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**Comments to the IFRS Foundation in  
response to:  
consultation paper on sustainability  
reporting**

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IFRS Foundation  
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By email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Dear IFRS Foundation Trustees

### **Consultation paper on sustainability reporting**

The Institute of Public Accountants (IPA) Group welcomes the opportunity to offer our views on the consultation paper on sustainability reporting. In doing so, we acknowledge and thank the contribution of Prof George Tanewski of Deakin University in Melbourne, Australia.

The IPA is one of the three professional accounting bodies in Australia, representing over 40,000 members and students throughout Australia and internationally. In 2005 the IPA joined with the Institute of Financial Accountants of the UK to form the IPA Group. Three-quarters of our members work in or are advisers to small business and small to medium enterprises (SMEs), making the IPA Group the largest accounting body in the world representing this sector. Our comments are made from this perspective.

Overall, the IPA Group is in agreement with the proposals and approach put forward in the consultation paper. We urge the IFRS Foundation to ensure that in developing sustainability standards and reporting that the interests and capacity of SMEs are taken into consideration.

Our responses to specific questions are provided below.

#### **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?*

Yes, the IPA Group believes there is a need for a global set of internationally recognized sustainability reporting standards, especially given the plethora of domestic and regional reporting standards. As the consultation paper has described, the need for consistency and comparability has become urgent. We also believe that the IFRS Foundation is well placed to play a major role in setting these standards and expanding its expertise as a global standard-setter.

**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?*

Yes, a SSB under the governance of the IFRS Foundation is an appropriate approach. We are not aware of any other organisations which would have the credibility, expertise or standing to draw together the broad range of global stakeholders involved in sustainability reporting.

**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)?*

The list of requirements for success is extensive and we assume will be further developed in due course if the decision is made to proceed with establishing the SSB and global sustainability standards. With respect to the first requirement, *achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets*; we would emphasise that the global support should extend to long term and ongoing commitment. However, given the numerous domestic and regional standards which have proliferated, it would be essential to at least reduce duplication and coordinate across these standards and programs in the event that domestically set standards cannot be incorporated or adopted to some extent.

In terms of achieving success, the IPA Group observes that there are many programs of “sustainability” that have not achieved the intended purpose of the project. Often this is driven by large gaps in the reporting parameters which leads to arbitrage between systems to achieve targets; or focussing too much on inputs rather than outcomes. This is often due to cross border issues (national or international). Instances of this can be seen in local recycling programs all the way to the large scale mining approaches. This is a very difficult problem to solve without advancement in technology (such as blockchain to manage supply chain transparency). We pose the question of how does the SME navigate this?

**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, certainly it would be expected that the IFRS Foundation would leverage its extensive relationships and global standing to achieve adoption and application of the SSB standards. An awareness raising campaign, widespread consultation, government level buy-in and all the other expected activities would be appropriate.

**Question 8**

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

We believe that consideration of broader environmental factors is more appropriate and likely to result in wider stakeholder acceptance, especially at the political level. Given the controversy around climate risk, a broader approach would be logical and may provide more opportunity to develop

broad-based support for the project. We anticipate that at some point it will become more difficult to navigate as the project starts moving into an area of views on climate politics and interests rather than financial reporting in the traditional sense. For this reason, taking a broader, more comprehensive approach and building broad-based stakeholder support, becomes even more critical to ensure adoption and success in the longer term. Further, a broader approach encompasses more interests and would lend itself to more extensive application.

#### **Question 9**

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

While it is probably prudent to use a gradualist approach to the development of a new definition of materiality, however, the SSB should not lose sight of the fact that materiality is a fundamental accounting concept that underpins the disclosure and reporting of 'relevant' information that is 'faithfully represented' to investors and other stakeholders (see Paragraph QC 11 of the IASB Conceptual Framework). As the IASB and other jurisdictional Conceptual Frameworks recognise, any omissions, misstatement or non-disclosure of information that is material has the potential to influence both resource allocation decisions made by external users and the discharge of accountability by management of the reporting entity (see AASB 1031 – Materiality). Considerations of materiality also provide a basis for restricting the amount of information provided to levels that are comprehensible to users of that information. More importantly, materiality can influence valuation decisions, income tax allocations, treatment of renegotiation of refunds, risk issues, etc. Hence, it is suggested that development of a new definition of materiality should take priority and be one of the first tasks to be tackled by the SSB. In this manner the SSB can take a leadership role in this area, thereby providing direction to other jurisdictions and thus avoiding fragmentation of accounting standards.

Notwithstanding the above, development of a new definition of materiality to the one that is currently applied by reporting entities to corporate performance and disclosure is by no means an easy task to accomplish. Traditionally, materiality has been defined primarily through the lens of financial reporting and financial disclosure, however, as alluded to in this consultation paper, a significant paradigm shift needs to occur and a broader concept of materiality should be developed, linking it to the production of information that highlights risks and the risk of relevant events to be reported under the sustainability reporting framework. Accordingly, a new definition of materiality should incorporate a different perspective on reporting and valuation, the implications of which will affect multiple operating areas in corporations and reporting entities. Fundamentally, this new concept of materiality should encompass risk and compliance to strategy setting, corporate policy and governance, management practices including stakeholder engagement, and even human resource management.

#### **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?*

Following on the points made in Question 9 regarding materiality as well as the qualitative characteristics of 'relevance' and 'faithful representation' in the IASB's Conceptual Framework, we strongly agree that any sustainability information to be disclosed by reporting entities should be auditable or be subject to external assurance. Owing to the growing relevance and importance of sustainability reports, there is increasing demand by investors and stakeholders that reporting

entities improve the quality of sustainability information they disclose. This quality improvement can only be achieved by externally auditing the sustainability information, providing assurance to investors and stakeholders that the information disclosed has credibility, reliability, and transparency. For example, since 2002 the Global Reporting Initiative has been encouraging the independent assurance of sustainability reports to improve the credibility and quality of such reports. Indeed, such external assurance is important as it will place more confidence in sustainability reports and create a greater willingness to invest in organisations that provide disclosures with the properties of comparability and credibility, especially when such assurance is conducted by an appropriately qualified external audit/assurance provider.

If you have any queries or require further information, please don't hesitate to contact Vicki Stylianou, Group Executive, Advocacy & Policy, at [vicki.stylianou@publicaccountants.org.au](mailto:vicki.stylianou@publicaccountants.org.au).

Yours sincerely



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