

## **Responses to the IFRS Foundation Consultation Document on Sustainability Information**

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### **Question 1**

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

Yes, a set of standards on sustainability, accepted at an international level, would be a great step towards having more sustainable companies and organizations, because of the growing importance of sustainability-related issues and the significant impact of companies on society and environment. The great diversity of existing frameworks for these purposes makes the task of measuring and reporting on these issues more complex. Currently, it is mostly large and listed companies that have adhered to some of the existing frameworks, usually voluntarily.

Businesses find it difficult to navigate through many frameworks and choose which one to target. Although GRI is one of the strongest initiatives, others, such as the Integrated Reporting Initiative, are becoming more important. At the same time, it is also confusing for users to have to analyze information produced from different perspectives. The comparability of the information prepared under different frameworks is difficult, although there are similar elements as can be seen in the Corporate Reporting Dialogue. I believe that a set of standards that compiles the best of existing initiatives would be of great advance. This way, firms from all countries could get involved and give greater value to this information that points out the positive and negatives aspects of their activities in the society and environment, thus, improving transparency and accountability.

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

I believe that the IFRS foundation already has the experience and credibility worldwide in the issuance of standards. This facilitates the process of issuing global standards on sustainability. Although the objectives of IFRS have been mainly oriented to financial issues and capital markets, there is a greater awareness of how issues related to sustainability bring risks and opportunities to these markets as well, and can affect firm finances. However, users of sustainability information should go beyond providers of financial capital.

## **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 IFRS Foundation has a three-tier governance structure, based on a standard-setting Board of independent experts, overseen by Trustees from around the world and a Monitoring Board comprised of public authorities.

The monitoring board consists of the capital markets authorities, who are responsible for establishing the shape and content of financial information. However, I believe that the current members, alone, are not the most suitable to deal with or monitor sustainability issues, since their perspective may be skewed towards purely economic aspects, or the growth of financial capital, although in some cases it greatly affects the other capitals as natural or social. Therefore, I consider that, if the IFRS foundation decides to issue these sustainability standards, the governance structure should also be modified to include trustees from areas other than the financial and leading authorities on sustainability issues around the world, so that there is a more comprehensive representation and a more adequate balance between financial and non-financial interests.

## **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)?**

Regarding point "(a) achieve a sufficient level of worldwide support from public authorities, global regulators and market stakeholders, including investors and preparers in key markets", indisputably, for the successful application of these possible standards, the support of the actors mentioned here is required. However, it is important the commitment of the governments of different countries, NGOs and other institutions that protect human rights and the environment and work against climate change.

To have this support, the primacy of financial matters must be removed, and it must be understood that no business is going to be economically sustainable in the long term if we do not stop the environmental or social crises that are currently growing. Therefore, these matters should not be only evaluated in terms of how they affect finances, but of how certain economic activity can cause irreversible damage in a certain ecosystem or community.

On point (c) "guarantee the suitability of the governance structure", I made related comments in point 2.

On point (d) "obtain the appropriate technical knowledge for the trustees, members and personnel of the SSB", this is essential for the development of sustainability standards. It is

complemented by the fact that the foundation's governance structure includes experts in sustainability from an ecological perspective, as well as experts in corporate sustainability.

#### **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, the IFRS Foundation has done a great job regarding financial reporting standards, promoting transparency, and enhancing trust in the markets. The relationships and connections that this organization currently have will be essential in the event of the need to disseminate and recommend sustainability standards. The Foundation has proven it has worldwide recognition and a very good image regarding its work and the process of issuing financial standards, so its allies will surely accompany it in this initiative.

I believe that the initiatives involved in sustainability information, indicated in Annex C and others, should be part of the entire governance structure of the IFRS foundation. That is, they should be part of the SSB and have representation as trustees and on the monitoring board.

#### **Question 5**

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

I am unaware about the willingness of all these organizations to be part of a higher and comprehensive standards body with and a global presence. This is because I believe that each one has done their own work to be stronger and to compete with their own proposals. However, I consider that if they continue to have a significant participation within the Foundation and in the issuance of sustainability standards, they will surely be willing to cooperate and contribute their knowledge and experiences for the common good.

For instance, at the time of responding to these points, I learned about the merger attempt between SASB and the IIRC into a new body to be called the Value Reporting Foundation. GRI also looks forward to working closely with this new body. A merger between the Value Reporting Foundation, GRI and the SSB of the IFRS foundation could be contemplated, initially.

An independent committee should be appointed to assess the existing sustainability reporting frameworks and define their strengths, weaknesses and limitations with the issuance of sustainability standards in mind, in order to complement each other. The conclusions should be discussed with representatives of the evaluated organisms for the construction of the project bases, then subject them to public discussion and build the backbone and the conceptual framework that will allow the development of the standards. These will surely require dividing into specific topics, and consulting with experts from financial and non-financial areas to reach agreements.

The cycle draft-discussion-approval-issuance-basis of conclusions used in the issuance of international financial reporting standards is also considered adequate for the preparation of sustainability standards.

### **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?**

There are well-established regional initiatives, such as the European Union Non-Financial Reporting Directive or South Africa's several-years' experience in requiring the elaboration of integrated reports for listed or public companies. These and other regional initiatives should be considered and evaluated to determine their possible contribution to the development of standards, in the same way as existing frameworks on sustainability, issued by private institutions.

As with financial reporting, sustainability standards should have differentiated approaches that consider regional differences, the impacts of certain types of economic activities, company sizes and cost-benefits. This requires the participation of representatives from different regions of the world, possibly through the establishment of regional committees. Information on sustainability should not be a matter only of large companies or listed companies, but a matter of humanity as a whole.

### **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?**

While it is true that climatic factors and their impacts are perhaps the most evident, and are increasing the belief in people's mind about the need to control humanity's impacts on the environment, those are not the only challenges.

Sustainability standards should, for example, contribute to the measurement of the Sustainable Development Goals, which incorporate multiple social, environmental and economic aspects. Focusing only on the climate or the greenhouse gases that affect it is a very limited perspective.

Standards that consider the measurement of environmental assets and liabilities from a perspective other than the financial one should be created too. These ought to be more oriented towards the control and durability of resources over time and for future generations than to their monetary valuation.

Measurement of the impacts of economic activity on soil, land, water or a community cannot be left out, simply because they lack a direct impact on climate change. This information is required anyway for decision making that allows the preservation of ecosystems and all their resources (air, water, flora, fauna, land, etc.) and to promote improvements in the quality of life of people and the reduction of inequalities.

The new standards should have a multi-capital perspective as the one proposed by the framework to prepare integrated reports: human, intellectual, social and relational and natural

capital, which can be integrated with the financial and manufacturing capital on which there are already established standards, to have a comprehensive perspective. It should also consider qualitative and quantitative, monetary and non-monetary measurements.

#### **Question 8**

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

I believe that the risks and opportunities derived from social and environmental factors go beyond those related to climate. From an integrated reporting perspective, risks that can affect the creation of value (for multiple stakeholders and not just financial value) of an organization arise from multiple capitals.

Some climate-related risks can have devastating effects that are visible in the short term from a financial perspective. However, the risk of destruction of ecosystems and social risks can have an impact in the medium and long term, and not only financially but also on people's quality of life.

#### **Question 9**

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

I agree with the dual-materiality approach, since I believe that an approach from the outside to the entity will only measure and report what has an impact on financial figures. If the principle of double materiality is added, so that the impact of the entity on the environment widely considered is also reported, taking into account the multiple stakeholders, the perspective would be more complete, comprehensive and significant to contribute to the sustainability of a stronger way.

One observation is that dual materiality should be considered from the beginning of the preparation of sustainability standards. Although this is a bit far from the current financially oriented perspective that the foundation has, under dual materiality, the work would be more significant and less traumatic, than if it began with a materiality criterion and then another is changed or added. It is better to make a profound change from the beginning.

#### **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 on sustainability must be subject to external guarantees. This is facilitated if there are established standards, which is one of the points that the auditors highlight to provide assurance work. They do not necessarily have to follow the parameters established for external assurance of the financial information.

Currently, standards such as AA1000 or ISAE 3000 are used to ensure sustainability information. Risk-based models, Delphi methodology and interpretative perspectives of the criteria are also used to arrive at the conclusions recorded in the reports. The development of assurance standards will surely also be required to guarantee standards-based sustainability information.

### **Question 11**

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

The development of a proposal as important for humanity as this one must include the proposals that have been developed from several academic fields. In particular, specialized accounting researchers have long worked in the field of social and environmental accounting and have developed proposals for both environmental financial accounting (focused on the financial impacts of society and the environment) and environmental or ecological accounting, focused on the preservation of life in its different manifestations. These works should be considered during the elaboration of these standards, and the academics involved should be a fundamental part of this process, as members of the Sustainability Standards Council, as trustees and as members of the monitoring bodies.