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## Consultation Paper on Sustainability Reporting

Dear Mr. Liikanen,

Mazars is pleased to comment on the IFRS Foundation's Consultation Paper (hereafter CP) on Sustainability Reporting, issued in September 2020.

Mazars has a long history of participating in the work conducted by the IFRS Foundation but also notably those of the International Integrated Reporting Council (IIRC) which has been promoting communication about value creation for many years. We have also regularly expressed our views in the context of non-financial information (NFI) consultations. Recently, Mazars has commented on the European Union (EU) Public consultation on the revision of the non-financial reporting directive (June 2020), on the Accountancy Europe (AcE) Cogito Paper "Interconnected standard setting for Corporate Reporting" (April 2020) and on the International Integrated Reporting Council Framework proposed revision (March 2020).

We welcome the initiative of the IFRS Foundation in aiming to consider ways and means to quickly respond to the expectations widely and increasingly expressed by stakeholders, in particular on the long term investors side, in connection with the need to have comprehensive and reliable non-financial information (NFI) at an equal level compared to financial information under IFRSs. The quality of NFI is currently suffering from a lack of comparability and reliability that is eventually prejudicial to reaching some of the global goals set by society and stakeholders, for climate change in particular through the Sustainable Development Goals (SDGs) and the Paris Agreement.

In this context, we believe it is the right time (though maybe a little late) for the IFRS Foundation to take urgent actions in order to provide stakeholders, in a short time period, with a common structure and standardized information (including KPIs) as regards not only sustainability topics but also all topics which contribute to the understanding of the business model and its medium and long term value creation proposition.

It is our view that the IFRS Foundation can play a major role in the development of transparent and reliable corporate reporting of an entity's value creation model.

With the right governance architecture and the right due process, the IFRS Foundation should be well-positioned to develop and promote international acceptance of NFI standards that meet stakeholders' demands.

This being said, the IFRS Foundation should not commence with a blank page and merely duplicate how things have been done in the field of financial reporting standardization given the different contexts for financial and non-financial reporting. Some very good standards and initiatives already exist which seek to harmonise the non-financial reporting process at international level. The current momentum, generated by the recent statement of intent issued by the GRI, SASB, IIRC, CDB and CDSB on working together towards comprehensive corporate reporting, the subsequent emergence of the Value Creation Foundation brought about by the merger of the IIRC and the SASB, developments at EU level linked to the revision of the Non-Financial Reporting Directive and preparatory talks for a possible European Non-Financial reporting standard-setter, are a very solid foundation to build on.

In other words, almost all the work has already been initiated and the Foundation should first of all think about how to best use this material. Thus, we strongly believe the IFRS Foundation should essentially coordinate with the relevant organisations and jurisdictions building on all the relationships developed over the years and taking the best of what already exists. Given the importance of the issues at stake, the Foundation must now move forward very quickly, even if it means developing a new due process that allows it to respond to the emergency.

The success of the work to be conducted will essentially depend on the IFRS Foundation's ability to foster dialogue on the convergence of global international corporate reporting standards, to avoid fragmented non-financial standard-setting, not inter-connected or integrated with financial reporting. While in our opinion it is very important that a European standard-setter be established in the short run, to organise consistency within Europe, convergence at international level is ultimately highly desirable.

The key area indeed where the IFRS Foundation is expected to make a difference and to add value deals with connectivity between financial information and non-financial information. We strongly believe the IFRS Foundation should focus primarily on developing such a connectivity as it is crucial and is a key element of corporate reporting.

With a global corporate reporting comprising of financial and non-financial information, companies will be able to efficiently communicate their individual story based on their business and value creation models. In practice, standards need to ensure comparability whilst being principles-based allowing companies to respond to their particular needs and the fast-changing nature of the many topics included within a "broader corporate reporting" agenda.

It is clearly established today that financial statements alone cannot reflect the full value creation of a business and all the risks and opportunities associated with it. If the IFRS Foundation, which has succeeded in having financial reporting standards accepted at international level, does not catch-up in the field of NFI, it runs the risk of the IFRSs being marginalized in the long run as a result of their disconnection from the core issues which should be addressed by a relevant and robust global corporate reporting framework.

Once NFI standards are available for a consistent application, we believe that assurance will enhance the quality and relevance of NFI. Reasonable assurance should be set as the ultimate objective.

Lastly, in the event that the Foundation proceeds with this project, we recommend that NFI standards should not be just an additional reporting layer to comply with and thus in the end a reporting burden to preparers. These should progressively replace and/or embed existing standards and frameworks, converging in a global framework supported by corporate reporting standards, and should genuinely also be an intrinsic part of corporate strategy and prospective thinking. And at the end meet the expectations of the investors' community, presently reflected by the variety of their questionnaires, as well as those of the society and the stakeholders.

Our detailed comments to the questions raised in the CP are set out in the Appendix.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

**Michel Barbet-Massin**

*Head of Financial Reporting Advisory*

**Jean-Luc Barlet**

*Chief Compliance Officer*

## Appendix

### **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?*

There is indeed a critical and urgent need for harmonization, clarification and prioritization within the sustainability reporting landscape. Standards to be used as a common reference for both preparers and users will be critical contributors to useful and impactful sustainability reporting. They will ensure the completeness, consistency, reliability and comparability of NFI. This is not only a demand by investors and other stakeholders who are strongly advocating for better reporting, but it is also imperative to reaching some of the global goals set by society for climate change in particular through UN SDGs and the Paris Agreement signed five years ago. Common standards will also help reduce costs and complexities when companies and users are preparing and analysing NFI.

This being said, there is a need not only for a global set of internationally recognised “sustainability” standards but for a global set of internationally recognised “NFI” standards. Even though sustainability is a widely used term, we also note that it is not a well-defined term. To avoid misinterpretations regarding the scope of the standards to be developed, and since the IFRS Foundation should not consider a scope of work that is limited to climate-related topics (please refer to question 7), we recommend that the IFRS Foundation use the term NFI. Indeed, as sustainability may often be understood as relating to climate-related matters only whereas we believe the Foundation should consider all aspects of NFI meaning ESG topics, but also value drivers that are not usually measured in monetary terms and internally generated intangibles (e.g. intellectual property, knowledge, relationships, teamwork, trust, branding, reputation, technology etc) as mentioned in the AcE comment letter.

We agree with the idea that the IFRS Foundation should expand its standard-setting activities into the NFI area, considering its global reach and the fact that one of its strength is its ability to routinely interact with various stakeholders especially in the field of capital markets and their regulation (to be noted that academics and NGOs, who are historically very involved in NFI, may be more used to interacting with other organisations such as the IIRC). The key question that comes right after is how the Foundation should play this role and how it ensures that the various initiatives that have already been taken in this field for several years and by many organisations converge towards a set of standards that is robust and widely recognized by all.

As there are already some very good standards around and initiatives to harmonize the non-financial reporting process, the topic on which the Foundation can make a difference, and which is essential to achieve relevant and quality global reporting is that of the connection between financial information and NFI. NFI should be closely linked to and not independent from financial reporting enabling companies to tell their story (on how they manage ESG risks and how they create value) through the application of the combined financial and non-financial reporting standards in a holistic fashion.

Having legitimacy as regards financial reporting, with IFRSs widely applied around the world, the Foundation can certainly help to accelerate and reinforce the current trend towards further

integration between non-financial and financial reporting. Without anticipating on the key requirements for success (please refer to answer to question 3), the actual political ambition of the IFRS Foundation and the support from all stakeholders should condition what it will really be able to do in a necessarily constrained calendar considering the speed at which other initiatives develop or “consolidate”.

**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 indeed believe that there is a need for a specific Board in order to develop, publish and maintain NFI standards and we overall agree with the proposed three-tier governance structure. The name of such Board should be aligned with the scope of the standards that are to be published (please refer to question 1 above and the fact that limiting the standards to sustainability topics seems too restrictive).

The proliferation of standards and frameworks indicate that there is a need for an independent and international body with sufficient authority to rationalise and amalgamate the current plethora of standards.

The current IFRS Foundation has governance arrangements designed to serve both the needs of the capital markets participants and the public interest. The objectives of the IFRS Foundation as stated under article 2 of the Constitution are relevant for NFI and therefore applicable for the “SSB” to be established. In particular, the IFRS Foundation can work on developing, in the public interest, a single set of high quality, understandable, enforceable and globally accepted non-financial reporting standards based upon clearly articulated principles to help investors, other participants in the world's capital markets and other users of non-financial information make economic decisions. The Foundation can also work on promoting the use and rigorous application of those standards.

Members of the “SSB” should be appointed by the Trustees of the IFRS Foundation as it is the case for the members of the IASB (i.e. through an open and rigorous process that includes advertising vacancies and consulting relevant organisations). They should be different from members of the IASB and nominated taking into account criteria set by the IFRS Foundation Constitution (to be updated accordingly where necessary). In the end, the “SSB” should comprise experts with an appropriate mix of recent practical experience in establishing widely used NFI guidance, in preparing, auditing, or using NFI, and in NFI education. Broad geographical diversity should also be achieved.

The IFRS Foundation should play a key role in ensuring that both Boards communicate properly and efficiently on topics where links and synergies are to be made or found. Given the change in focus, it may be worth looking at the composition of the Trustees to ensure that the relevant stakeholders are represented at the Trustee level. In following this recommendation, the Foundation should consider ensuring that the appropriate mix of skills and experts in corporate reporting, that is, financial reporting and non-financial reporting, is available to the Foundation, both at Boards and staff levels.

An advisory panel should also be created (see our answer to question 4).

**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 fully agree with the list of the requirements for success of paragraph 31. In particular, we believe the second requirement listed, i.e. working with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting is key.

Actually, even though the IFRS Foundation has a long and overall successful history in the standard-setting field, its primary legitimacy lies in the set of IFRSs that has been developed and maintained. In other words, even if the IFRS Foundation may be ahead given its experience in terms of methodology, nothing will be possible as regards NFI standardization without massive support from all the stakeholders, who have often been involved for much longer than the Foundation itself, in promoting and elaborating on the crucial subject of non-financial reporting.

Given that the IFRS Foundation is kind of a new entrant in an already highly fragmented environment, we suggest that the Foundation work on an “open-source model” in a collaborative way in order to quickly and efficiently capitalize on all the NFI contributions that already exist (some of them are however protected by copyrights and therefore impossible to use “as is”) and that have been developed and published over the past 20 years or so. This would enable the IFRS Foundation to catch up in the field of NFI in an innovative way compared with what it is used to do. We believe such an approach would favour the commitment and the support of various stakeholders. Indeed, much of guidance and material already exist, especially in the academic field where research has already been conducted in order to back test the proposals made. The IFRS Foundation must find the best way to capitalize on all this work, including proposals from long term investors or insurance companies that are designed to identify the impacts resulting from each business model.

The rigorous and well-established due process, though relevant for IFRSs and key in order to develop and maintain financial standards, conflicts with the need for further action in the context of non-financial reporting. While the respect the IFRS Foundation has achieved and its strong links with national standard setters must be maintained in order to achieve effective implementation, progress regarding the due process is urgent, both for the IFRS Foundation’s credibility and for the good of society and as such we hope that at least some elements of process can be expedited to allow a timely implementation, considering also the extensive work already done by the different existing organisations. Success in this area will be determined not only by the technical credibility of standards, but by the extent of their adoption and the accurate targeting of users’ needs.

Another key factor of success for the new Board is that the opinions of all stakeholders (not only investors) be taken into account meaning that public consultations should not result in a mere formal due process. Additionally, an effective two-way communication should be established. If the IFRS Foundation wants from now on to be in a position to lead the debates on NFI, all stakeholders having legitimacy in this field must be put in a position to exchange views in a very interactive and unbiased way.

Even though each set of standards (i.e. NFI standards on one side and IFRSs on the other side) should have its own conceptual framework, a global corporate reporting framework should be established in order to evidence the connections and interdependency between NFI

and financial information. This common base is essential in order to achieve the consistency that is lacking today whereas there are important common factors between these two aspects of corporate reporting. The objective is to avoid a silo-approach and ensure that a holistic approach integrates all dimensions for a relevant global corporate reporting without preventing users from focusing on specific information on the topics they are the most interested in. Particular care is also needed to address issues arising from the need to apply materiality in a consistent way for financial and non-financial reporting having regard to salient issues from the stakeholders' perspective.

Besides, the IFRS Foundation should, from the start, consider developing NFI standards along with the related specific applicable taxonomy in order to permit tagging NFI and thus facilitating the use of such information in an increasingly digital world. The relevance of electronic reporting for both NFI and financial information will be more achievable if a common set of definitions is used in both taxonomies for identical notions.

Last but not least, funding and resourcing will be critical issues to resolve. We believe that funding would play a major role in the success of this project and we therefore recommend that the Foundation follow a similar funding model to what they currently have with the IFRS standards while maintaining independence from the funders' requirements and prioritizing the objectives of non-financial reporting. However, any new initiative should not compromise IFRS Foundation's current mission and resources linked to financial reporting standards.



**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?*

The IFRS Foundation could use its experience of relationships with stakeholders to aid the adoption and consistent application of NFI standards globally. However, the Foundation's current stakeholders are somewhat limited in the context of this project and we therefore recommend that the Foundation expand its stakeholder base to be able to meet the global needs.

The measure of success in the adoption of any private initiative relies on a critical mass of key countries supporting it. Currently more than 140 jurisdictions have adopted IFRSs for financial reporting which confirms the IFRS Foundation's global reach and unrivalled pre-eminence in this area. This being said, it seems unrealistic to consider that the Foundation could easily "duplicate" its success in the matter of financial reporting. From the moment the IASC was formed in 1973 until today, major advances towards global accounting standards have certainly been made, but this has only been possible over a long period of time and with the support of major organisations like IOSCO in 2000 or the European Union in 2002.

However, based on the premise that non-financial and financial reporting come under the same umbrella of corporate reporting there is reason to believe that the Foundation's current stakeholders will be relevant to the work of the "SSB". This should be leveraged and built on when seeking buy in for new NFI standards.

To build a strong coalition will require political input to gather support from key countries and organisations. The IFRS Foundation should do so having close regard to developments around non-financial reporting in certain jurisdictions such as the EU and should endeavour to build a set of primary global standards and allow space for regional initiatives to go further where their own priorities require it. Given the progress being made in the EU, some level of cooperation should be sought. As mentioned above, Europe's decision to adopt IFRSs contributed substantially to the credibility of the IFRS Foundation enabling it to achieve its current status of a well-recognized public interest organization established to develop a single set of globally accepted accounting standards and to promote and facilitate their adoption.

Similarly, collaboration with IOSCO, particularly on the governance, due process and public interest aspects of the initiative, will be important. This would build on the success achieved in financial reporting standards with the endorsement of IFRSs for use in cross-border offerings and listings. The IFRS Foundation should also collaborate and coordinate with other relevant international organisations in order to facilitate the global adoption and application of NFI standards, such as the Financial Stability Board (FSB) or relevant United Nations (UN) agencies.

Today there is a strong need for a single set of consistent internationally recognised NFI standards. Given the IFRS Foundation success and experience in the harmonisation of financial reporting standards globally, it is well positioned to expand its remit into NFI. In doing so, it should have strong regard to the way it worked with governments and inter-governmental bodies around the world to secure acceptance of IFRS recognising its authority comes from them voluntarily agreeing to adopt IFRS.

Besides, in order to permit stakeholders to play an active role in achieving convergence towards globally accepted NFI standards, we suggest the IFRS Foundation create an Advisory Council on the same model as the one that already exists for IFRS purposes (with a well-

balanced composition). Actually, we consider that the Monitoring Board's role, even though very important in terms of governance, is essentially formal and will not enable an effective and efficient communication with stakeholders in order to promote a wide adoption and a consistent application of NFI standards. Such an Advisory Council would essentially participate in the "SSB" process and work or collaborate with existing bodies and organisations which have done extensive work on sustainability reporting to achieve global consistency and reduce complexity in sustainability reporting.

**Question 5**

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

We believe that the “SSB” should build upon and work with existing initiatives in sustainability reporting to achieve global consistency by identifying the type of support that will be provided to the existing initiatives in non-financial reporting and developing feedback mechanisms that will be used to evaluate the progress and success of the support. The strength of the aforementioned being on the robustness of the “SSB” communication strategy to multiple stakeholder bodies and or groups.

Having said that, the current standards or frameworks around non-financial reporting are not mutually exclusive and none applied on their own would resolve the issues identified. The GRI, SASB, TCFD, CDP and IIRC represent the most frequent disclosure and reporting principles and frameworks used by companies and issuers. These could be used as a starting point from which a gap analysis could be performed to identify what is missing and what needs to be developed. For this to be successful a clear definition of the objectives of non-financial reporting and how to define material stakeholders is necessary.

The work underway at IOSCO with its Task Force on Sustainable Finance to improve sustainability related disclosures both in terms of content and governance, due process and the public interest is complementary to the proposal of the IFRS Foundation and should be joined up. In an open response (28 October 2020) to the open letter (30 September 2020) from the CDP, CDSB, GRI, IIRC and SASB proposing avenues for working together to meet the needs of the capital markets, Erik Thedéen, Chair of the Sustainable Finance Task Force of the IOSCO, publicly indicated IOSCO’s willingness to be involved.

The IIRC’s framework could form the basis for the high-level principles, which should cover:

- a definition of the objectives, key stakeholder groups and responsibilities for the preparation of the reporting which drive materiality;
- materiality, monitoring and verification through assurance processes;
- the way each reporting organization should apply the specific disclosure requirements. A principles-based approach would be desirable and would enable each reporting organization to provide relevant information to meet the objectives of its corporate reporting covering non-financial matters of interest according to its value creation model.

The GRI could be the basis for much of the specific disclosure requirements (subject to review of the type and content of the required disclosures following a detailed gap analysis as indicated above – a move from more input to outcome indicators).

SASB could provide useful foundations for detailed guidance on sector specific disclosures, though as noted above consistent application of principles across sectors is important.

What is at stake here is that the IFRS Foundation succeeds in capitalising on all the work already carried out in the world regarding NFI in order to bring out a common base that is accepted and applied by the greatest number of reporting entities. Global consistency will provide great benefits not only to users of NFI but also to preparers, which currently incur high costs in complying with heterogenous demands. Support to the IFRS Foundation’s initiative will be even stronger if stakeholders can quickly identify the resulting benefits.

**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 work in close co-operation with different jurisdictions to seek their advice on the best way for the non-financial reporting mechanism to fit in the requirements of each jurisdiction.

Amongst the existing jurisdictional initiatives that cannot be ignored in order to make the most of them, and remembering the essential role the European Union has played in the development of IFRSs (please refer to our answer to question 4), we believe that the IFRS Foundation should pay great attention to what will come out in the next few months from the revision of the Non-Financial Reporting Directive (along with possible EU non-financial reporting standards). Beyond its will to actively contribute to NFI standardization, Europe is a key regional platform which will once again play a major role in the adoption of globally accepted standards.

Also, it is important to minimize duplication and ambiguity between the frameworks and disclosures across the different blocks. Different jurisdictions are at differing levels of maturity on the different topics of NFI and have different priorities and needs. Flexibility on how to address these needs will be necessary within a context of a common set of internationally accepted standards.

**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?*

Yes, there is some urgency in clarifying and strengthening climate related reporting as it is a top priority on many public agendas. Given the time it will take to develop an all-encompassing set of standards covering the breadth of topics under the sustainability umbrella, the proposal to initially focus on climate related disclosures is not unreasonable.

But accelerating the production of related standards should not be achieved at the detriment of other environmental, social and governance priorities. ESG aspects collectively contribute to the ability of organisations to create value and maintain their license to operate. As clearly highlighted by the Covid-19 crisis, there are a lot of interconnection and interdependencies between sustainability risks and factors that require that they are addressed in parallel, not just sequentially, with a step-by-step approach.

At the end all those matters should be organized around the overarching issues of purpose, culture and the business model and with focus on its medium and long-term value creation proposition, and related to issues concerning brand and reputation, IP and intangibles, etc.

That is why, at the conceptual framework level, the IFRS Foundation should address from the beginning a broader scope of non-financial reporting. For this the IFRS Foundation could potentially leverage on the IIRC's framework and build topic related standards on an evolving basis.

We also propose that it be clarified at the outset that developing climate-related financial disclosures is not the only priority and that the IFRS Foundation should communicate early on the SSB's longer term work plan for NFI standard development. The remit of the SSB should be flexible enough to respond to emerging topics which cannot be anticipated at this stage.

**Question 8**

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

As mentioned under question 7, a broader perspective is essential even though it is reasonable for the “SSB” to focus more at a first instance on climate-related disclosures as climate has been identified as the most pressing environmental risk.

This broader perspective is justified by recent research and real-life experiences which clearly show that climate risk is closely related to other environmental risks (biodiversity loss having direct impact on the acceleration of climate change momentum, for example). Also, many companies have environmental strategies that go way beyond just the climate change fight. Their efforts and added value to global sustainability efforts have to be acknowledged, measured and encouraged through appropriate reporting – therefore, standards. It is thus important that the IFRS Foundation indicate that it will also be approaching such areas going forward.

In addition, it cannot be ignored that for some entities climate-change impacts are not material, whereas other sustainability related issues are particularly relevant to their value creation model, giving rise to risks and opportunities which, if not appropriately disclosed, will impact the quality and usefulness of reporting.

**Question 9**

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

Under paragraph 50, the IFRS Foundation is proposing that the “SSB” initially focus its efforts on the sustainability information most relevant to investors and other market participants. Said differently, the “SSB” would therefore only focus on how climate risks and opportunities impact the company (i.e. the “outside-in perspective”).

We do not agree with this approach since sustainability is not only investors’ concern. In any case many investors believe that information on corporate impact on the environment and society is vital to their understanding of the company.

Sustainability is of importance to all kinds of stakeholders, for whom financial materiality is not the most relevant approach. Even if the investors’ perspective were to be prioritized (which is not recommended), the impact of targeted investment strategies would still be dependent on progress made in other compartments of sustainability efforts. Therefore, it is critical that all aspects of materiality be considered equally.

Indeed, whilst we understand the need for a pragmatic approach to make progress quickly, the IFRS Foundation will lose credibility if it is suggested that its standards will not deal with the impact of companies’ activities on external stakeholders, resources and climate (i.e. the “inside-out perspective”). This impact is also a key issue for investors.

Therefore, we believe that the EU double materiality approach is more appropriate in this regard.

We also suggest there should only be one definition of “materiality” for corporate reporting as a whole covering financial and non-financial information in order to ensure consistency even if the path to be taken should not “lock” the materiality approach into a financially material dimension. A starting point for this could be based on the definition proposed by the CRD “Material information is any information which is reasonably capable of making a difference to the conclusions stakeholders may draw when reviewing the related information”. This could be considered as a starting point.

In adopting this broader approach to materiality there will be merit however in ensuring there is clarity as to the range of stakeholders a company should take into account when assessing materiality.

The two perspectives (i) a company’s development, performance and position; and (ii) a company’s impacts on society and the environment, overlap and are likely to converge in the future. The positive and /or negative impacts of a company will eventually have a financial impact and potentially sooner rather than later when modern-day reputation risk is taken into account.

The development of international NFI standards is an opportunity for the materiality assessment process to go beyond just defining the content of non-financial reporting and to enhance engagement and improved stakeholders’ decision-making. Requiring more in-depth analysis to support the materiality process and integrating longer-term risks within the risk management process will result in more effective monitoring and identification of material topics. Even if judged less likely today these risks could have significantly greater consequences in the long term and companies need to be better prepared for them.

**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?*

The lack of common, mandatory reporting frameworks for sustainability disclosures renders third party assurance complex. This is exacerbated by varying requirements and guidance around independent assurance of sustainability disclosures across jurisdictions, leaving the field open to each organisation's interpretation. This results in an uneven playing field and impacts reliability and comparability of these types of disclosures.

Besides, the nature of sustainability disclosures is such that quantification is not always possible and that there needs to be a balance of quantitative and qualitative information to make these meaningful and useful. The challenges for assuring future-oriented information, however, should not discourage the "SSB" from recommending such disclosures.

This being said, we believe that NFI should be subjected to internal assurance and be auditable to ensure its credibility with internal and external users of that information. Users need to be sure that the reported information is reliable and comparable. Compliance with standards is a key element to data worthiness. Therefore, auditability and external assurance are the necessary complement to impactful and useful NFI standards. Experience shows that third party independent assurance does enhance the reliability and credibility of information and therefore should be made mandatory. As we have already expressed to the EU, the needs of stakeholders must be clearly defined to determine the required type of assurance.

Assurance reports should be prepared, as they are as of today in jurisdictions where they are mandatory, in accordance with the International Standards on Assurance Engagements (ISAE) 3000, which has been instrumental in fostering trust between preparers and users.

To ensure the quality of the assurance provided, providers of the service should also be accredited, competent, and guided by ethical requirements, including independence.

Assurance of NFI must be delivered by professionals with relevant education and experience in ESG reporting, corporate governance, risk management, audit methodology and to some extent, IT systems. An understanding of the sector, strategy, governance and economic issues of the organization would be desirable.

Such an approach could start, as a first step, with a limited assurance on the NFI taken as a whole, while following a path leading to reasonable assurance over a relatively small number of years. Reasonable assurance should indeed be set as the ultimate objective for NFI, with transitional arrangements.

For information, where there may be a lack of recognized standards, the possibility of assuring that information has been "properly compiled in accordance with [*explanatory preparation notes*]" (a term used in certain EU legislations e.g. Prospectus) could be explored. This could imply a level of assurance even lower than the one associated with limited assurance, but providing transparency on this type of information to the reader.

Before providing assurance, the entity's procedures should be sufficiently developed, internal control and risk management procedures should exist, and the data collection process should also be sufficiently robust.



The responsibility of Management and the Board of Directors on the information prepared should be clearly stated.

Finally, we suggest that the “SSB” should not be involved in deciding whether disclosed NFI be audited or subject to external assurance. We recommend that the IFRS Foundation should consider working together with the International Auditing and Assurance Standards Board (IAASB) in developing a framework that would achieve the level of assurance needed for NFI.

**Question 11**

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

The NFI standards should not restrict preparers from reporting additional relevant information based on its unique setting and what its particular stakeholders deem relevant. We believe that this is critical to ensure that the non-financial reporting task does not evolve into a compliance exercise.

We recommend that the NFI standards should incorporate elements or tools that would assist companies to project the economic and strategic relevance of change in corporate behaviour.

We suggest that the IFRS Foundation should consider a mixed model where corporate reporters would potentially report some non-financial information that has been compiled with reference to globally agreed/consistent ESG metrics, and some information compiled with reference to industry standards/national standards/or the corporate reporter's own reporting criteria/basis of reporting.