December 30, 2020

Dear IFRS Foundation Trustees,

Thank you for the opportunity to provide comment on the matter of the IFRS Foundation's Consultation on Sustainability Reporting ("the Consultation"). The U.S. Impact Investing Alliance ("the Alliance") and our members are pleased to see IFRS Foundation take up the topic of promoting consistent and comparable sustainability reporting in such a thoughtful manner. We wish to offer our strong support to the creation of a Sustainability Standards Board ("SSB") as well as to the essential steps that would lead this effort to success.

For context, the Alliance is an organization committed to catalyzing the growth of impact investing in the United States. We define impact investing broadly to include those investments that create financial returns alongside measurable social, economic and environmental impacts across asset classes including ESG investing. Members of our boards and councils include individual and institutional investors collectively owning hundreds of billions of dollars of invested assets, in addition to asset and fund managers collectively managing trillions of dollars in assets. The Alliance also represents the United States at the Global Steering Group on Impact Investing, and we take an active interest in international developments that will lead to a more robust and effective global impact investing ecosystem.

Our comments will focus on four themes that broadly relate to the questions of the Consultation. We are impressed by the responses received to-date, and we seek not to duplicate the substantive feedback of technical experts who have already weighed in. The themes we have identified emerge from our understanding of the rapidly growing market for impact investing, defined broadly, and the role that the IFRS Foundation can play in ensuring that this growth is both sustainable and maintains impact integrity at its core. The themes we will discuss are as follows:

- The need for a global set of internationally recognized sustainability reporting standards and the positive role the IFRS Foundation may play in setting those standards;
- The importance of close coordination with existing standard-setters, including the signatories to the September 2020 "Joint Statement of Intent to Work Together Towards Comprehensive Corporate Reporting" (CDP, CDSB, IIRC, SASB and GRI);
- The appropriateness of a "climate-first" approach to this effort which considers broader environmental factors, provided that such an approach is positioned to swiftly address other areas of sustainability reporting; and,
- The critical necessity of adopting a "dynamic materiality" approach to sustainability reporting standards.

The need for sustainability reporting standards

It is now well understood and rigorously documented that sustainability factors can be material to the financial performance of a firm.[1] Investors are rapidly moving to reallocate their portfolios and integrate environmental, social and governance ("ESG") criteria into investment decision making. Investors are also increasingly cognizant of the broader systemic impacts these decisions have – on capital markets, on external stakeholders and on the physical environment.[2] In response to investor and stakeholder demands voluntary sustainability disclosure has increased significantly, but as the Consultation properly acknowledges, "the current practice of sustainability disclosure is inefficient and sometimes ineffective due to a lack of commonly accepted standards."[3] Closer alignment of sustainability reporting standards will benefit both investors requesting this information and corporations furnishing it.

The IFRS Foundation is well positioned to help advance an effort to set such an internationally recognized set of sustainability reporting standards, and so we strongly endorse the proposed creation of the SSB. We believe that the IFRS Foundation has a high probability of success in this endeavor thanks to its strong relationships with key stakeholders and international regulators. The care and consideration reflected in the Consultation alone demonstrate the ability of the IFRS Foundation to provide critical convening and implementing roles needed to drive global adoption of sustainability reporting standards.

The importance of coordination with existing standard-setters

The Consultation rightly notes that significant efforts are already underway to develop sustainability reporting standards. The IFRS Foundation should ensure that its approach to the creation of an SSB builds on the work of existing standards bodies (particularly the coordinated effort among the 'Group of Five', CDP, CDSB, IIRC, SASB and GRI) and works to drive greater adoption of a common comprehensive reporting system as put forth by these organizations. Steps should also be taken to ensure these existing standards setters can continue to provide input and feedback to the SSB through governance or other channels. The standards set out by these organizations are already in widespread use by asset owners, asset managers, and corporations globally. Given the IFRS Foundation's objective of increasing consistency and comparability of reporting, the SSB should build on – not duplicate or otherwise jeopardize – the momentum of these efforts.

There are various models that could be implemented to integrate these existing standards with the SSB. For instance, the IFRS Foundation could assume the posture that the SSB is an adopter and implementer of standards defined and agreed to by external experts.

There is significant work underway to align existing sustainability reporting standards. The Alliance particularly notes the work done by signatories of the September 2020 "Statement of Intent to Work

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[1] See for example this 2015 meta-study of over 200 academic papers on financial materiality of ESG factors: Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 5, 2015). Available at SSRN: https://ssrn.com/abstract=2508281.

[2] See for example: Ailman, Christopher and Mizuno, Hiromichi and Pilcher, Simon, Our Partnership for Sustainable Capital Markets, (March 2020). Available at: https://www.gpif.go.jp/en/investment/Our_Partnership_for_Sustainable_Capital_Markets.pdf

[3] ¶6, IFRS Foundation Consultation Paper on Sustainability Reporting, (September 2020).

Together Towards Comprehensive Corporate Reporting"[4] and follow-on December 2020 paper entitled "Reporting on enterprise value."[5] The 'Group of Five' standard setters (CDP, CDSB, IIRC, SASB and GRI) who collaborated on these documents represent the largest existing global existing standards setters and their December paper lays out a detailed prototype for a single agreed upon climate-related financial disclosure standard. This prototype presents a valuable framework for a potential SSB to adopt and implement, and its development illustrates how the SSB could leverage existing standard-setters and other key stakeholders to inform adoption of standards beyond climate-related disclosure.

A "climate-first" approach to sustainability reporting

In regards to Questions 7 and 8 of the Consultation, the Alliance is supportive of the described "climate-first" approach provided that it is appropriately designed to address broader environmental factors and that such an approach is positioned to swiftly address other areas of sustainability reporting.

While climate is rightly identified in the Consultation as an area of high alignment around reporting needs and intense urgency to act, many investors and corporations are also actively considering broader environmental impacts such as resource depletion, food and water scarcity, or loss of biodiversity. So too are investors and corporations actively measuring and managing essential social sustainability factors, such as those related to workforce sustainability or diversity, equity and inclusion practices. These broader sustainability concerns also require, in due time, a level of consistency and comparability in reporting standards if they are to be adequately addressed.

If adopted, the SSB should move quickly to: (1) articulate standards around climate and broader environmental sustainability disclosures; and, (2) define the process by which additional areas of sustainability reporting will be addressed, consistent with the posture described above of adopting and implementing externally agreed to standards as they emerge.

Acknowledging "dynamic materiality"

Regarding Question 9, the Alliance does not agree with the proposed approach to materiality included in the Consultation. While somewhat more difficult to implement, the SSB should be established under a mandate to consider the dynamic materiality of sustainability factors. Doing so would present a more modern understanding of materiality, in keeping with emerging practice of existing standards-setters and the investors and corporations that make use of sustainability reporting. Failing to acknowledge dynamic materiality would place the SSB immediately out of step with these existing standards-setters as well as emerging regulatory structures in the European Union, United Kingdom and elsewhere.

The proposed "gradualist" approach attempts to acknowledge this risk, but it is ultimately insufficient. By explicitly rejecting dual materiality, IFRS Foundation would hamstring the ability of the SSB to consider pressing stakeholder concerns which could, left unaddressed, erode enterprise value. Under a dynamic approach, these broader stakeholder concerns remain in-scope for consideration by the SSB.

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[4] Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, (September 2020) Available at: https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf

[5] Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard, (December 2020) https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf

We believe that dynamic materiality presents a useful middle-ground between the proposed approach of the Consultation and the approach of dual materiality. An approach of dynamic materiality would allow the SSB to remain committed to the mission of the IFRS Foundation[6] while acknowledging that some factors which are materially important to other stakeholders may, at times or over time, become financially material to investors. Under a dynamic materiality approach, the SSB would be free to consider, adopt and implement disclosure standards that present leading indicators of financial materiality in a more timely and efficient manner.

Conclusion

The Alliance is grateful for the thoughtfulness and diligence of the Consultation, and we reiterate our strong support for IFRS Foundation's efforts to promote global alignment of sustainability reporting standards and the creation of the SSB. We are also grateful for the opportunity to provide input on this process, and we will watch further developments with interest.

The events of 2020 have highlighted in stark detail the critical importance of developing consistent and comparable sustainability reporting standards. Investors faced with the task of making investment decisions are loudly and urgently calling for increased transparency and accountability on issues ranging from climate change to workforce sustainability to diversity, equity and inclusion. The IFRS Foundation has the opportunity to meaningfully meet this moment. We applaud the steps taken to-date, and we encourage the IFRS Foundation Trustees to adopt the proposed role in advancing harmonized and streamlined sustainability reporting standards.

Sincerely,

Fran Seegull
Executive Director, U.S. Impact Investing Alliance

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[6] "[T]o deliver robust, reliable and transparent information as input for the decisions of the primary uses of general-purpose financial statements." ¶46, IFRS Foundation Consultation Paper on Sustainability Reporting, (September 2020).