Responses to Questions for Consultation in the IFRS Foundation Consultation Paper on Sustainability Reporting[1]

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?[2]

The Council of Institutional Investors (CII) believes that there is a need for a global set of high quality sustainability standards designed to produce comparable, reliable, timely, transparent and understandable information that will meet the needs of investors. We note that "[i]nvestors increasingly seek decision-useful, comparable and reliable information about sustainability performance in corporate disclosures in order to better understand how nonfinancial metrics can impact business and profitability."[3] However, despite the widespread practice of sustainability reporting, the sustainability data currently available often lacks comparability, consistency, and reliability. We agree that a strong global set of internationally recognized sustainability reporting standards could help better ensure that investors and other market participants have the most pertinent, up-to-date, and clearest information to help efficiently allocate capital.[4]

We believe that "independent, private sector standard setters should have the central role" in developing sustainability reporting standards.[5] Thus, we generally support the IFRS Foundation playing a key role in the ongoing efforts to develop global sustainability standards.

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[1] IFRS Foundation, Consultation Paper on Sustainability Reporting 15-16 (Sept. 2020), https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf.

[2] *Id.*

[3] CII Policies, Statement on Corporate Disclosure of Sustainability Performance (adopted Sept. 22, 2020), https://www.cii.org/sustainability_performance_disclosure; *see, e.g.*, Subodh Mishra, Institutional Investor Services, Inc., Survey Analysis: ESG Investing Pre-and Post-Pandemic, Harv. L. Sch. F. On Corp. Governance (Oct. 20, 2020), https://corpgov.law.harvard.edu/2020/10/20/survey-analysis-esg-investing-pre-and-post-pandemic/ (survey of asset managers finding that 45.5% indicated that the advancement in the focus on ESG is hindered by "the absence of progress on the lack of standardized disclosed data from issuers.").

[4] *See, e.g.*, Eric J. Pan, Opinion: The Fund-Management Industry Wants Better ESG Disclosure—Here's What It Says Biden Should Do, MarketWatch (Dec. 7, 2020), https://www.marketwatch.com/story/the-fund-management-industry-now-wants-the-u-s-to-take-the-lead-on-esg-investing-heres-what-it-says-the-biden-administration-should-do-11607107372 ("A strong, global framework that guides companies on what—and how—to disclose on climate, social issues, and governance can help ensure financial market participants have the most pertinent, up-to-date, and clearest information to help efficiently allocate capital.").

[5] CII Policies, Statement on Corporate Disclosure of Sustainability ("CII encourages companies to disclose standardized metrics established by independent, private sector standard setters along with reporting mandated by applicable securities regulations to better ensure investors have the information they need to make informed investment and proxy voting decisions."); *see, e.g.*, U.S. Securities and Exchange Commission, Asset Management Advisory Committee, Potential Recommendations of ESG Subcommittee 5 (discussion draft Dec. 1, 2020), https://www.sec.gov/files/potential-recommendations-of-the-esg-subcommittee-12012020.pdf ("AMAC recommends that the SEC, following appropriate study and deliberation, designate those third-party ESG disclosure frameworks as authoritative and binding, putting them at parity with standards promulgated under GAAP.").

We note that the IFRS Foundation has the existing global standard setting expertise and relationships with international governments, regulators and standard setters that would be valuable for promoting global adoption and potential enforcement of sustainability standards. Moreover, in overseeing the International Accounting Standards Board (IASB), the IFRS Foundation is in a position to enhance the interconnectedness between financial accounting and reporting and sustainability reporting.

Consistent with our membership approved policies, CII believes that sustainability reporting standards that "focus on materiality, and take into account appropriate sector and industry considerations, are more likely to meet investors' needs for useful and comparable information about sustainability performance."[6] We also believe that in order to be independent and have long-term viability a private sector sustainability standard setter must possess the following attributes: "stable and secure funding; deep technical expertise at both the staff and board levels; accountability to investors; open and rigorous due process for the development of new standards; and adequate protection from external interference."[7]

CII generally supports the IFRS Foundation proposal to expand its current standard setting activities by establishing a proposed new sustainability standards board (SSB). Our support, however, is *subject to* the IFRS Foundation improving its own governance structure and establishing a governance structure for an SSB in ways that align with our policies for an effective, independent standard setter.

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?[8]

As indicated in response to Question 1, CII generally supports the proposed creation of an SSB subject to the IFRS Foundation improving its own governance structure and establishing a governance structure for the SSB in ways that align with our policies for an effective, independent standard setter.

We generally agree that the proposed approach has the potential to improve consistency and global comparability in sustainability reporting given the IFRS Foundation's existing relationships with international governments, regulators and standard setters. We also agree that the proposed establishment of an SSB within an improved "institutional and governance structure of the IFRS Foundation could achieve the objectives of developing a framework for

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[6] CII Policies, Statement on Corporate Disclosure of Sustainability Performance; *see* CII, Policies on Other Issues, Statement on Company Disclosure (adopted Mar. 10, 2020), https://www.cii.org/policies_other_issues#Company_disclosure ("In evaluating proposals to expand company disclosure, CII considers the following factors: [] Materiality to investment and voting decisions").

[7] CII Policies, Statement on Corporate Disclosure of Sustainability Performance; *see* CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (updated Mar. 1, 2017), https://www.cii.org/policies_other_issues#indep_acct_audit_standards (describing the attributes "that underpin an effective . . . standard setter . . . .).

[8] IFRS Foundation, Consultation Paper on Sustainability Reporting at 15.

sustainability reporting which is coherent with and connected to financial reporting and the IASB's own mission to serve investors and other primary users of financial statements."[9]

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)?[10]

CII agrees with the assessment that the success of the proposed new SSB would likely be contingent on certain key factors. As indicated in response to Question 1, we believe additional critical requirements for success not listed in paragraph 31 include independence and accountability to investors.

Independence

CII believes, consistent with our policies, that a requirement for the success of an SSB is to have full-time board members and staff that are required to sever all employment relationships and positions that may give rise to economic incentives that might call into question a board member or staff's independence of judgment in setting standards.[11]

We believe having full-time board members is absolutely essential to ensuring the independence of an SSB.[12] Part-time board members are more likely to be conflicted by positions taken by their employer and could face difficult decisions as to which constituency they owe their allegiance.[13]

Those potential conflicts are not hypothetical. As one example, the creation of the U.S. Financial Accounting Standards Board (FASB) with full-time members was largely in response to concerns that the decisions of the part-time members of the prior accounting standard setting organization—the Accounting Principles Board—were influenced by "conflict[s], real or apparent, between the member's private interest and the public interest."[14] We believe part-time

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[9] *Id.* at 8.
[10] *Id.* at 15.
[11] *See* CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters ("A full-time standard-setting board and staff that are independent from prior employers or similar conflicts . . . .").
[12] *See, e.g.*, Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Tamara Oyre, Assistant Corporate Secretary, IASC Foundation 8 (Sept. 25, 2008) (on file with CII), https://www.cii.org/files/2%208%2018%20letter.pdf ("[w]e believe that having full time board members is absolutely essential to ensuring the ongoing independence of the IASB").
[13] *See, e.g.*, Letter from Paul G. Haaga, Jr., Vice Chairman, Capital Research and Management to Constitution Review Committee, International Accounting Standards Board 3 (July 2, 2008) (raising concerns about part time members of the International Accounting Standards Board) (on file with CII).
[14] Establishing Financial Accounting Standards, Report of the Study on Establishment of Accounting Principles 72 (Am. Inst. of Certified Pub. Accountants Mar. 1972), https://www.accountingfoundation.org/cs/ContentServer?c=Document_C&cid=1176157150661&d=&pagename=Foundation%2FDocument_C%2FFAFDocumentPage.

members of an SSB would likely be subject to similar and perhaps more frequent conflicts of interest.[15]

We believe that the requirement of independence also includes the concept that a standard setter should have a "structure and process that adequately protects the standard setter's technical decisions and judgments (including the implementation of standards) from being overridden by government officials or bodies . . . ."[16] This is all the more critical for an international standard setter that may be subject to pressures from multiple legislators and regulators from multiple governments with differing priorities. Without such protection the proposed new SSB could face a real danger of becoming a "representative, politicized, polarized, bureaucratic UN-style body" unable or unwilling to serve the interests of investors. It is unclear to us whether the IFRS Foundation[17] or the IFRS Foundation Monitoring Board fully serve that purpose.[18]

Finally, we believe that the requirement of independence includes the concept of sufficient funding. We believe economic independence is an important guiding principle in institutionalizing a standard setting body that is responsive to the needs of investors.[19] In 2010, then U.S. Securities and Exchange Commission (SEC) Chair Mary Schapiro warned, with reference to the IASB, that the funding mechanism should not be such that funders could say, "[w]e do not like this, so we will reduce our contribution."[20]

Our policies also recognize that the funding of an international, independent, private sector standard setter is challenging and "may depend on governmental and stakeholder cooperation from multiple jurisdictions, including the United States."[21] In light of those challenges, we would not oppose a broad and balanced multi-stakeholder approach that might include revenues from multiple sources, including from subscriptions, licensing, educational products, credentialling and government or stock exchange imposed support fees.[22] We believe some combination of those sources could, consistent with our policies, result in a secure, stable source of funding for

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[15] *See, e.g.*, Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to The Monitoring Group (attachment Feb. 8, 2018), https://www.cii.org/files/2%208%2018%20letter.pdf.
[16] CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters.
[17] *See* IFRS, Who We Are, About Us (last visited Dec. 16, 2020), https://www.ifrs.org/about-us/who-we-are/ (describing the purpose of the IFRS Foundation as "promot[ing] and facilitat[ing] adoption of the standards.").
[18] *See* IFRS Foundation Monitoring Board, About (last visited Dec. 11, 2020), https://www.ifrs.org/groups/ifrs-foundation-monitoring-board/#about (describing the IFRS Monitoring Board's "main responsibilities are to ensure that the Trustees continue to discharge their duties as defined by the IFRS Foundation *Constitution*, as well as approving the appointment or reappointment of Trustees").
[19] *See, e.g.*, Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to The Monitoring Group ("Economic independence is an important guiding principle in institutionalizing a standard setting body that is responsive to the needs of investors.").
[20] Steve Burkholder, SEC Wants IASB Funding as International Board Runs Deficit, BBNA (Nov. 4, 2010) (on file with CII).
[21] CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters.
[22] *See* IFRS Foundation 2019 Annual Report 33, 40 (June 30, 2020), https://cdn.ifrs.org/-/media/feature/about-us/funding/2019/ifrs-ar2019.pdf?la=en2 (IFRS Foundation net income from publications and related activities, including subscriptions and licensing year ending December 31, 2019 were £7,040,000); *cf.* Financial Accounting Foundation 2019 Annual Report 26, 29 (2020), https://www.accountingfoundation.org/cs/Satellite?c=Document_C&cid=1176174650979&pagename=Foundation%2FDocument_C%2FDocumentPage (Financial Accounting Foundation net publishing revenues, including subscriptions and licenses for year ending December 31, 2019 were $12,548,000).

the proposed new SSB that importantly "is not dependent on voluntary contributions of those subject to its standards."[23]

Accountability to Investors

CII believes, consistent with our policies, that a requirement for success of an SSB is ensuring that investors, including those with significant experience in financial and investment analysis incorporating sustainability issues, are fully represented in all aspects of the standard setting system.[24]

We note that our policies are generally consistent with the following recommendation contained in the 2008 Final Report of the Advisory Committee on Improvements to Financial Reporting to the SEC:

> Recommendation 2.1: Investor perspectives are critical to effective standards setting, as investors are the primary consumers of financial reports. Only when investor perspectives are properly considered by all parties does financial reporting meet the needs of those it is primarily intended to serve. Therefore, investor perspectives should be given *pre-eminence* by all parties involved in standards setting. Although it is more challenging to obtain investor perspectives than those of other constituents involved in the standards-setting process, additional investor representation would facilitate increased consideration of investor perspectives in the standards-setting process.[25]

As explained in a recent letter from several prominent investors, the issue of underrepresentation of investors in the U.S. private sector accounting standard setting process arguably has not been resolved with potentially negative implications for investor accountability:

> Organizations achieve the results they are designed to attain. If one wants different results from an organization, then it is a necessity that the organization be designed to achieve those results. It is important to note that among the three groups– investors, preparers, and auditors—it is investors whose decision-making process is dependent on publicly released financial information as the primary source of company performance. If the FAF and FASB are to be in a position to issue standards that "provide useful information to investors," the members of both entities must be in a position to know and understand what investors find useful. It is unrealistic to expect people will be in a position to express a perspective they do not have. Entities whose memberships are dominated by preparers and auditors will produce results that are predominantly reflective of preparer and auditor perspectives and priorities and not those of investors. With ineffective

[23] CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters.
[24] *Id.* ("having significant, prominent and adequately balanced representation from qualified investors on the standard setter's staff, standard-setting board, oversight board and outside monitoring or advisory groups").
[25] Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission 10 (Aug. 1, 2008) (emphasis added and footnotes omitted), https://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf.

> organizational design, the focus has shifted from what investors need to know to make informed decisions to an exercise where gatekeepers limit and control the amount of information preparers and auditors find it acceptable to release to investors. These are different missions. Ultimately, we believe that while the mission statement of the FASB and FAF explicitly states a responsibility to meet the needs of investors, the workplan and work product of the FASB implies that the FAF and FASB see their first priority as serving preparers and auditors, not investors.[26]

While the above recommendation and letter were directed at U.S. accounting standard setting, we believe it is equally applicable to international sustainability standard setting. We, therefore. believe that the most direct and effective means to obtain insights from investors in a proposed new SSB standard setting process is for the IFRS Foundation and an SSB to have significant representation (and input) from qualified investors.

As indicated, we believe that as long as investors do not have substantial input and decision making authority for either the governance or the standard setting activities of the proposed new SSB, the standard setting model cannot fully and credibly serve investors in the global markets.[27] While we understand the challenges of finding qualified investors to fill full-time standard setting positions of an SSB, we remain confident that CII together with other investor based organizations from around the globe could successfully identify qualified candidates for those positions.[28]

Another element of accountability to investors is the ability to deliver standards that are responsive to investors information needs in a timely manner.[29] On this issue, we generally share the views of former U.S. Public Company Accounting Oversight Board member Steven B. Harris who in 2017 stated:

> I . . . would note that, on average, it takes . . . accounting standard setters in the United States and internationally five to 10 years to adopt a major standard.

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[26] Letter from Lynn E. Turner et al., Alliance of Concerned Investors, Financial Reporting and Financial Reporting Regulators, Harv. L. Sch. F. On Corp. Governance (posted Nov. 17, 2020), https://corpgov.law.harvard.edu/2020/11/17/financial-reporting-and-the-financial-reporting-regulators/.

[27] *See, e.g.,* Letter from Jack T. Ciesielski, Investors Technical Advisory Committee to Ms. Florence E. Harmon, Acting Secretary, Securities and Exchange Commission 5 (Jan. 30, 2009), http://www.fasb.org/jsp/FASB/Page/itac_01-30-09.pdf (“As long as investors are not admitted to the deliberation table and do not have substantial decision-making authority for either the governance (proposed Monitoring Group and IASC Foundation) or standard setting activities at the IASB, this body cannot credibly serve as the sole global financial reporting standard setter for investors and global markets.”).

[28] *See, e.g.,* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to The Monitoring Group (“While we understand the challenges of finding qualified investors to fill . . . related standard setting positions, we remain confident that CII together with other investor based organizations around the globe could successfully identify qualified candidates for those positions.”).

[29] *See* CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (“A clear recognition that investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors’ information needs).

> Compare that to how long it took the United States to land a man on the moon. President Kennedy challenged Americans to do just that in 1961 and the mission was accomplished in 1969. Eight years.
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> I think we all have an obligation to demonstrate the need and define the problem to be addressed before considering any standard, but once that is done, standards should be adopted in a far more timely fashion than is currently the case.
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> I consider the current timeframes to be unacceptable.[30]

We believe that an SSB must have a public due process that as compared to the IASB and the FASB better balances the need for an open and rigorous due process and timeliness. In that regard, we believe the existing body of work established over many years by the CDP, CDSB, GRI, IIRC, SASB (collectively the IMP Structured Network),[31] and other global and domestic organizations in the sustainability space provides a unique opportunity for an SSB to leverage that work as a starting point for delivering high quality sustainability standards on a timelier basis.

Subject to Requirements

As indicated in our response to Question 1, our support for an SSB is *subject to* the IFRS Foundation improving its own governance structure and establishing a governance structure for an SSB that are more aligned with our policies for an effective, independent standard setter.

As discussed, at a minimum, we believe the governance structure of the IFRS Foundation must be improved to include:

- A mechanism to increase funding (from sources other than voluntary contributions of those subject to its standards) to provide for a stable, secure, and independent source of funding for the IFRS Foundation, the IASB, and an SSB;[32]
- Significant, prominent and adequately balanced representation from qualified investors as Trustees of the IFRS Foundation, including having at least half of the investor Trustees possessing significant knowledge of, or having experience with, financial and investment analysis incorporating sustainability issues;[33] and

[30] PCAOB, Steven B. Harris, Remarks at the 2017 International Institute on Audit Regulation, Q&A: The Monitoring Group Consultation Paper (Dec. 7, 2017), (emphasis added and footnote omitted), https://pcaobus.org/news-events/speeches/speech-detail/q-a-the-monitoring-group-consultation-paper_675.

[31] *See* Impact Project Management, Statement of Intent to Work Together Towards Comprehensive Corporate Reporting (Sept. 11, 2020), https://impactmanagementproject.com/structured-network/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/ ("Five global organisations – CDP, CDSB, GRI, IIRC and SASB – whose frameworks, standards and platforms guide the majority of sustainability and integrated reporting, have announced a shared vision of what is needed for progress towards comprehensive corporate reporting – and the intent to work together to achieve it.").

[32] We note that for the year ended December 31, 2019, the board and staff operating expenses for the International Accounting Standards Board was £18,488,000, and the total income of the IFRS Foundation was £30,939,000, of which more than 10% appears to have obtained from voluntary contributions of those subject to International Financial Reporting Standards. *See* IFRS Foundation 2019 Annual Report at 40, 54-57.

[33] We note that per review of the on-line biographies of current Trustees of the IFRS Foundation it is unclear, with the exception of one Trustee, whether current Trustees possess significant knowledge of, or have experience with,

- A thorough public due process that results in standards that satisfy in a timely manner investors' information needs.[34]

In addition, at a minimum, we believe the governance structure of the proposed new SSB must include the following attributes:

- A full-time board and staff that are independent from prior employers or similar conflicts and possessing significant knowledge of, or experience with, financial and investment analysis incorporating sustainability issues;
- Significant, prominent and adequately balanced representation from qualified investors on the board of an SSB;[35]and
- An investor advisory council to an SSB comprised of chief investment officers or equivalent from asset owners and asset managers possessing significant experience with financial and investment analysis incorporating sustainability issues.[36]

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?[37]

CII generally believes that the IFRS Foundation and other private and public sector organizations that support global sustainability reporting should use their relationships with stakeholders to minimize, to the extent possible, global and jurisdictional fragmentation, while allowing for additional jurisdiction-specific disclosure requirements.

Question 5: How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?[38]

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financial and investment analysis incorporating sustainability issues. *See* IFRS, The Trustees of the IFRS Foundation, Members (last visited Dec. 17, 2020), https://www.ifrs.org/groups/trustees-of-the-ifrs-foundation/#members.

[34] We believe that a public due process for a standard setting project that exceeds five years is unlikely to satisfy in a timely manner investors' information needs. *See, e.g.,* PCAOB, Steven B. Harris, Remarks at the 2017 International Institute on Audit Regulation, Q&A: The Monitoring Group Consultation Paper.

[35] We note that per review of the on-line biographies of the current members of the International Accounting Standards Board, with the exception of two members, it is unclear whether current members are investor representatives. *See* IFRS, International Accounting Standards Board, Members (last visited Dec. 17, 2020), https://www.ifrs.org/groups/international-accounting-standards-board/#members.

[36] We note that the IFRS Foundation and International Accounting Standards Board currently has a Capital Markets Advisory Committee that from the on-line description of members includes several members that are chief investment officers or equivalent from asset owners or asset managers. It, however, is unclear from the descriptions whether any of those members possesses significant experience with financial and investment analysis incorporating sustainability issues. IFRS, Capital Markets Advisory Committee (last visited Dec. 12, 2020), https://www.ifrs.org/groups/capital-markets-advisory-committee/#members.

[37] IFRS Foundation, Consultation Paper on Sustainability Reporting at 15.

[38] *Id.*

CII generally agrees with the Statement of Intent issued by the IMP Structured Network,[39] indicating that the IFRS Foundation and the IASB should consider how it can build on the relevant aspects of the body of work of the IMP Structured Network to ensure that IFRS standards properly reflect the financial implications of sustainability issues on the reporting entity. We agree that interconnection between financial reporting and sustainability reporting deserves some attention in the future standard-setting activities of the IASB and the FASB and can benefit the development of both types of standards.[40]

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?[41]

CII believes that as a global organization the IFRS Foundation could play a key role in working with existing jurisdictional initiatives to promote the benefits of consistent global sustainability reporting and to pursue global solutions when appropriate.[42]

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?[43]

CII agrees that investors urgently require more consistent, transparent and comparable disclosures to adequately assess and understand the financial risks and opportunities posed by climate change. Just last year, we expressed our concern to the Chairman and Ranking Member of the Senate Committee on Banking, Housing, and Urban Affairs about the lack of robust disclosures of climate related risks by SEC issuers.[44] We, however, do not believe climate-related financial disclosures should be the sole focus of an SSB to the exclusion of other sustainability related disclosures. We note that investors are increasingly demanding other

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[39] *See* Impact Project Management, Statement of Intent to Work Together Towards Comprehensive Corporate Reporting ("This is more than just a statement of intent to work together, it is a natural next step as we look to form a complete picture of how these standards might complement Financial GAAP . . . .").
[40] *See* Letter from Judy Kuszewski, Chair of the GSSB & Eric Hespenheide, Chairman of the GRI Board of Directors to Mr. Erkki Liikanen, IFRS Foundation 14 (Dec. 11, 2020), http://eifrs.ifrs.org/eifrs/comment_letters//570/570_27193_BastianBuckGRI_0_CL41GRI.pdf ("The interconnection between financial reporting and sustainability reporting described here deserves particular attention in the future standard-setting activities of the IFRS.").
[41] IFRS Foundation, Consultation Paper on Sustainability Reporting at 15.
[42] *See* Letter from Judy Kuszewski, Chair of the GSSB & Eric Hespenheide, Chairman of the GRI Board of Directors to Mr. Erkki Liikanen, IFRS Foundation at 15 ("As a global organization, the IFRS Foundation can play a key role in working with the European Union to develop a governance model that balances the global needs for sustainability and financial standards with those of the European Union, or any interested jurisdiction for that matter.").
[43] IFRS Foundation, Consultation Paper on Sustainability Reporting at 15.
[44] *See* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to The Honorable Michael D. Crapo, Chairman, Committee on Banking, Housing, and Urban Affairs, United States Senate et al. 4 (Apr. 8, 2019), https://www.cii.org/files/April%208%202019%20%20Letter%20to%20Senate%20Banking%20Committee%20KB.docx%20(finalIII).pdf ("CII would expect that with more rigorous SEC staff oversight, issuer disclosures about climate related risks would be more robust.").

sustainability related information[45] including, for example, disclosures related to diversity[46] and human capital management.[47]

In response to this question, we believe the SASB has set forth one reasonable approach to balancing the need for urgency in addressing climate disclosure with investor demand for a more comprehensive solution that encompasses a broader range of sustainability factors and related disclosures.[48] That approach includes the following three elements:

- Establishing that the remit of the SSB encompasses the full range of sustainability factors that are material to the creation of enterprise value . . .
- Adopting or endorsement of existing standards and frameworks accordingly, on an interim basis . . . and
- Prioritizing amendments to climate-related standards and frameworks—. . . in ongoing standards-development work. (As the next step in our collaboration, the "group of five" standard setters and framework providers is developing a prototype of a climate standard that integrates the TCFD recommendations with our own content and could serve as a starting point for the SSB's work.)[49]

Question 8: Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?[50]

CII generally believes that an SSB should consider broader environmental factors in lieu of a more focused definition of climate-related risks. As one possible example, we understand that

[45] *See, e.g.,* Rhonda Brauer & Glenn Davis, Sustainability Reporting Frameworks: A Guide For CIOs, CII-REF 3 (Sept. 2019), https://7677c7b7-7992-453f-8d12-74ccbdbee23c.filesusr.com/ugd/72d47f_e00c47786e17471fb3b8222e78427935.pdf ("As investors increasingly coalesce around the notion that ESG factors can influence long-term financial performance, demand has grown for ESG information that is useful to investment decision-making, proxy voting, engagement or a combination of all three.").

[46] Letter from Jeffrey P. Mahoney to the Honorable Maxine Waters, Chair, Committee on Financial Services, United States House of Representatives et al. 4 (July 10, 2019), https://www.cii.org/Files/July%2010%202019%20%20Letter%20to%20Committee%20on%20Financial%20Services%20.docx%20(finalI)%20KB.pdf ("CII believes, consistent with our policies, more can and should be done to improve board diversity disclosure.").

[47] *See* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to The Honorable Michael D. Crapo, Chairman, Committee on Banking, Housing, and Urban Affairs, United States Senate et al. at 3 ("We believe that the time has come to seek ways to improve disclosure of both qualitative and quantitative elements of performance in this area [of human capital management].").

[48] *See* Letter from Janine Guillot, CEO, SASB Foundation to Erkki Liikanen, Chair of the IFRS Foundation Trustees, and Lucrezia Reichlin, Chair of the Sustainability Reporting Task Force 29 (Dec. 11. 2020), http://eifrs.ifrs.org/eifrs/comment_letters//570/570_27198_SonalDalalSustainabilityAccountingStandardsBoard_0_SASBResponsetoIFRSConsultation11Dec2020.pdf.

[49] *Id.*

[50] IFRS Foundation, Consultation Paper on Sustainability Reporting at 16.

that note that the widely respected existing framework established by the TCFD characterizes climate-related risks in the context of both physical and transition risks.[51]

As indicated in response to Question 7, the "group of five" standard setters and framework providers is currently developing a prototype of a climate standard that integrates the TCFD recommendations with its own content. We generally agree that the prototype could serve as reasonable starting point for an SSB definition of climate-related risks.

Question 9: Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?[52]

CII generally agrees with the proposed approach to materiality outlined in paragraph 50. We note that our membership approved statement on corporate disclosure of sustainability performance states that "CII believes that [sustainability] . . . standards that focus on materiality . . . are more likely to meet investors' needs for useful and comparable information about sustainability performance."[53] Similarly, our membership approved statement on company disclosure describes "materiality to investment and voting decisions" as one factor in evaluating proposals to expand company disclosure.[54]

We acknowledge that the proposed approach to materiality may not include all sustainability information that some investors and market participants might find relevant. We, however, believe that the proposed approach would allow an SSB to develop a global baseline for decision-useful sustainability performance information to investors that would increase comparability, while recognizing that different jurisdictions and other sustainability related standard setters may build on this foundation with their own broader approaches to materiality.

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?[55]

CII's statement on corporate disclosure on sustainability performance states that "over time, companies should obtain external assurance of the sustainability performance information they provide."[56] That statement reflects the nascent and developing state of sustainability standards. The statement also reflects the view that over time the reliability of disclosures that result from high quality sustainability standards may be enhanced by external assurance.[57]

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[51] *See* Task Force on Climate-Related Financial Disclosure, Overview 21 (Mar. 2020), https://assets.bbhub.io/company/sites/60/2020/10/TCFD_Booklet_FNL_Digital_March-2020.pdf ("'We see extensive and mounting evidence that the physical and transition effects of the climate crisis are real'").
[52] IFRS Foundation, Consultation Paper on Sustainability Reporting at 16.
[53] CII Policies, Statement on Corporate Disclosure of Sustainability Performance.
[54] CII, Policies on Other Issues, Statement on Company Disclosure.
[55] IFRS Foundation, Consultation Paper on Sustainability Reporting at 16.
[56] CII, Policies on Other Issues, Statement on Company Disclosure.
[57] *See* CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters ("The quality, comparability and reliability of that information, in turn, depends directly on the quality of the financial reporting standards that: (1) enterprises use to recognize, measure and report their economic activities and events; and (2)

Question 11: Stakeholders are welcome to raise any other comment or relevant matters for our consideration.[58]

CII generally believes that it is important that corporate reporting of sustainability performance be provided in a manner that permits the data to be communicated through transparent, structured reporting mechanisms using technology formats like eXtensible Business Reporting Language (XBRL). CII has long supported the use of XBRL, because it is allows users to select only those data elements they want and present it in a format they find useful, regardless of the particular format used by the corporation.[59] Given the various audiences for corporate reporting of sustainability performance and the increasing diversity of investor strategies, we believe such customization makes the information disclosed -- both individually and across corporations -- more usable.[60] As a result, we believe many investors would support an SSB that builds and maintains an XBRL taxonomy for the sustainability standards it promulgates.

auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions.").

[58] IFRS Foundation, Consultation Paper on Sustainability Reporting at 16.

[59] *See, e.g.,* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to The Honorable Jeb Hensarling, Chairman, Committee on Financial Services, United States House of Representatives et al.3 (June 6, 2018), https://www.cii.org/files/June%206%202018%20Letter%20to%20Committee%20on%20Financial%20Services.pdf ("We agree with Securities and Exchange Commission (SEC or Commission) Commissioner Kara Stein that machine readable data, including data that can result from XBRL tagging requirements, allows users to select only those data elements they want and present it in a format they find useful, regardless of the particular format used by registrants.").

[60] *See, e.g.,* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to The Honorable Jeb Hensarling, Chairman, Committee on Financial Services, United States House of Representatives et al. at 3 ("Given the various audiences for disclosure and the increasing diversity of investor strategies, such customization makes disclosure documents—both individually and across registrants— more usable.").