

## Global sustainability reporting standards

IFRS Foundation should take a role in standard setting

## Summary

Deutsches Aktieninstitut appreciates the opportunity to respond to the “Consultation Paper on Sustainable Reporting”, published by the IFRS Foundation Trustees in September this year.

A simplification and streamlining of the sustainability reporting landscape is needed. From our point of view, the IFRS Foundation should take a role in standard setting for global sustainability reporting standards. The development of a set of globally recognised sustainability reporting standards appears to be a reasonable step to create maximum transparency and comparability and thus to strengthen the trust of the general public in responsible management and climate-friendly corporate activities.

However, an international sustainability reporting standard should comply with some basic principles. Firstly, it should be based on existing standards. Secondly, sector-specific requirements must be taken into account. Thirdly, the costs for preparers must remain within reasonable bounds, trade secrets must be protected and anticompetitive effects have to be avoided.

Deutsches Aktieninstitut is looking forward to discussing and participating in future consultations on sustainability reporting published by the IFRS Foundation.

## 1 Replies to consultation questions

### **Question 1: Is there a need for a global set of internationally recognised sustainability reporting standards?**

The development of a set of globally recognised sustainability reporting standards appears to be a reasonable step to create maximum transparency and comparability and thus to strengthen the trust of the general public in responsible management and climate-friendly corporate activities. In addition, a global level playing field can be achieved and distortions of competition can be avoided. Regarding the increase of globalization and the rise of international stakeholder relationships, the preparation and supply of sustainability-related information is not just a national, but rather a global issue.

Issuers, investors and other stakeholders are currently faced with a large number of standards and guidelines for the disclosure of sustainability-related information. However, these are often based on different objectives and metrics. The necessary level of comparability (e.g. with regard to the methods used to collect environmental/ecological KPIs) and transparency can therefore not be reached. Therefore, a simplification and streamlining of the sustainability reporting landscape is needed. From our point of view, the IFRS Foundation should take a role in standard setting for globally accepted sustainability reporting standards. This would help that a consistent and balanced approach among financial and sustainability reporting will be obtained.

However, it should be noted that an international sustainability reporting standard should comply with some basic principles. Firstly, it should be based on existing standards. Companies should continue to benefit from their experiences with the existing standards if an international sustainability reporting standard were to be published. Additionally, the focus should be on harmonizing and merging existing standards rather than creating a new standard from scratch. Creating just an additional standard that does not replace the large number of differing sustainability reporting standards existing today, will not result in minimizing reporting costs on the side of the preparer and does not reduce the information overflow for investors. Close attention should be paid to the NFRD and the EU taxonomy for sustainable finance to prevent disparity. Secondly, sector-specific requirements must be taken into account. Thus, the trade-off between a high level of comparability and the need of essential individual information has to be solved. Finally, the costs for preparers must remain within reasonable bounds, trade secrets must be protected and anticompetitive effects have to be avoided.

**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 development of a separate sustainability standard board under the leadership of the IFRS Foundation appears useful, as already known and proven governance structures can be built upon. It is to be expected that frameworks and standards of the SSB will be commonly accepted by the majority of preparers and stakeholders. In addition, the official link to the IFRS Foundation could help to facilitate cooperation and coordination among important policy-makers, e.g. governments and regulatory authorities.

Nevertheless, developing a standard by the SSB should rely on the experience of external specialists and practitioners. From our point of view, it is crucial that company representatives as preparers of the reports are involved as well as its users, e.g. investors.

**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 support the listed requirements in paragraph 31. However, some further aspects should be noted.

- We would like to highlight the importance of paragraph 31 (f). The requirements for financial and non-financial reporting shall not contradict each other and shouldn't lead to mandatory integrated reporting.
- Existing reporting formats should be integrated or at least taken into account to ensure a willingness of broad usage.
- Already established and internationally recognized recommendations (e.g. by the TCFD) and methods must be taken into account.
- A balance needs to be found between easy to understand (short) conceptual standards, meeting the needs of companies (prescriptive framework is easier to apply) and investors who will want to have a very broad scope and a high level of details. As trends in non-financial reporting change rather quickly, a regular review process might be necessary to address them. This would be a fundamental pre-requisite to avoid carve-in/carve-out discussions.

- One of the main challenges will be to develop the right level of detail to cover all aspects of sustainability but at the same time be clear enough on the KPI that need to be described. It would provide greater comparability and reduce the complexity of approaches and objectives.

**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?**

It would be helpful if the SSB can use the network of the IFRS Foundation to benefit from existing contacts and experience. Thereby, synergies could also be exploited, since the experts in international accounting are also increasingly affected by sustainability reporting. The IFRS Foundation should include other sustainability reporting organizations and standard setters (e.g. CDSB, GRI, IIRC, SASB and TCFD), political regulators, financial market participants and other key stakeholders (civil society) to ensure application and acceptance by preparers and users.

The SSB would have to be in open dialogue with all interested parties on an ongoing basis to ensure that their expectations are duly taken into account.

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

The common features of the various initiatives have to be worked out at first to reach wide acceptance of the SSB standards. Gathering the existing reporting requirements of all regional or global initiatives will not be sufficient for the creation of a globally accepted standard. In addition, a well accepted SSB standard would have to be based on common principles.

The development of internationally recognized sustainability reporting standards needs to include the current, most important international setters (e.g. GRI, SASB, TCFD, CDSB and IIRC).

Therefore, an integrative framework needs to be found that would also accommodate the above mentioned existing standard setters and convinces them to merge at some point with the SSB. The process should ultimately lead to one standard-setting organization.

**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?**

The IFRS Foundation should consider to include national representatives as members of the monitoring board (or as trustees) and thus involve them in the work of the SSB. At least an institutionalized dialogue with national/regional representatives needs to be established.

**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?**

Due to the urgency and the public awareness of this topic, we suggest an initial focus on the development of a climate-related sustainability reporting standard before addressing other issues. Otherwise, it would probably take too long to reach agreement on all potential ESG factors in the standard setting process.

However, we would explicitly welcome rapid future expansion of SSB's activities to include all relevant ESG factors besides climate-related sustainability. The more stringent focus on environmental factors today must not lead to less attention of social and governance factors in the long term. The right balance between the Environmental-Social-Governance aspects has to be found. It should also not be overlooked that social and governance issues are at least as important for many stakeholders as climate-related issues. The SSB should not allow too much time to pass, as otherwise there may be a loss of acceptance of an international sustainability reporting standard.

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

Please also refer to our answer to question 7.

From our perspective, an unambiguous and internationally applicable definition of climate-related risks is absolutely desirable. For the long term, at least, focussing only on climate-related risks appears to be too limited.

The EU taxonomy for sustainable finance already indicates that the future focus of the regulator will be set beyond climate risks. Thus, we welcome a broader consideration of ecological factors. Nevertheless, future regulatory developments and (changing) socio-ecological aspects should also be taken into account.

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

In general, we agree with the proposed approach. However, we would like to point out that the idea of double materiality is fundamental for sustainable reporting in the EU. Therefore, it could be discussed if the SSB were to follow the concept of double materiality as well.

**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?**

In Germany the auditor only verifies the existence and availability of the non-financial report. This should be maintained.

**Question 11: Stakeholders are welcome to raise any other comment or relevant matters for our consideration.**

None.

## Contact

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