



31 December 2020

Mr Erkki Liikanen
Chair IFRS Foundation Trustees
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Submitted to: www.ifrs.org or By email: commentletters@ifrs.org

Dear Mr Liikanen

IFRS Foundation Consultation Paper on Sustainability Reporting

1. The External Reporting Board (XRB) is pleased to have the opportunity to comment on the *Consultation Paper on Sustainability Reporting* (the CP) published by the Trustees of the IFRS Foundation (the Trustees). The XRB is the independent Crown Entity responsible for developing and issuing financial reporting, auditing, assurance, and ethical standards in New Zealand.
2. The CP is of particular relevance, interest and importance both to New Zealand constituents and the XRB as a standard setter. The New Zealand Government recently announced that it plans to introduce a mandatory climate-related financial disclosure regime which will require certain entities to report climate-related financial disclosures in accordance with a standard(s) to be developed by the XRB. For the information of the Trustees, and to give context to our responses to the CP, [Appendix 1](#) includes a summary of recent developments in sustainability reporting in New Zealand.

Key points

3. In responding to the CP, we would like to make the following key points.
 - (a) We agree there is a need for a global set of internationally recognised sustainability reporting standards.
 - (b) We agree one board needs to be responsible for developing and issuing global standards and in our opinion the establishment of a single global board with such responsibilities is urgent.
 - (c) A sustainability standards board would need to define what it means by sustainability reporting. We note that the existing terms (such as ESG, sustainability, non-financial reporting, EER) are not used consistently.
 - (d) We agree that the IFRS Foundation could take on the role of establishing a global set of sustainability standards. However, we consider that the IFRS Foundation needs to have a roadmap for achieving this outcome. The roadmap should address the following issues:
 - (i) how establishing the proposed SSB would draw together the multiple sustainability and climate reporting standards/frameworks that are currently well recognised and used globally.
 - (ii) how the IFRS Foundation would work together with the international organisations that manage and maintain those standards/frameworks to achieve this goal.
 - (iii) how the IFRS Foundation would achieve inter-connected reporting, for example, via adopting a framework for sustainability reporting that is coherent and connected to financial reporting.
 - (e) We agree a climate-related reporting standard should be the priority of a sustainability standards board. However, we consider work on other sustainability topics, utilising the valuable body of work already available, should commence at the same time.
 - (f) We recommend that any international standard on climate-related financial disclosures use the TCFD recommendations as its starting point.
 - (g) A sustainability reporting system needs to deliver information that is consistent, comparable, reliable and which can be subject to external assurance.

Urgency

4. In our opinion the establishment of a single body with responsibility for establishing a global set of sustainability standards is urgent. In the absence of a single set of global sustainability reporting standards, some regions and jurisdictions are moving ahead by themselves. Timely action is needed to bring together the global sustainability reporting landscape.

Working with established organisations

5. There is already momentum towards convergence amongst the five leading bodies (the five) that develop sustainability frameworks and standards (being the CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB)). Just prior to the issue of the CP the five issued a *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* (statement of intent)¹ to show how they are collaborating to construct a comprehensive global architecture of standards. We are also aware that the five are working to develop prototypes of a conceptual framework, a presentation standard (inspired by IAS 1) and a climate-related financial disclosures standard based on work done to date by the five.
6. Also prior to the release of the CP, the International Business Council (IBC) of the World Economic Forum (WEF), in collaboration with Deloitte, EY, KPMG and PwC, published a white paper, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*.² The result is 21 core and 34 expanded metrics and disclosures. The IBC notes that the set of decision-useful sustainability metrics could form the foundation of a market-based, global set of ESG accounting standards. The metrics draw extensively on the existing standards of the five. The five have indicated they will continue to engage with the WEF.
7. In IOSCO's open response to the open letter from the five,³ Mr Thedeén, Chair, IOSCO Sustainability Task Force noted that IOSCO's Task Force on Sustainable Finance (STF) is considering the scope for improvement in sustainability-related disclosures on two main dimensions: (i) Content and (ii) Governance, due process and the public interest. Mr Thedeén expressed delight at the progress made on both dimensions. In relation to content, he welcomed the publication of the statement of intent and open letter by the five and noted that the 'building blocks' approach outlined in the statement of intent has the potential to deliver an integrated and consolidated set of disclosures that meets multiple stakeholders' needs. In relation to governance Mr Thedeén welcomed the CP published by the Trustees. He commented that while to date the two initiatives have been running in parallel, he is keen to see them come together. He considers the initiatives to be highly complementary.
8. We agree with the comments made by Mr Thedeén: the IFRS Foundation has no developed content. It must be able to leverage off the work that has already been done. A new set of standards, which build on the market-adopted frameworks that exist today would be the best outcome. Preparers are already applying standards and frameworks developed by the five; in New Zealand we have preparers applying GRI, <IR> and TCFD amongst others. It is important that these standards and frameworks come together.

¹ CDP, CDSB, GRI, IIRC, SASB: [Statement of Intent to Work Together Towards Comprehensive Corporate Reporting](#), September 2020

² WEF-IBC, [Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation](#), 22 September 2020

³ Erik Thedeén, [Open Response to the Open Letter of CDP, CDSB, GRI, IIRC and SASB](#), 28 October 2020

9. The IFRS Foundation already has some important prerequisites that would be required by a body with responsibility for global standards. It has global networks and harmonisation and consensus building capacity. The IFRS Foundation already has established relationships with the five and the TCFD.
10. With the recent merger announcement of the IIRC and the SASB into the Value Reporting Foundation, we recommend that before the IFRS Foundation pursues the establishment of a separate board, it develops a roadmap on how it is going to work with the established international organisations to deliver a global set of international sustainability standards. The ultimate goal would be consolidation of all these bodies into one standard setting board, whether the SSB or another. In our view it is key to have the agreement of the five leading sustainability framework/standard setters and regional initiatives on the way forward.

Inter-connected reporting

11. In order to make properly informed decisions users of sustainability information require high-quality, transparent, relevant and comparable sustainability information, connected to financial information.
12. To achieve interconnected reporting a sustainability standards board will need a framework that is coherent and connected to financial reporting. In our view the IIRC's international <IR> Framework could form the basis of such a framework. The IASB has been a member of the IIRC since its inception ten years ago.
13. Our experience with sustainability reporting to date in New Zealand has shown us that we need to engage with different stakeholders than those traditionally involved in financial reporting. This will also apply to the SSB (or any such body that takes on the role of establishing a global set of sustainability standards). The board will require members with backgrounds and experience in non-financial matters, climate science and/or other sustainability issues. Engagement with stakeholders will also need to be broadened to facilitate the adoption and consistent application of a global set of sustainability standards.

Climate-related reporting standard

14. We agree a climate-related reporting standard should be the priority for a sustainability standards board. However, we consider the board should concurrently be working on other sustainability topics utilising the valuable body of work already available.
15. By using the 'building block' approach suggested by the five (and endorsed by the International Federation of Accountants) the development of a harmonised global standard on climate related disclosures should be able to be achieved in a timely manner.


TCFD recommendations

16. More than 1500 organisations globally have expressed their support for the TCFD recommendations. The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) encourages all companies issuing public debt or equity as well as financial

sector institutions to disclose information in line with the TCFD recommendations.⁴ In New Zealand there are already a number of companies that have adopted the TCFD recommendations and the new XRB standard(s) is to be based on the TCFD recommendations.

17. We also note that there are several other jurisdictions whose policy makers have announced initiatives for mandatory climate-related reporting. For example, the UK has recently announced its intention to make TCFD-aligned disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023.
18. We acknowledge the substantial work already underway to support the adoption of the TCFD recommendations, (for example, the development of the TCFD Knowledge Hub (the hub)). CDSB hosts the hub on behalf of the TCFD. The hub hosts a range of resources that help organisations to identify, analyse and report climate-related financial information. The hub has been created to support the adoption of the TCFD recommendations.
19. We therefore recommend that any international standard on climate-related financial disclosures use the TCFD recommendations as its starting point.
20. If you have any queries or require clarification on any matters in this submission, please contact me (P: +64 4 550 2048; E: april.mackenzie@xrb.govt.nz).

Yours sincerely



Michele Embling
Chair
External Reporting Board



April Mackenzie
Chief Executive
External Reporting Board

⁴ NGFS, [A call for action Climate change as a source of financial risk](#), April 2019

Appendix 1 — The New Zealand context

1. In this Appendix we have provided a summary in chronological order of the developments in sustainability reporting in New Zealand.

Revision of the NZX Code

2. In May 2017, the New Zealand Stock Exchange (NZX) published a revised NZX Corporate Governance Code (NZX Code). One of the key aims of the revised NZX Code is to promote issuer disclosure of environmental, social and governance factors (ESG).

XRB and EER

3. In June 2018, following the revision of the NZX Code and the growing interest in broader and more detailed types of reporting beyond the types of information presented in an entity's statutory financial statements, the XRB commenced work on an Extended External Reporting (EER) project. The term EER, as used by the XRB, can include reporting information on an entity's governance, business model, risks, opportunities, prospects (including forward-looking financial information), strategies and economic, environmental, social and cultural impacts.
4. In March 2019, the XRB released a position statement on EER. In this statement the XRB observed the growing demand from stakeholders, supported by research, for entities to provide increased transparency on material risks (including ESG risks) and strategies for managing those risks; forward-looking information about an entity's long-term sustainability; information about an entity's key resources and relationships, and greater visibility around corporate citizenship. The XRB acknowledged the demand for EER by stakeholders and expressed its strong support for entities to present EER. The XRB noted its support for continued innovation in EER and expressed its commitment to working collaboratively with key stakeholders, including policy makers and regulators, to help generate the right balance between policies, regulation and innovation.
5. The XRB has been working to promote awareness of EER and the benefits of EER. The XRB has developed an EER section on its website which explains what EER is and describes the benefits of EER.
6. In response to constituents' requests about which frameworks and standards might be appropriate for them, and to assist constituents to access relevant guidance, the XRB has also developed a navigational resource and made it available on its website. The XRB has also been awaiting the IASB ED on Management Commentary which it expects to discuss the relevance of ESG information and how to incorporate such information in management commentary.
7. The XRB cannot currently issue EER/integrated standards due to a limit in its current mandate. As explained below, this is about to change.

Mandatory climate-related financial disclosures

8. In October 2019, the Ministry for the Environment and the Ministry of Business, Innovation & Employment issued a Discussion document – *Climate-related financial disclosures – Understanding your business risks and opportunities related to climate change*. This document sought views about the legislative means for implementing new mandatory (comply-or-explain) climate-related financial disclosures requirements — i.e. whether the XRB should be given the power to issue accounting standards on climate-related financial disclosures.
9. In early August 2020 Cabinet (the Government’s body of senior ministers) discussed introducing a mandatory climate-related financial disclosure regime. In September 2020, the New Zealand Government announced⁵ that Cabinet had agreed to introduce a mandatory climate-related financial disclosure regime which would require certain entities to report climate-related financial disclosures in accordance with a standard to be developed by the XRB. The new regime will be on a comply-or-explain basis, based on the TCFD framework, which is widely acknowledged as international best practice. The expected time frame for the introduction of this new regime is short. Legislation is expected to be enacted in 2021, ready for mandatory reporting by entities in 2022–2023 (for example, entities with March balance dates will be required to report in accordance with the new standard for the year ending 31 March 2023).
10. The New Zealand mandatory climate-related financial disclosure regime will apply to a range of entities including banks, investment schemes, insurers, crown financial institutions of a certain size, and all equity and debt issuers listed on the New Zealand Stock Exchange (NZX).
11. The New Zealand Government plans to extend the XRB’s mandate and funding base to enable it to carry out the development of a standard(s) for climate-related financial disclosures. Preparatory work has already commenced, and initial funding has been secured.

Reporting climate-change related information

12. In addition to the new mandatory disclosure regime, some organisations that provide essential public services within New Zealand can be required by the Minister for Climate Change to report climate change-related information under the *Climate Change Response (Zero Carbon) Amendment Act 2019* (CCRA).⁶ It is highly likely that these organisations will also use the new XRB standard to report this information.

⁵ Announcement by Climate Change Minister, James Shaw
[15 September 2020 New Zealand first in the world to require climate risk reporting](#)

⁶ <https://www.mfe.govt.nz/climate-change/guidance/climate-change-reporting>

Sustainable Finance Forum

13. In November 2020, the Aotearoa Circle’s Sustainable Finance Forum (the Aotearoa Circle is a partnership of public and private sector leaders, unified and committed to the pursuit of sustainable prosperity and reversing the decline of New Zealand’s natural resources) released its Sustainable Finance Roadmap for Action. In that Roadmap, Recommendation 5: *Improve and extend external reporting and disclosures*⁷ calls for the XRB’s mandate to be widened to include developing standards on sustainability.
14. The recent release of this paper, coming shortly after the New Zealand Government’s decisions about mandatory climate-related financial reporting, illustrates the increasing demands for sustainability reporting (both in terms of the nature of information that should be reported and the types of entities that should be required to report).

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⁷ The Aotearoa Circle, Sustainable Finance Forum, [Recommendation 5: Disclosure](#), Improve and extend external reporting disclosures, November 2020