

Via Email

December 17, 2020

Erkki Liikanen
Chairman
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Re: Consultation Paper on Sustainability Reporting¹

Dear Mr. Liikanen & the IFRS Trustees:

The Council of Institutional Investors (CII) appreciates the opportunity to comment on the *IFRS Foundation's Consultation Paper on Sustainability Reporting* (Paper).² We appreciate the IFRS Foundation's efforts to consider and solicit public comment on (1) whether there is a need for global sustainability standards; (2) whether the IFRS Foundation should play a role; and (3) what the scope of that role could be.³

CII is a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately \$4 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true “Main Street” investors through their pension funds. Our associate members include non-U.S. asset owners with about \$4 trillion in assets, and a range of asset managers with more than \$35 trillion in assets under management.⁴

CII has several membership-approved policies that we believe are relevant to the issues raised by the Paper. Those policies include the following:

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

² *Id.*

³ IFRS Foundation, Consultation Paper and Comment Letters: Sustainability Reporting (last visited Dec. 15, 2020), <https://www.ifrs.org/projects/work-plan/sustainability-reporting/comment-letters-projects/consultation-paper-and-comment-letters/>

⁴ For more information about the Council of Institutional Investors (“CII”), including its board and members, please visit CII’s website at <http://www.cii.org>.

Statement on Corporate Disclosure of Sustainability Performance

Investors 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. CII believes that independent, private sector standard setters should have the central role in helping companies fill that need. Market participants, non-governmental organizations and governments can aid the success of these standard setters by supporting their independence and long-term viability, attributes of which include: 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.

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. CII believes those 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. CII also believes that over time, companies should obtain external assurance of the sustainability performance information they provide.⁵

Statement on Company Disclosure

In evaluating proposals to expand company disclosure, CII considers the following factors:

- Materiality to investment and voting decisions
- Depth, consistency and reliability of empirical evidence supporting the connection between the disclosure and long-term shareowner value
- Anticipated benefit to investors, net of the cost of collection and reporting
- Prospect of substantially improving transparency, comparability, reliability and accuracy⁶

Independence of Accounting and Auditing Standard Setters

Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial

⁵ CII Policies, Statement on Corporate Disclosure of Sustainability Performance (adopted Sept. 22, 2020), https://www.cii.org/sustainability_performance_disclosure.

⁶ CII, Policies on Other Issues, Statement on Company Disclosure (adopted Mar. 10, 2020), https://www.cii.org/policies_other_issues#Company_disclosure.

present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures. 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) auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions. The result should be timely, transparent and understandable financial reports.

The Council of Institutional Investors has consistently supported the view that the responsibility to promulgate accounting and auditing standards should reside with independent organizations.

CII supports U.S. accounting and auditing standard setters cooperatively working with their international counterparts toward a common goal of high quality standards. This means maintaining a high degree of on-going communication among domestic and international standard setters to produce standards that first and foremost result in high quality financial reports, and secondarily result in consistent financial reporting outcomes. CII continues to be open to a transition to a single global set of high quality standards designed to produce comparable, reliable, timely, transparent and understandable financial information that will meet the needs of institutional investors and other consumers of audited financial reports. However, at this time CII does not support replacing U.S. accounting or auditing standards or standard setters with international standards or standard setters. Notwithstanding CII's current opposition to replacing U.S. standards or standard setters, in light of the globalization of the financial markets and the fact that U.S. investors invest trillions of dollars in securities of enterprises that report their financial results in some form of international standards, we generally support high quality international accounting and auditing standards.

In order to be high quality, accounting and auditing standards must be seen as meeting the needs of the investing public, and the standard setting process must be independent and free from undue influence. Attributes that underpin an effective accounting or auditing standard setter include:

- **Recognition of the Role of Reporting** – A recognition that financial accounting and reporting and the quality of auditing thereof is a public good, necessary to investor confidence in individual enterprises and the global capital markets as a whole;
- **Sufficient Funding** – Resources sufficient to support the standard setting process, including a secure, stable, source of funding that is not dependent on voluntary contributions of those subject to the standards (for international standard setters, such funding may depend on governmental and stakeholder cooperation from multiple jurisdictions, including the United States);

- **Independence and Technical Expertise** – A full-time standard-setting board and staff that are independent from prior employers or similar conflicts and possess the technical expertise necessary to fulfill their important roles;
- **Accountability to Investors** – 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 (this includes 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);
- **Due Process** – A thorough public due process that includes solicitation of investor input on proposals and careful consideration of investor views before issuing proposals or final standards;
- **Adequate Protections** – A structure and process that adequately protects the standard setter’s technical decisions and judgments (including the timing of the implementation of standards) from being overridden by government officials or bodies; and
- **Enforcement** – A clear, rigorous and consistent mechanism for enforcement by regulators of the accounting and auditing standards.⁷

Below we describe the application of the above referenced policies to the each of the three considerations identified by the IFRS Foundation. This letter also includes an Attachment that provides responses to each of the 11 “questions for consultation” included in the Paper.⁸

Considerations

(1) Whether there is a need for global sustainability standards.

As indicated in our Statement on Corporate Disclosure of Sustainability Performance, we believe that many investors are increasingly seeking 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. And we agree that a single, global set of high quality sustainability standards could be responsive to meeting investor needs for that information.

(2) Whether the IFRS Foundation should play a role in the development of global sustainability standards

We believe that the IFRS Foundation should play a role in the ongoing efforts to develop global sustainability standards. The IFRS Foundation has the existing global standard setting expertise and relationships with international governments, regulators, and standard setters that is invaluable for promoting global adoption and potential enforcement of sustainability standards. Moreover, in overseeing the International Accounting Standards Board (IASB), the IFRS

⁷ See CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (updated March 1, 2017), https://www.cii.org/policies_other_issues#indep_acct_audit_standards.

⁸ IFRS Foundation, Consultation Paper on Sustainability Reporting at 15-16.

Foundation is in a position to enhance the interconnectedness between financial accounting and reporting and sustainability reporting.

(3) What should be the scope of the IFRS Foundation’s role in the development of global sustainability standards?

The core consideration identified in the Paper is whether the scope of the IFRS Foundation’s role should include the creation of a proposed new sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation.⁹ We note that our Statement on Corporate Disclosure of Sustainability Performance explicitly supports independent, private sector standard setters having a central role in the development of sustainability standards. We, therefore, generally support the IFRS Foundation’s proposal *subject to* the IFRS Foundation improving its own governance structure and establishing a governance structure for the SSB in ways that are more aligned with our policies for an effective, independent standard setter.

IFRS Foundation

More specifically, 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;
- Significant, prominent and adequately balanced representation from qualified investors as Trustees of the IFRS Foundation, including that at least half of the investor Trustees possessing significant knowledge of, or have experience with, financial and investment analysis incorporating sustainability issues; and
- A thorough public due process that results in standards that satisfy in a timely manner investors’ information needs.

Proposed SSB

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; and

⁹ *Id.* at 8-10.(describing a “new Sustainability Standards Board”).

- 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.

We appreciate the opportunity to provide feedback on the Paper. If you have any questions, please feel contact me at jeff@cii.org.

Sincerely,

A handwritten signature in cursive script that reads "Jeff Mahoney". The signature is written in black ink and is positioned above the typed name.

Jeffrey P. Mahoney
General Counsel

Attachment