Response: IFRS Foundation's Consultation on Sustainability Reporting

31st December 2020

Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 200 market-infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~20%). with everything from local entities in emerging markets to groups based in major financial centres. Collectively, member exchanges are home to nearly 53,000 listed companies, and the market capitalisation of these entities is over $95 trillion, while the 50 distinct CCP clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up $1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise financial stability, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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Overview

We welcome the opportunity to respond to the IFRS Foundation's consultation on sustainability reporting. Sustainability is a priority for exchanges and CCPs, regulated market infrastructures, around the world and will continue to be as we consider how to rebuild a better, more inclusive and more equitable economy in the wake of the Covid-19 Pandemic.

The market infrastructure industry has been engaged with ESG issues for over a decade and welcomes the mainstreaming of the agenda and the debate. The WFE's Board of Directors, consisting of 18 Chairman & CEO of market infrastructures around the world, regularly discusses how the industry should move forward its agenda for sustainable finance, while the WFE's dedicated Sustainability Working Group (SWG), consisting of leaders in the sustainability space across 42 markets and 38 countries, leads our technical work, meeting at least quarterly.

The WFE's Sustainability work has been significant since the inception of the SWG 6 years ago, producing industry-led standards, meaningful policy positions, educational material and research. This includes the WFE's Sustainability Principles, which constitute a formal declaration by the exchanges to take on a leadership role in promoting the sustainable finance agenda, and an Annual Sustainability Survey that captures the nature and extent of member engagement with ESG issues in both developed and emerging markets. The last Annual Sustainability Survey showed that exchanges are leading on a wide range of sustainability initiatives. The majority of exchanges surveyed, 40 in total, run ESG capacity building events for issuers and investors while 35 have issued formal ESG reporting guidance for listed companies and 36 exchanges offer sustainability-related products. Among those exchanges that responded to the WFE's Annual Survey, 41% had initiatives that corresponded to all five of the WFE's Sustainability Principles[1].

The WFE welcomes engagement from the IFRS Foundation on the topic of sustainability reporting standards. In a space with multiple initiatives, each with its own areas of focus, approach, strengths and governance, the WFE believes there is a need for a global set of internationally recognised standards. This consultation, which seeks to assess the demand for global sustainability standards and the IFRS Foundation's involvement, is an important first step.

Given the IFRS Foundation's track record and reputation on financial reporting, the WFE can see the value of the IFRS Foundation taking on a greater role in sustainability reporting, subject to the considerations below. We encourage the IFRS Foundation to reflect on the following points, which should aid any future efforts to develop high-quality international standards on sustainability reporting:

- The WFE is willing to assist the IFRS Foundation with any future efforts to create high-quality standards on sustainability reporting. Working closely with issuers, investors and regulators, exchanges are leading numerous sustainability reporting initiatives and are leading the implementation of the standards. Disclosure of ESG information is encouraged or required of issuers on 47 exchanges. Beyond providing general support to issuers, 21 exchanges have published their own reporting guidance, and, looking ahead, 22 exchanges are considering ways to improve the assurance and verification of issuers' ESG data[2]. The WFE's members have gained significant experience and expertise through the day to day implementation of sustainability reporting initiatives;
- We support the IFRS Foundation's intention to build on and work with existing initiatives (global and regional) in sustainability reporting as convergence is needed first before new standards can be created. WFE members have found these standards to be useful contributions to the development of sustainability reporting standards, each with its own strengths and areas of focus. Incorporating valuable work from other

[1] WFE's Annual Sustainability Survey (pg. 7)
[2] WFE's Annual Sustainability Survey (pg. 19)

sustainability reporting initiatives would also reduce the unnecessary implementation burden on exchanges and market participants who have been pro-active on the sustainability agenda. The WFE encourages the IFRS Foundation to ensure any standards developed do not add another set of requirements to existing initiatives, without creating a globally consistent framework;
- Regulatory backing (globally as well as jurisdictional regulators) for the IFRS Foundation's work will be vital in increasing the credibility and adoption of standard developed by any SSB;
- In the area of financial reporting, the IFRS Foundation should maintain its high-quality work, and the proposed work on sustainability reporting should not compromise the IFRS Foundation's resources for financial reporting, on which much progress has been made;
- The WFE agrees with the IFRS Foundation that there are synergies between financial and sustainability reporting, and believes the IFRS Foundation should consider the possibility of integrating them more closely. (for example, an integrated reporting committee could be a potential option.) Viewing financial and sustainability issues together could embed sustainability considerations more deeply into firms' operations, and increase the credibility of sustainability reporting.

On the scope and application of sustainability reporting:
- Any standards developed by a SSB should be applied widely to include private, as well as public companies. Incorporating this as a design principle from the start will increase transparency, diminish risk and ensure sustainability information on a wider range of companies is available for investors. It will also help private companies embed sustainability considerations, alongside the financial, in their day to day operations;
- While the WFE acknowledges the urgency around climate-related financial disclosures, a SSB should be careful not to let this hinder progress around the "S" and "G" (as well as non-climate related environmental issues) of ESG reporting. Depending on the local context, social and governance disclosures may be more salient, and an exclusive focus on climate-related financial disclosures could slow down progress on the broader ESG reporting agenda. The WFE encourages simultaneous work on climate-related and other ESG factors using a prioritization -based approach . As events could rapidly change disclosure priorities for stakeholders, the IFRS Foundation could consider consulting regularly (perhaps on an annual basis) on the ESG reporting topics it should pursue, to ensure any work it undertakes on sustainable reporting is useful and up to date;
- On the topic of materiality, different jurisdictions and initiatives have taken different approaches, with some focusing on 'single-materiality' and others on 'double materiality'. A SSB would need to carefully consider these differences in approach if it wants to create global standards.

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Questions

Question 1: Is there a need for a global set of internationally recognised sustainability reporting standards?

The WFE believes there is a need for a global set of internationally recognised sustainability reporting standards. The WFE's Annual Sustainability Survey found that ensuring high-quality, comparable ESG disclosure that can serve the best interests of both issuers and investors is one of the biggest challenges facing exchanges, the industry that sits at the centre of financial markets.

As the IFRS Foundation's consultation paper notes, with sustainability increasing as an area of focus for a wide range of stakeholders, different initiatives have attempted to develop guidance on sustainability reporting. Our members have found initiatives from the Global Reporting Initiative (GRI) and the Sustainability Accountability Standards Board (SASB) useful, with exchanges often using them as an input into their guidelines on sustainability reporting. GRI is the standard most cited, with 43% of exchanges who encourage or require ESG disclosures referring to it. The equivalent figure for SASB is around 20%. The third most cited by exchanges are the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), developed under auspices of the Financial Stability Board (FSB) and aimed at improving the reporting of climate-related financial information. There are also a wide range of initiatives at the jurisdiction level, including the EU Non-Financial Reporting Directive, which requires approximately 6,000 large companies to disclose information on how they manage social and environmental challenges.

The WFE notes that the increasingly fragmented landscape adds to complexity and costs to stakeholders involved with sustainability disclosures. Investors have challenges comparing information on sustainability initiatives, while issuers, sometimes concerned about the burden of sustainability reporting, want to provide the relevant information in a streamlined manner[3]. Exchanges want to ensure high-quality, comparable ESG disclosures that can serve the best interests of both issuers and investors. A reliable, consistent global standard on sustainability reporting, one that helps to create convergence across the globe, will be an important step in addressing these issues.

Subject to the key considerations outlined below, the WFE believes the IFRS Foundation could play a role in setting internationally recognised sustainability reporting standards. The IFRS Foundation has built an excellent reputation and high levels of credibility in financial reporting, achieved through effective dialogue with key stakeholders and the proper governance. These strengths can be leveraged in the context of sustainability reporting.

However, we note there are still challenges to face. There are already a number of ongoing initiatives, at the global and jurisdiction level (eg the European Commission has mandated the European Financial Reporting Advisory Group to undertake preparatory work on non-financial reporting standards for a revised Non-Financial Reporting Directive). IFRS Foundation would have to work effectively to ensure it adds value to the existing landscape. Much will depend on how the IFRS Foundations organises its efforts, the precise details of which are yet to be outlined.

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?

The WFE generally believes the development of a SSB could be an appropriate approach to developing global sustainability standards, though its success and effectiveness would depend on its structure, governance and mandate. In the area of financial reporting, the IFRS Foundation has demonstrated a strong track record of integrating international standards record through the International Accounting Standards Board (IASB).

[3] WFE Annual Sustainability Survey (pg. 12)

With sustainability reporting impacting a wide range of stakeholders, it is important a SSB has a sufficiently diverse group of representatives to ensure balanced, high quality standards are developed. The SSB should include both ESG experts and non-ESG specialists from different regions and industries.

The WFE is willing to assist the IFRS Foundation with any future efforts to create high-quality standards on sustainability reporting. Exchanges have extensive experience and expertise in guiding issuers and other market participants through sustainability reporting. Disclosure of ESG information is encouraged or required of issuers on 47 exchanges. Beyond providing general support to issuers, 21 exchanges have published their own reporting guidance, and, looking ahead, 22 exchanges are considering ways to improve the assurance and verification of issuers' ESG data [4].

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)?

Paragraph 31 captures the key requirements for success. The WFE reiterates the particular importance of global support from a range of stakeholders and coordination with regional initiatives as essential factors in ensuring the success of any standards developed.

The IFRS Foundation will need to achieve the necessary funding for its proposed work on sustainability reporting. In the area of financial reporting, the IFRS Foundation should maintain its high-quality work, and the proposed work on sustainability reporting should not compromise the resources available for financial reporting, on which much progress has been made.

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?

The IFRS Foundation could leverage its relationships with stakeholders in the financial reporting industry to aid the adoption and application of standards developed by a SSB. The breadth of stakeholders the IFRS Foundation has relationships with, which includes governments, regulators and national standard-setters around the world, provides a good base which a SSB could build on. Regulatory and industry backing for the IFRS Foundation's work will be vital in increasing the credibility and adoption of standards developed by a SSB. From the industry side, it is important the IFRS uses its relationships with exchanges, investors and issuers to aid adoption, as they are the stakeholders most directly involved with sustainability reporting.

The definition of stakeholders is a key consideration. The GRI, for example, has a wider definition of stakeholders than SASB – the latter's stakeholders are more narrow in focusing essentially on investors. In order to ensure credible global standards, the IFRS Foundation should engage a sufficiently wide range of stakeholders as it develops plans for a SSB.

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

Around half of exchanges which encourage or require ESG reporting suggest the adoption of an international reporting standard. The most frequently cited standard is GRI, followed by SASB. The TCFD is now increasingly being

[4] WFE Annual Sustainability Survey (pg. 19)

incorporated into guidance (14 exchanges in 2019)[5]. WFE members have found these standards to be useful contributions to the development of sustainability reporting standards, each with its own strengths and areas of focus. For example, SASB's guidance is usefully broken down by industry (eg ESG reporting metrics are designed so that they reflect specific nuances and facilitate easier comparison between companies in a particular industry), while the TCFD provides granular guidance on climate-related disclosures. Instead of starting from scratch, a new SSB should seek to consolidate and build upon these initiatives, enabling it to focus on areas that require the most urgent action, rather than going over topics that have been covered before. Incorporating valuable work from other sustainability reporting initiatives would also reduce unnecessary implementation burden on exchanges and market participants who have been pro-active on the sustainability agenda. WFE encourages the IFRS Foundation to ensure any standards developed do not add another set of requirements to existing initiatives, without creating a globally consistent framework. To facilitate convergence across the globe, any new standards should avoid unnecessary divergence from current standards. This could incentivise switching to standards developed by the IFRS Foundation.

The WFE believes a transparent process is required to bring together existing initiatives. Some potential ideas to consider include:

- Close collaboration between the IFRS Foundation and the WFE's Sustainability Working Group (SWG) would aid efforts to achieve further global consistency in sustainability reporting. Exchanges are, by virtue of their role and mandate, central to sustainability reporting and all corporate disclosures made by listed companies. Exchanges are the key to implementation of any ESG standards and have extensive experience and expertise in guiding issuers and other market participants through sustainability reporting, which the IFRS Foundation could harness by working with the SWG. Initial discussions with SWG members have also revealed potential opportunities to work with the IFRS Foundation on future projects such as sustainability reporting templates;

- A SSB could have dedicated work groups on certain topics that have been covered by the various initiatives in different ways, and where consolidation efforts would be useful (eg SASB and GRI both cover environmental factors such as water management and bio-diversity, but there are differences in the precise guidelines). The working groups could include representatives from the other initiatives, as well as key stakeholders such as exchanges, issuers, investors and regulators. The European Commission's model and governance around the High Level Expert Group on Sustainable Finance and later the Technical Expert Group could be instructive. Interim reports and final reports could be prepared after being subject to transparent public consultations;

- At the staff level, the SSB can have 'secondments' of staff members from other existing initiatives to be part of its staff team.

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?

The suggestions in our response to question 5 could also be undertaken with representatives from jurisdictional initiatives. We would encourage the IFRS Foundation to closely monitor evolving jurisdictional initiatives such as the review of the EU's Non-Financial Reporting Directive. When considering existing jurisdictional initiatives, it is important to understand the differences in progress for each country/region, and to design an overarching framework that can adapt to the needs of individual countries/regions. The permitting of jurisdiction-specific add-ons could be an option that provides the necessary flexibility to jurisdictions.

[5] WFE Annual Sustainability Survey (pg. 18-19)

There also needs to be a robust and transparent industry consultation.

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?

Focusing on single-issue topics such as climate change could hinder or halt progress on the disclosure of other material ESG issues. The practicalities around resourcing and funding may make it difficult to work on climate-related issues and other ESG topics in tandem. While the WFE understands the urgency around climate-related financial disclosures, a SSB should be careful not to let this hinder progress around the "S" and "G" of the ESG reporting. The WFE encourages simultaneous work on climate-related and other ESG factors. As events could rapidly change disclosure priorities for stakeholders, the IFRS Foundation could consider consulting regularly (perhaps on an annual basis) on the ESG reporting topics it should pursue, to ensure any work it undertakes on sustainable reporting is useful and up to date. We have seen how priorities could shift rapidly, with the social aspect of the debate becoming more prominent following the outbreak of Covid-19.

Despite the development of the TCFD, it seems investors are facing challenges in attaining good quality carbon data, which would be useful for those looking to construct Paris-aligned portfolios. Given the work already undertaken on climate-related financial disclosures, focusing on this area may be a good opportunity to achieve quick results and build momentum around a SSB's subsequent work on the wider sustainability reporting agenda.

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

In line with our thinking on question 7, the WFE, although acknowledging the urgency around climate-related risks, and therefore the need for a focused definition of it, would encourage a consideration of the broader environmental risks alongside climate-related risks.

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

We note that views on the approach to materiality vary by jurisdiction, often influenced by the local regulatory stance. Some authorities, such as those in the UK, see merit in initially focusing on sustainability information most relevant to investors and other market participants ("single-materiality"). This plays to the existing strengths of the IFRS Foundation, and could be an effective way to progress and create momentum around a SSB's work.

"Double-materiality" is increasing in prominence, with initiatives such as the GRI and the EU's Non-Financial Reporting Directive using the concept. If a SSB's work was to eventually cover "double-materiality", it may be more efficient to commence work on the broader concept of materiality.

A SSB would need to carefully consider these differences in approach if it wants to create global standards.

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?

Subjecting sustainability reporting to audits would increase the reliability and credibility of the information provided. External assurance could also be an effective way to address concerns around “greenwashing”. As the debate develops on external assurance, specifically what information should be audited will need to be addressed. Care will need to be taken to ensure the prospect of audits does not discourage the disclosure of useful information by issuers.

Question 11: Other comments

The WFE agrees with the IFRS Foundation that there are synergies between financial and sustainability reporting, and believes the IFRS Foundation should consider the possibility of integrating them more closely (for example, an integrated reporting committee could be a potential option). Viewing financial and sustainability issues together could embed sustainability considerations more deeply into firms’ operations, and increase the credibility of sustainability reporting. This could also greatly help issuers, who find some of the separate financial and sustainability reporting burdensome.

In addition, careful consideration should be given to how sustainability reporting standards would apply to SMEs. Improving sustainability reporting standards could improve the sustainability (and even financial) performance of SMEs. Better sustainability-related performance could lead to lower funding costs, fewer and less significant business interruptions, stronger consumer loyalty and better relations with stakeholders. But, this needs to be balanced against the reporting burden.

Any standards developed by a SSB should be applied widely to include private, as well as listed companies. Incorporating this as a design principle from the start will increase transparency and make sustainability information on a wider range of companies available for investors. It will also help private companies embed sustainability considerations, alongside the financial, in their day to day operations.