

December 18, 2020

IFRS Foundation Trustees
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Sent by email

Subject: CP/2020/09/30 – Sustainability Reporting

The Canadian Securities Administrators (the “CSA”) appreciates the opportunity to comment on the *Consultation Paper on Sustainability Reporting* (the “Consultation Paper”) published by the Trustees (the “Trustees”) of the IFRS Foundation (the “Foundation”). The CSA is an organization of Canada’s provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets.

We welcome the opportunity to comment on whether the Foundation should play a role in developing a global set of internationally recognized sustainability reporting standards, and what the scope of that role could be.

We are providing the following comments to the consultation questions set out in the Consultation Paper.

General comments

The CSA supports the development of sustainability reporting standards under an internationally recognized governance structure.

We agree that a global set of internationally recognized sustainability reporting standards would improve consistency and comparability across issuers and reduce fragmentation. In particular, we note:

- a) The proposals in the Consultation Paper are aligned with our role as securities regulators in promoting disclosures that yield decision-useful information for investors. Such disclosures inform risk assessment, asset pricing and capital allocation, all of which contribute to efficient capital markets.
- b) Many Canadian institutional investors have expressed frustration with the lack of a standardization for sustainability disclosures. The development of a global set of sustainability reporting standards would respond to increasing sustainability information demands from investors, particularly in the area of climate-related financial information.

We think the creation of the Sustainability Standard Board (the “SSB”) under the umbrella of the Foundation could be an important and timely first step in promoting the completeness, consistency and comparability of sustainability disclosures. However, to realize this potential, the Foundation and the SSB will need to meet the requirements for success identified by the Foundation. We think a key requirement for success, as identified by the Foundation, is the need to achieve a sufficient level of global support from public authorities, global regulators and market stakeholders, particularly in principal capital markets, to promote widespread adoption and regulatory alignment.

We agree that the Foundation's three-tier governance structure could be effectively used for the creation of the SSB. While appropriate oversight, governance and standard setting processes are important, the development of appropriate technical expertise among the Trustees, SSB members and staff is essential for success. In addition, the Foundation should ensure that there is diverse industry representation on the SSB as well as diverse geographic representation, similar to the International Accounting Standard Board, which has historically been a strength of the Foundation and is outlined in the Foundation's constitution. The Foundation should also leverage work in this area already done by existing frameworks, other standard setters, and securities regulators and consider current approaches to sustainability disclosure by market participants, and specifically focus its efforts on the convergence of those frameworks.

The CSA also supports the Foundation's view that developing a global set of sustainability reporting standards for climate-related information is an appropriate starting point with broader environmental factors and other sustainability topics to be considered in the future. We also recommend the SSB consider the needs and capabilities of issuers of different sizes, in diverse markets and across industries. To foster widespread adoption, any sustainability standards should prioritize flexibility and scalability in their development.

As the Trustees proceed with the development of the SSB, we encourage the Trustees to work closely with IOSCO and global securities regulators, including the CSA, which have expertise in developing requirements for a broad range of issuers intended to yield decision-useful disclosure for investors. As the development of the SSB and global sustainability standards proceed, we recommend that a robust due process, as is currently applied to the development of IFRS accounting standards, is also applied to SSB standards. The CSA would welcome the opportunity to participate and assist in this standard-setting process.

Additional comments are outlined in the following Appendix.

If you have any questions about this letter, please do not hesitate to contact us.

Yours very truly,

Louis Morisset
Chair, Canadian Securities Administrators
President and Chief Executive Officer, Autorité des marchés financiers

Cc: CSA Chairs

APPENDIX I: QUESTIONS FOR CONSULTATION

Questions for consultation	Potential issues to be raised by the CSA
<p>Question 1. Is there a need for a global set of internationally recognised sustainability reporting standards?</p> <p>(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?</p> <p>(b) If not, what approach should be adopted?</p>	<p>In addition, as our comments stated previously, we think that the following key criteria for developing reporting standards are required:</p> <ul style="list-style-type: none"> a) transparency, b) due process in the development of those standards, c) a robust process to periodically review and update the standards, as appropriate, d) public accountability, e) independence from stakeholders and f) a clear mandate. <p>The reporting standards also need to be understandable and accessible to a broad range of stakeholders and professionals with interest and expertise in sustainability.</p> <p>The success of such standards will depend on their adaptability to the needs of different issuers and industries. Designing the sustainability standards in a way that recognizes the diverse needs of issuers, such as smaller issuers who may not have significant resources or sophisticated sustainability reporting expertise, and making the standards flexible and scalable, will better facilitate widespread adoption.</p>
<p>Question 2. Is the development of a sustainability standard board to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?</p>	<p>See answer to Question 1</p>
<p>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)?</p>	<p>See answer to Question 1.</p>
<p>Question 4. Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally?</p> <p>If so, under what conditions?</p>	<p>See answer to Question 1.</p>
<p>Question 5. How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?</p>	<p>We think that it is important that the various sustainability reporting initiatives work together.¹ We agree with the “building block” approach proposed by the alliance of non-financial reporting standard setters, as we see these initiatives as being complementary and we encourage the Foundation to build upon the momentum these organizations have already built.</p>
<p>Question 6. How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives</p>	<p>See answer to Question 5.</p>

¹ See open response from Erik Thedeen, chair of IOSCO’s Sustainable Finance Taskforce

Questions for consultation	Potential issues to be raised by the CSA
to find a global solution for consistent sustainability reporting?	
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?	We reiterate that the CSA supports developing a global set of sustainability reporting standards for climate-related information is an appropriate starting point, with broader environmental factors and other sustainability topics to be considered in the future.
Question 8. Should an SSB have a focussed definition of climate-related risks or consider broader environmental factors?	See answer to Question 7.
Question 9. Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?	We support maintaining a reasonable investor/market impact test for materiality, at least initially.
<p>Question 10. Should the sustainability information to be disclosed be auditable or subject to external assurance?</p> <p>If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?</p>	<p>External assurance may play a role in supporting the quality of sustainability reporting; however, developing a common standard should be the first priority. We believe sustainability disclosures, or certain components of them, should be auditable or subject to independent verification, but we agree with the Foundation's view that there are conceptual and practical challenges to achieving such assurance, including the need for a consistent global framework and the difficulties of setting out qualitative sustainability-related disclosure requirements.</p> <p>We note that there may be alternatives to external assurance in certain circumstances.</p>
Question 11. Stakeholders are welcome to raise any other comment or relevant matters for our consideration.	No additional comments.