

IFRS Foundation Trustees

Salvador Marín
President
4 Rue Jacques de Lalaing
B-1040 Brussels
M +34 646 018 552
salvador.marin@efaa.com

Submitted electronically to www.ifrs.org/projects/open-for-comment/

29 December 2020

Dear IFRS Foundation Trustees,

Response to the IFRS Foundation *Consultation Paper on Sustainability Reporting*

EFAA appreciates the opportunity to provide our comments on the IFRS Foundation's [Consultation Paper on Sustainability Reporting](#). Our response has been prepared with input from our Accounting Expert Group.

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA represents 13 national accounting, auditing, and tax advisor organisations with more than 350,000 individual members.

GENERAL COMMENTS

SMEs collectively account for a majority of private sector economic, social, and environmental impact. Hence, SMEs are crucial to the achievement of the Sustainable Development Goals (SDGs) such as the goal of net zero carbon footprint. Accordingly, it is vital that SMEs report on and made accountable for their ESG impact. This will be greatly facilitated by having internationally recognised sustainability reporting standards. SMEs, however, are severely constrained by access to technical resources and disproportionately impacted by the burden of regulation. It is, therefore, critical that these standards are designed from the bottom up, using the 'think small first' principle, such that they are simple and straightforward as well as scalable to suit larger entities. To do this effectively one needs to ensure that SMEs, and the SMPs that typically prepare their financial and non-financial reports, are well represented in the structures established to develop and maintain sustainability reporting standards.

RESPONSE TO QUESTIONS

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.

EFAA believes there is a need for a global set of internationally recognised sustainability reporting standards. This need is predicated on the increasingly global and interconnected economy where business activity, including of SMEs, is often cross border so making the needs for clear and comparable standards ever more necessary. This will create greater transparency and ensure that all stakeholders get information on the sustainability performance of entities that is comparable across the globe and that helps determine the contribution these entities are making to the Sustainable Development Goals (SDGs). Global standards will also help reduce the fragmentation of practice and diverging approaches that have been increasing in recent years.

EFAA believes that with its robust governance and due process, the IFRS Foundation is well positioned to contribute to and promote a system for sustainability reporting that will elicit support from global regulators. We must not, however, forget the leadership that European Union policymakers have shown through the European Commission's recent Review of the Non-Financial Reporting Directive (NFRD), the preparatory work being done by EFRAG, and pending legislative action. EFAA is contributing to these initiatives. Given this leadership we urge close cooperation between the IFRS Foundation and the European Commission.

Under the IFRS umbrella, a newly established sustainability standards board (SSB) should work alongside the IASB to ensure that sustainability standard-setting is compatible with IFRS Standards. A framework such as Integrated Reporting, can provide the basis for connecting financial and sustainability reporting.

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.

The IFRS Foundation should create a new sustainability standards board (SSB) alongside the IASB. A coordinated, global approach for developing high-quality sustainability standards, led by the SSB, can prevent regulatory fragmentation, can address global sustainability topics like climate, and can best foster consistency and global comparability. EFAA believes that a new SSB, under the IFRS Foundation and operating alongside the IASB, will garner legitimacy, have the best potential for global acceptance and adoption, and ensure the interconnection of sustainability and financial reporting. It is vital the SSB leverage the expertise of the accountancy profession as well as others with expertise in sustainability issues.

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)?

EFAA strongly supports the SSB initiative, based on the seven requirements for success identified by the Trustees in the Consultation Paper. However, success will also hinge upon having significant representation from SMEs and SMPs. We elaborate on this issue in our response to Question 11.

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 and the IASB have managed to secure the use of IFRS and IFRS for SMEs in over 140 jurisdictions around the world. They enjoy constructive and collaborative relationships with national standard setters, regulators, other public authorities, and market participants worldwide, many based in the EU.

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 tend to agree with IFAC - that the key to working with existing sustainability initiatives, including jurisdiction-specific initiatives such as those of the EU, is to adopt a “Building Blocks” approach as they outline in their [Enhancing Corporate Reporting: The Way Forward](#). Given the EU is taking leadership in the pursuit of net zero carbon footprint and the development of NFR standards that look likely to cover climate-related issues, we strongly encourage the IFRS Foundation to liaise closely with the European Commission and EFRAG to ensure full consideration of SMEs.

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?

EFAA believes that SSB standards can provide a global platform for jurisdiction-specific sustainability reporting initiatives. Any sustainability reporting requirements set by individual countries or regions, such as NFR standards that might be set by EFRAG, could seek to align with as well as inform the development of standards set by the SSB.

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.

EFAA believes that the demand for sustainability reporting standards is not singularly focused on climate (or environmental) factors. Therefore, to help fuse together the rather fragmented ecosystem for sustainability reporting that exists today, EFAA supports IFAC's view – that the IFRS Foundation needs to position the SSB with a broad mandate to address the full suite of sustainability / environmental, social and governance (ESG) topics but that, given the importance of climate change to global society evidenced by the emerging global consensus to pursue net zero by 2050 or earlier, initially the SSB might prioritize climate issues. That said, the SSB must ultimately avoid adopting a climate only approach since this approach will fail to provide a sufficiently robust global platform to support / accommodate jurisdiction-specific sustainability reporting initiatives such as the EU, where policy and legislative momentum is embracing the broad range of sustainability issues. Similarly, we caution against the SSB assuming an even wider scope characterized by a broad non-financial information focus.

Question 8

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

As mentioned in our response to Question 7 we believe that the scope of the standards set by the new board should cover a range of sustainability topics, including broader environmental factors. Initially, the SSB could initially focus on climate, as presently this is most important, provided it is feasible to do so in isolation from broader environmental concerns.. Broader environmental concerns can be addressed in due course.

Question 9

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

Yes.

EFAA supports the gradualist approach proposed in the Consultation for reasons of pragmatism and timely progress. However, a global system for sustainability reporting must also provide high-quality information for broader stakeholders if it is to ultimately succeed. Accordingly, the system must acknowledge, and duly accommodate, that the materiality of sustainability topics to a company and its stakeholders may evolve over time. The SSB should determine the best standards that address the interests of investors and, perhaps, in the case of SMEs owner managers and other finance providers.

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.

EFAA believes that assurance is critical to confidence in corporate reporting and providing relevant, reliable, and comparable information. The ultimate objective should be to disclose information that is subject to external assurance. A high-quality set of sustainability reporting standards will provide a sound basis for future assurance standards. Encouragingly the IAASB's ISAE 3000 and its new initiative on Extended External Reporting address the assurance of sustainability information.

Question 11

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

SMEs and SMPs

EFAA urges the IFRS Foundation to seriously consider facilitating the inclusion of SMEs within the global sustainability reporting system. EFAA believes that the trickle-down effect (national or regional standard setters using policies, practices, and procedures designed with larger companies in mind) and supply chain effects demand greater representation of SMEs within the IFRS Foundation's structure and the new SSB. As indicated above there is an emerging global consensus around the need to commit to a net zero carbon footprint by 2050 or sooner. This goal can only be achieved with the transition of the SME sector which accounts for the majority of private sector GDP, employment as well as climate / sustainability / ESG impact. Therefore, we foresee even greater trickle-down and supply chain effects with sustainability reporting than financial reporting. This justifies the need for more SME voices within the IFRS Foundation's structure and the new SSB. Furthermore, as SMEs typically outsource their financial reporting needs to SMPs, and likely will do likewise for sustainability reporting, then greater SMP representation is also necessary.

If SSB standards are to be applicable to SMEs, or that the SSB develops standard specifically for SMEs in a similar way to the IASB and IFRS for SMEs, then the SSB may need to be supplemented with a new arrangement to systematically represent the SME sector. For example, a sub-committee of the new SSB may need to be formed with its chair a member of the SSB. And even if SMEs were to be (inappropriately) scoped out of the SSB standards there would still be a strong case for more SME and SMP voices on the SSB. As we note above trickle-down and supply chain effects are likely to be more pervasive with SSB standards. Furthermore, if these standards were developed to be relevant to SMEs then SMEs might be encouraged to voluntarily adopt them. We must avoid a rerun of the experience with IAS / IFRS where SMEs were not initially

factored into the objectives and activities of the IASC / IASB and were only belatedly 'onboarded' with IFRS for SMEs.

Finally, we wish to highlight the importance of close coordination between the IFRS Foundation and the work of the European Commission and EFRAG not least since the EU is paying close attention to SMEs.

SSB Standards for SMEs

When developing SSB standards we encourage the application of the "think small first" principle that takes account of the costs and benefits to smaller entities. This demands the development from first principles of a simple standard for SMEs rather than simplified version of a standard developed for listed / PIEs (as was the case with IFRS and IFRS for SMEs).

We greatly appreciate this opportunity to share our points of view at a historical moment for the IFRS Foundation. We strongly believe that SMEs and SMPs should be well represented in the future technical and governance structures of the IFRS Foundation if it is to assume a broader mandate. Only then can we be sure of effective application of the "think small first" principle.

Yours sincerely,



Salvador Marín
EFAA President



Paul Thompson
EFAA Director