S&P Global

S&P Global Response to IFRS Foundation Consultation Paper on Sustainability Reporting

S&P Global welcomes the opportunity to respond to the IFRS Foundation Consultation Paper on Sustainability Reporting. We hope that our comments are helpful to the ongoing work of the IFRS Foundation and would be happy to discuss any questions or comments further.

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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, we believe that there is a need for a global set of internationally recognised sustainability reporting standards. We also support the IFRS Foundation playing a leading role in setting these standards.

We recognise that Environmental, Social, and Governance (ESG) disclosure standards and the analytical work to assess and measure ESG-related risks and opportunities are still evolving and maturing. The IFRS Foundation has a strong record of developing high quality financial reporting standards with appropriate due process considerations.

As a user, aggregator, and provider of sustainability related information across our credit ratings, ESG and Green Bond Evaluations, benchmarks, and data businesses, we believe that it is important for corporate disclosure to be comparable, reliable, relevant, and accessible.

It can be unclear to companies what exactly they are either being asked or required to disclose and how to disclose on ESG matters. This often means that data which is publicly disclosed is insufficient to perform detailed, comparable, and up to date analysis and benchmarking of ESG and sustainability performance. A set of standardised minimum data reporting and collection standards for auditable disclosures, using common definitions of Key Performance Indicators (KPIs), could facilitate comparability in this regard.

At the same time, given the rapidly evolving nature of sustainability topics and ESG factors more broadly, we see a clear need for such standardised data to be supported by principles-based standards that can be applied across a range of conditions.

It is important that policy initiatives are pursued on the basis of coordination and harmonisation rather than market fragmentation and incompatible regulatory requirements. It would therefore be useful for the IFRS Foundation's approach to build on the established work and knowledge in the sustainability reporting space. Further development and integration of existing principles, frameworks, and standards should form the basis for common international standards.

We appreciate that the development of IFRS accounting standards can take several years and that this reflects the need to consult widely on complex topics. However, timelines for the development and application of sustainability reporting standards may need to be accelerated, so that investors, and companies can benefit from the intended standards for comparable, timely, and relevant disclosures on sustainability as soon as possible. The early availability of harmonised standards may also have a positive impact for global sustainability in general terms.

The existing standards today cover most of the core ESG issues that would be relevant to a broad number of sectors. ESG is a rapidly evolving space and the process of standard development for new standards may be unable to keep pace. In this regard, the initial and primary focus of the IFRS Foundation should be on the integration and alignment of existing standards – rather than development of new ones.

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 believe that the establishment of a Sustainability Standards Board (SSB) operating under the auspices of the IFRS Foundation would provide positive momentum to developing international alignment and global consistency for sustainability reporting.

We believe that the role of an SSB should be to set reporting standards on sustainability, rather than to set the sustainability standards themselves. In other words, the scope of the SSB should be on reporting rather than mandating acceptable sustainability actions. For this reason, the name of the SSB could be adapted to more clearly reflect this role e.g. The Sustainability Reporting Standards Board (SRSB).

Such a body should have as a key goal the avoidance of additional complexity in the sustainability reporting standard space, focusing on the consolidation and alignment of existing frameworks and standards.

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 agree with the suggested requirements for success. We would, in particular, emphasise that the first component would be critical: "achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets". Support from public and regulatory authorities is an important element to ensure coordinated and timely adoption of the standards. We believe that a key benefit of the proposed approach from the IFRS Foundation would be to provide a unified forum for the broad spectrum of stakeholders to engage with each other and streamline efforts in this space.

In addition, given the existence of policy initiatives in various jurisdictions, we believe that the IFRS Foundation has identified an important working method in its second point: "working with regional initiatives to achieve global consistency and reduce complexity in the reporting landscape". S&P Global believes it is essential for enhanced timely dialogue and international coordination in order to ensure that the positive steps being taken on ESG matters remain aligned with global market practices and regulatory frameworks. There may be risks of market fragmentation and/or potential regulatory conflicts between jurisdictions if sectoral legislation is changed without appropriate consultation with international partners. Potential official support from key bodies and institutions, including the G20, may help to provide this proposed initiative with the necessary mandate, impetus, resources, and expertise.

Again, the timing of the development of such standards will also be a critical element of success. As noted above, this may require an accelerated timeline in order to maximise the benefits of establishing a new body while building on work by other actors which is already relatively advanced. However, the need for ambitious timelines should be carefully balanced with the need to consult with key stakeholders on proposals and to ensure high quality of output.

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?

One of the most challenging issues in this space is the development of standards which work in different legal and national contexts. We believe that the IFRS Foundation could certainly help overcome this challenge given its global network and experience with developing high quality consistent standards for use across the world.

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

As noted above, ESG is a rapidly evolving space and development of completely new reporting standards may be unable to keep pace. In this regard, working with existing initiatives to achieve the integration and alignment of existing standards and best practices is key.

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?

We believe that the IFRS Foundation's experience and expertise in developing globally consistent and relevant accounting standards would be an asset in developing similar reporting standards for sustainability. Support from existing standardisation initiatives would be essential in order to consolidate efforts.

The SSB could act as a forum for voluntary framework and standard providers to convene. Consolidation of efforts to harmonise sustainability reporting standards through the SSB would be an important step forward to help meet the needs of investors for timely, comparable, consistent, and relevant disclosure.

It would also be important for the IFRS Foundation to have support from and connections to the work being carried out by the international financial policy and regulatory community for any SSB standards to be adopted and applied. We believe that the work of the International Organization of Securities Commissions (IOSCO) in this space could help to link the IFRS Foundation's plans with the broader discussion in the community of securities regulators.

We see the application of SSB standards as separate from financial reporting standards (IFRS) issued by the Foundation's International Accounting Standards Board (IASB). That is, compliance with IFRS for financial reporting purposes, would remain separate from standards issued by the SSB.

At the same time, there will doubtless be areas of sustainability reporting where the IASB and the SSB can and should collaborate closely. This could involve sharing expertise, working to ensure a cohesive corporate reporting approach, and avoiding potential duplications or conflicts in reporting requirements across IFRS and SSB standards.

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?

Given the growing understanding of intersectionality of sustainability issues and the value of developing and establishing a comprehensive set of standards for companies, we believe that the SSB could be more ambitious in taking a broader remit than suggested.

We would support a minimum set of standards that cover all the major areas of E, S and G to avoid a fragmented set of guidelines. As these standards will need to be constantly monitored and updated a staggered release may also confuse the cadence of updates.

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

The development of high-quality reporting standards on all elements of ESG are important for investors. Better and more meaningful reporting from companies which seeks to achieve these objectives will enable users of corporate disclosure to identify related risks and opportunities. Better disclosure standards will lead to better ESG data.

We believe that, in order to ensure global comparability, it would be useful to align ESG disclosure with international reporting standards, which are particularly useful in assessing risks associated with climate change among other environmental factors. For example, disclosures aligned to the Financial Stability Board's Recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD) are helpful in understanding the liability, transition, and physical risks of a specific company as well as the strategy which that company is pursuing to manage or mitigate those risks.

However, we believe that the SSB should consider broader sustainability factors, including but not limited to environmental and climate factors, to ensure alignment with existing initiatives. In addition to sector specific KPIs, a core set of ESG metrics for standardised minimum disclosure could also allow for greater comparability across sectors and could take the form of a short list of ESG disclosures that companies publish.

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

We believe that materiality is key in identifying, analysing, and disclosing relevant, entity specific non-financial risks and opportunities and their impact on the entity as well as on their environment. Given that the impact of ESG issues may only be realised at a future date, it may be helpful to distinguish between material issues in the present and potentially material issues which may impact a company in the future.

We agree with the approach outlined by the IFRS Foundation to initially focus its efforts on the sustainability information most relevant to investors and other market participants. We also agree with the need to minimise the risks of global and jurisdictional fragmentation of standards.

We acknowledge the potential benefits of a phased approach in this regard. However, we realise that it may be difficult to draw a fixed line between what is material today and what could be material tomorrow as the operating environment and drivers of long-term financial performance are rapidly evolving.

We do believe it is important to include consideration of the approaches under development to materiality in different jurisdictions to build dialogue, avoid confusion, and maintain international support for the IFRS Foundation's proposals.

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, we believe that it is important for disclosed information to be comparable, reliable, relevant, and accessible in order for it to be used. Assurance by a recognised third party would be helpful to promoting higher quality disclosure and providing higher confidence to the usability of this data.

The increasing calls for disclosure standards on sustainability reporting reflect the increasing importance of the topic in investment decisions. As such, the scope for assurance should be an important consideration in the development of any sustainability reporting standards. It would therefore be useful for the composition of the board of the SSB to encompass relevant assurance expertise.

In our view, assurance for sustainability information should – where possible – be performed at a reasonable level of assurance, reducing the risk to acceptable levels through a more exhaustive and rigorous assessment.

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

We believe that the private sector can play an important role in facilitating this international dialogue and that any future policy actions should avoid potential market disruption that may result from diverging regulatory or reporting frameworks. We would like to emphasise S&P Global's readiness to provide further input for consideration to the IFRS Foundation on these matters.

About S&P Global

S&P Global is the world's foremost provider of credit ratings, benchmarks and analytics in the global capital and commodity markets, offering ESG solutions, deep data, and insights on critical business factors. We have been providing essential intelligence that unlocks opportunity, fosters growth, and accelerates progress for more than 160 years. Our divisions include S&P Global Ratings, S&P Global Market Intelligence, S&P Dow Jones Indices, and S&P Global Platts.