve as a starting point for the new SSB.

In considering how best to do this, it seems appropriate to separately address the various forms of reporting which address sustainability having regard to

- an investor focused perspective
- broader aspects of sustainable development, and reflecting entity impacts on the environment, economy and people
- requirements that support public accountability within specific regulated jurisdictions

As explained in our response to question 7, CIPFA considers that the SSB should in due course develop standards which address both investor and wider perspectives, and will need to be mindful of jurisdiction specific requirements which affect global and national reporting environments

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?

CIPFA is content with the proposal that the SSB should initially address climate-related disclosures linked to financial reporting.

However, to most effectively promote rationalisation of the existing frameworks and harmonisation with other standard setting, CIPFA believes that the SSB should begin with a comprehensive mandate to address sustainability topics encompassing environmental and economic/societal issues, having regard to both investor perspectives and other, broader perspectives.

Question 8

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

In line with our response to question 7, CIPFA considers that the scope of the standards set by the new board should cover a range of sustainability topics, including 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 proposed approach to materiality seems appropriate for the proposed initial focus.

In line with our responses to other questions, we suggest that in due course the SSB should develop standards for reporting with a focus which is broader than investors, and materiality should then encompass suitably wider stakeholder perspectives.

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?

There are clearly benefits if core information in reports can be subject to assurance. The extent to which sustainability information is mandatorily subject to assurance is a matter for regulators, having regard to their policy objectives in relation to company and other entity behaviour in relationship to sustainability. In line with this, the SSB should have regard to the views of governments and supranational bodies when considering the extent to which reporting under its standards might be subject to assurance, and what form that assurance might take. Even if there are no mandatory assurance requirements, the views of these parties and the thinking behind those views would be relevant information for the design of reporting which may be subject to voluntary assurance.