

# IFRS Foundation Consultation Paper on Sustainability Reporting

*IFRS Foundation public consultation response of the Dutch Ministry of Finance, in accordance with the Dutch Ministry of Justice and Security, Ministry of Foreign Affairs, and Ministry of Infrastructure and Water Management.*

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

The current landscape of (international) frameworks, standards and initiatives for reporting of non-financial information is very fragmented and therefore complex for companies, investors and other stakeholders.

International standardisation of reporting frameworks decreases the financial and administrative burden on reporting companies and increases the (international) comparability between companies. The increase in comparability further improves the quality of non-financial information, since stakeholders would be better equipped to hold organisations accountable for their performance on non-financial matters. This is an important step towards a sustainable future.

Therefore, we support the development of a global set of internationally recognized non-financial 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?

The Netherlands recognises that the IFRS Foundation is well positioned to play an important role in developing international standards for sustainability reporting. The IFRS Foundation already has existing standard-setting experience, due process procedures, and an established international reputation. Furthermore, the IFRS Foundation is in the unique position to ensure coherence between financial and non-financial reporting standards.

Therefore, we welcome this initiative and we encourage the IFRS Foundation to further explore its role in the development of an international standard for reporting of non-financial information.

**(b)** If not, what approach should be adopted?

N/A

**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?

We acknowledge that there are multiple benefits when the international standard-setter for non-financial information were to operate under the governance structure of the IFRS Foundation. In line with the answer to question 1a, the SSB can make use of the current governance, due process procedures and international reputation of the IFRS Foundation and the IASB. Furthermore, stakeholders increasingly need to understand both financial and non-financial information together to gain a better insight into a company's performance, its impacts and dependencies. Coherence between financial and non-financial standards is important in order to ensure consistency and comparability of the aforementioned insights into companies.

This coherence might be best achieved when both the financial reporting standard-setter and the non-financial reporting standard-setter operate within the same governance structure.

**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)?

The list provided in paragraph 31 is preceded by the following text:

*"The Trustees have provisionally chosen to further develop the SSB option, on the condition that it would meet the following requirements for success. The Trustees consider these requirements essential for success:"*

We agree that each requirement listed in paragraph 31 contributes to the success of developing an international standard-setter for non-financial information. However, we disagree with the statement that the Trustees should only further develop the "SSB option" after all the requirements are met. Given the urgent nature of the sustainability problems we are facing we would like to encourage the Trustees to start the further development of the "SSB option" once two criteria are met: (a) achieve a sufficient level of global support and (g) can ensure that the current mission and resources of the IFRS Foundation are not compromised. This is conditional on whether it is in line with the due process procedures of the IFRS Foundation.

**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?

We recommend the IFRS Foundation to start a dialogue with relevant stakeholders at an early stage, to ensure support for the adoption of the non-financial reporting standards once they are finalised. Relevant stakeholders within the European Union include the European Commission and members of the European Parliament.

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

The standard for non-financial reporting should build upon existing international frameworks and standards currently in use by European and international companies. These include the UN Guiding Principles Reporting Framework, the OECD Guidelines for Multinational Enterprises, and the risk management framework of the Task Force on Climate-related Financial Disclosures.

**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 Netherlands is of the opinion that the international standard-setter should build upon the knowledge and experience of existing legislative initiatives, for example within the European Union. Furthermore, there should be as much cooperation and alignment as possible with these existing legislative initiatives, such as the Non-Financial Reporting Directive.

**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?

Inherent to non-financial information is that it, in comparison with financial information, covers a much broader range of matters and that it interests a broader range of stakeholders. Due to the broad perspective of non-financial information, we recognize that it could be beneficial to limit the scope in the short term in order to reduce the time required to develop the standard and gain the support for global adoption. This IFRS-paper proposes to do so by focusing on climate first and on investors as the primary stakeholder.

Although we can imagine that it could be easier to limit the scope in the short term to Climate-first – including where possible circular economy (since in important sectors like steel, cement and chemistry this relates to approx. 50% of CO2 emissions), the Netherlands is of the opinion

that in the longer term we should globally strive for harmonized reporting standards not only for environment but for social and governance factors as well. In this regard, the reporting standards for the environment should be broadened to environmental factors such as biodiversity, water management and air pollution. And not only focused on investors, but on a broader range of stakeholders. Broadening the scope of non-financial matters could lead to more transparency and comparability, since reporting companies would be required to provide (additional) data on these matters. Therefore, we suggest that the IFRS Foundation develops a longer term strategy or vision in which it strives to develop global reporting standards on a broad set of factors. The Netherlands is of the opinion that the thematic scope of the Sustainable Development Goals (SDGs) framework should be used to determine the operational scope of non-financial information to be disclosed. This framework provides specific goals and targets to assess impact, offer an easy to understand and easy to communicate framework for reporting by various actors and include a call for businesses to integrate sustainability into their reporting cycle.

In order to reduce the complexity of reporting in the long term a single conceptual framework is required which [could] incorporate the long term thematic scope as well as the double-materiality perspective.

With this conceptual framework in place the international standard-setter could prioritise and gradually develop global standards on topics where consensus is realistic. However, the additional financial and administrative burden for reporting companies of increased transparency and comparability by broadening the scope must be weighed against the added value for society and the environment at large.

On topics and materiality perspectives where global standards have not yet been developed we suggest to create a possibility for regional and local initiatives to develop additional reporting requirements. This will enable local or regional ambitions to keep their momentum. The aim of these regional or local initiatives should however always be to seek convergence in the longer term.

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

See question 7.

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

See question 7.

**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?

We recognize the importance of non-financial information and the potential benefits of assurance for improving the quality of non-financial information. In the Netherlands auditors provide assurance on the presence of non-financial information in the management report and its compatibility with the financial statements. Above, the auditor states if the report on non-financial information contains material inaccuracies from the perspective of the knowledge and understanding of the company and its environment that the auditor obtained during his investigation of the annual financial statements.

In general, the Netherlands is of the opinion that any assurance requirements be proportional to the size of businesses. Where costs and benefits of (additional) assurance are proportional, the possible gradual integration of (additional) assurance requirements for non-financial information should be explored. A system of gradually growing assurance can be introduced as more robust

metrics get developed. The added value to society and the environment of assurance requirements for non-financial information should be weighed against the additional financial and administrative burden for reporting companies.

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

In line with the answer to question 7, we recognize that it could be beneficial to limit the scope in the short term. However, we also support the development of a simplified framework for voluntary reporting by SMEs. This framework should require that any non-financial information SMEs decide to report on is in accordance with the adopted standard that is adapted to the size of these companies. This would stimulate uniformity, while avoiding mandatory administrative costs and green washing.