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January 15, 2021

Mr. Erkki Liikanen
Chairman
IFRS Foundation
Columbus Building
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London, UK E14 4HD

Re: The IFRS Foundation's Consultation Paper on Sustainability Reporting

Dear Mr. Liikanen:

We appreciate the opportunity to comment on the IFRS Foundation's (the Foundation's) *Consultation Paper on Sustainability Reporting* (the Consultation Paper or Consultation). We laud the Foundation for its consultative process and providing for a period of public comment.

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC")[2] is providing comments on the Consultation Paper consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate reporting and disclosures – and the related audits – provided to investors and other end users are of high quality.

The Demand for Global Sustainability Standards

CFA Institute welcomes the Consultation. The demand for sustainability information continues to grow as investors are increasingly focused on environmental, social and governance (ESG) and sustainability issues associated with the companies in which they invest. Investors need high-quality information that allows them to assess how companies are managing these issues and the impact they have on a company's long-term performance. Investors and other

1 CFA Institute is a global, not-for-profit professional association of nearly 171,400 investment analysts, advisers, portfolio managers, and other investment professionals in 165 countries, of whom more than 164,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 154-member societies in 77 countries and territories.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

stakeholders want to understand how the risks and opportunities faced by business translate into long-term financial value creation. Such information should be connected to financial information and prepared to the same quality and rigor.

As ESG issues gain prominence in the investing and business worlds, many companies and investors have expressed interest in further adopting sustainability strategies. These efforts, however, can be impeded without reliable data. The lack of consistent, universal metrics to measure companies' ESG performance is often cited as the key obstacle for investors in integrating ESG into their investment process and to companies' ability to compare their performance to peers.

A number of sustainability frameworks and standards already exist, but this has led to a patchwork of reporting requirements that needs rationalizing. Currently, there are several sustainability reporting requirements, each with a different focus. For example, some focus on frameworks for non-financial information while others focus on non-financial standard-setting, still others focus solely on climate-related disclosures. Also, the standards vary in focus between the impact of risks on an entity itself and/or on an entity's impact on the environment. Some focus on financial value creation while others address objectives of other stakeholders and on civil society objectives. The diverse approaches and objectives pose the threat of increasing fragmentation globally.

Investors amongst others are, therefore, now calling for convergence and a single framework. Standardization of metrics and disclosures on the effects of sustainability issues on a company's present and future results is needed to bring consistency and comparability in sustainability reporting. The need for consistent, comparable sustainability reporting has been acknowledged in a recent joint statement, *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* ("Statement of Intent") by five international sustainability accounting standard setters — the Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDP), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) —describing their intention to align their standards and frameworks more closely. In a blog, CFA Institute affirmed its support for this Statement of Intent. In that blog, we also highlight our June 2020 comment letter responding to Accountancy Europe's paper, *Interconnected Standard Setting Corporate Reporting*, where the concept of the Foundation's engagement in non-financial reporting was introduced. In our comment letter on the Accountancy Europe's paper we introduce our discussion on elements of "how" this might happen. We attach the letter at **Attachment A** for ease of reference.

In September 2020, the World Economic Forum (WEF) and International Business Council (IBC) issued a report, *Measuring Stakeholder Capitalism,* which is an update to the WEF IBC report *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation* issued back in January 2020. The new report updates the metrics based upon the feedback WEF received. CFA Institute liaised with WEF about this back in the Spring and we responded to the survey associated with the report. While the FT published an article upon release of the revised report entitled, *Big Four Accounting Firms Unveil ESG Reporting Standards*, that suggests the Big 4 Accounting Firms are seeking to set ESG standards, they are not. The European affiliates of the Big 4 only assisted with the development of the report and help promote its issuance. The WEF IBC reports appear to be efforts by the business community to get ahead of the emerging efforts to increase ESG disclosures. The WEF IBC reports utilize standards issued by the Sustainability Accounting Standards Board ("SASB") and the Global Reporting Initiative ("GRI") to promote a framework for ESG reporting. ***The WEF IBC reports, however, have been issued without investor engagement – something we have previously highlighted. Lack of investor engagement is one of our primary concerns in the "how" of sustainability standard setting as we describe below.***

CFA Institute Support for Global Sustainability Standards

As we noted in our letter to Accountancy Europe in June 2020:

> *As an organization comprised of global investment professionals, we have consistently* ***supported high-quality global financial reporting standards****. We supported the convergence of IFRS and US GAAP because we believed, and still believe, that a single common high-quality language for interpreting financial results is beneficial to investors.* ***While companies report based upon their country of domicile, investors seek investment opportunities globally and a common language makes comparison, the life blood of investment analysis, much easier****.* ***In today's world, investors must be multi-lingual while companies are singularly lingual reporting their results based upon accounting and reporting standards in their domiciliary or listed jurisdiction.*** *Capital increasingly crosses borders and artificial constructs such as accounting or reporting by jurisdiction make the investing process more challenging.* ***Our view on the need for consistency and uniformity of information described in the report as "non-financial information" is no different.***

As noted above, we support, in principle, the IFRS Foundation proposal to create a set of high-quality globally comparable sustainability standards utilizing existing sustainability frameworks and standards.

The Challenge: How Global Sustainability Standards Are Developed An Area of Focus for Investors

Leveraging Existing Standards

The investor-focused approach to materiality in IFRS Standards mean that IFRS Standards already require companies to consider climate and other ESG risks and make judgements about providing disclosures on these issues in their financial statements that these judgements need to take account of the long-term implications of these issues. The IFRS Foundation already recognizes that investors need other, "non-financial" information to interconnect with the financial statements. In our June 2020 comment letter responding to Accountancy Europe's paper we highlighted the misnomer of the term "non-financial information" indicating that it likely needs rebranding as it is not necessarily not financially value relevant. We also highlighted the distinction between information being financially value relevant and values relevant. A concept that was brought forward in the aforementioned Statement of Intent.

We support the notion that a new IFRS Foundation Sustainability Standards Board (SSB) objective would be to develop and maintain a global set of sustainability reporting standards, utilizing existing sustainability frameworks and standards. We believe standard-setting should be at a global level because global issues need global solutions.[3] The SSB would also benefit from the increasing interconnectedness between financial reporting and sustainability reporting.

We agree with SASB's preliminary views[4] that the SSB should build upon existing standards, conceptual frameworks and processes. The SSB should begin by reviewing current standards, understanding the conceptual frameworks in place, focus on the standards and frameworks that focus on enterprise value creation, build upon the work with existing initiatives by consolidating, harmonizing and clarifying terminology, learn lessons from the successes and failures of adopting these frameworks and standards, and adopt those standards and frameworks on an interim basis. The SSB could then blend existing frameworks with the current IASB conceptual framework to develop the SSB sustainability conceptual framework and establish processes to develop and amend standards.

In sum, CFA Institute believes that there is a need for a global set of international sustainability reporting standards that is industry specific and investor focused. We believe the IFRS Foundation ***could be*** well positioned to play a role in setting these standards. A lot of great work has been done in this area in recent years by initiatives and organizations such as the Task Force on Climate-related Financial Disclosures (TCFD) and SASB and we encourage the board to use the work of such organizations to "hit the ground" running in these efforts with no need to "recreate the wheel."

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[3] We do not believe that maintaining the status quo or having the IFRS Foundation facilitate existing initiatives (which could lead to further fragmentation) are viable options.

[4] SASB, IFRS Foundation Consultation on Sustainability Reporting: SASB's Preliminary Views, October 2020.

Many Concerns Regarding the "How" of Establishing and Operating a Sustainabilty Standards Board

As we consider the issue, CFA Institute believes an SSB operating under the governance structure of the IFRS Foundation ***could be*** a positive step in achieving further consistency, global comparability and legitimacy in sustainability reporting.

We believe that the IFRS Foundation can help to sort through some of the fragmentation that currently exists in the sustainability reporting landscape. That said, we believe the IFRS Foundation must look more deeply than the virtue of the idea of global sustainability standards to the practicalities of how this might be done. The success of the SSB will ultimately be driven by how the proposal is implemented. The Consultation Paper includes some specific requirements that the Trustees consider essential for the SSB's success. In our June 2020 comment letter responding to Accountancy Europe's paper, *Interconnected Standard Setting Corporate Reporting* we began highlighting the challenges of implementing the idea of global sustainability standards. In a forthcoming blog we will consider other factors including:

- Governance: Mission, Structure, Expertise and Relationship to IASB
- The Role of Securities Regulators
- Subject Matter & Technical Expertise vs. Standard Setting Expertise
- Standards Development vs. Standards Adoption: Credibility & Legitimacy
- Board Composition
- Funding
- Audience for Standards: Investors, Stakeholders and Others
- Objective of Standards: Value vs. Values
- Location of Disclosure of Information Created by Standards
- SSB Impact on IASB
- SSB Impact on IASB (IFRS) Standards
- Due Process
- Conceptual Framework
- Utilization of Existing Frameworks
- Disclosures vs. Accounting
- Forward-Looking Information
- Materiality
- Assurance
- General Purpose vs. Industry Specific Standards
- Regional Influences & Regional Differences
- Investor Engagement & Influence

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Scope Considerations

Materiality

Start with Definition – We agree with CRUF that prior to developing standards that deal with material information for investors and other market participants, the IFRS Foundation needs to conclude on a definition of materiality as it relates to sustainability information. The question of the definition of materiality needs resolving in a satisfactory way and is currently a source of considerable debate. At the moment there is confusion on materiality in relation to:

- Material to whom
- Material in relation to financial, social or environmental capital / impacts / dependencies
- Material over what time horizon

Being clear on the concept of 'materiality' is important in sustainability reporting. Some stakeholders believe that the SSB should work towards supporting investors and other market participants, by focusing on producing relevant information insofar as it affects the entity. Others believe that SSB should develop standards based on the principle of whereby the reporting entity will also need to disclose its impact on the wider environment, as this would also be material to stakeholders. The concept known as 'double materiality.'

Double Materiality – We agree with the Trustees that the 'double materiality' approach would cause complexities and, effectively, lead to delays in standard-setting. Therefore, they suggest that sustainability reporting should initially be focused on information that is most relevant to investors and other market participants, which is the IASB's current approach. Focusing on the investor user and enterprise value creation/financial materiality is consistent with the IFRS Foundation's existing mandate and role. The securities regulators who sit on the IFRS Foundation's Monitoring Board generally have a mandate limited to investor protection and the integrity of the capital markets.[5]

Investors we talk to are anxious to include material sustainability information into the investment process as they increasingly see the link between material sustainability data and firm performance. The "second" materiality that is beginning to be discussed in financial circles, is a newer concept to many investors (how a company impacts the environment around it) and could slow the development of sustainability reporting standards. We do not believe that 'double materiality' is not important, only that is a second step, and not the first. We are, however, unclear as to how 'double materiality' could be consistently operationalized. In some cases where the company's impact could result in fines, this could be, but is not necessarily immediately and readily discernable. In other instances, the impacts may not be able to be foreseen.

Our Take – CFA Institute agrees with the approach to materiality discussed in Paragraph 50 of the Consultation Paper. CFA Insitute is undertaking additional work to enable preparers, auditors, investors and other stakeholders to gain a better understanding of the definition of materiality in an ESG context and double materiality.

[5] SASB, IFRS Foundation Consultation on Sustainability Reporting: SASB's Preliminary Views, October 2020.

Starting with Climate Change
We understand the IFRS Foundation believes the SSB's initial focus will be on climate change risk, as this is one of the key financial risks on which investors and prudential regulators have increased their focus, following public policy initiatives in several jurisdictions.

But we agree with the SASB that a climate only solution will not solve the sustainability disclosure problem.[6]

- Climate is one factor in a complex range of ESG topics that drive long-term performance of a company.
- Providers of financial capital have increasingly called for a comprehensive approach to sustainability disclosure, recognizing the important interrelationships between environmental, social, and governance factors.
- Strong performance on climate issues does not necessarily correlate to strong performance on all financially material issues – for example, a company may have strong environmental performance but weak performance on human capital issues.

The SSB could initially prioritize codifying the climate-related guidance in the existing frameworks and standards into one comprehensive standard. CFA Institute recognizes the coalescing of the investment industry around the SASB and TCFD standards, but the IFRS Foundation should clearly establish that the remit of the SSB encompasses the full range of sustainability factors that are material to enterprise value creation. CFA Institute worries however, that starting with one sustainability topic such as climate may commence the SSB down a path of standard setting without first laying the ground work for a holistic and consistent conceptual framework for sustainability standards. This runs the risk of creating inconsistent conceptual underpinnings.

Assurance
In the Consultation Paper it is noted that consistency in sustainability reporting can be achieved more robustly at a global level if the sustainability information reported by entities is externally assured. No matter how standardized the information may be through the development of global sustainability reporting standards, the variability in disclosures is inevitable.

One of the barriers to providing assurance is the need to have a reporting framework in place to be able to 'audit' against it (today the assurance providers mainly give limited assurance). The IAASB is working on standards for auditing/assuring non-financial reporting.

Our survey of members shows that many investors seek assurance on sustainability information. That said, they are mixed in who they believe should provide such assurance. Some indicate that those with underlying subject matter expertise – rather than traditional auditors with accounting and assurance expertise – are better placed. Further, the challenge auditors find with forward-looking information is another consideration for investors.

[6] SASB, IFRS Foundation Consultation on Sustainability Reporting: SASB's Preliminary Views, October 2020.

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Other Matters

XBRL Taxonomy

Any SSB will not only need to set standards but build and maintain an XBRL taxonomy for sustainability standards such that the information can be readily retrieved. We do not support each entity such as the SASB or TCFD developing its own taxonomy given the levels of overlap. This taxonomy then needs to achieve interoperability with standards focused on multi-stakeholder communication.

Furthermore, taxonomy governance is important. The governance arrangements put in place by the IFRS Trustees over the existing IFRS taxonomy requires that:

- the Board will review and approve IFRS Taxonomy content where it reflects new or amended IFRS Standards;
- a newly established IFRS Taxonomy Review Panel of three-to-five Board members will review the IFRS Taxonomy common practice content; and
- the drafting and approval of each Proposed IFRS Taxonomy Update will take place at the same time that the related IFRS Standard is finalized.

We consider this to be taxonomy best practice and urge the Trustees to use the same arrangements from the outset of the SSB.

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Thank you again for the opportunity to provide our input on this subject. If you or your staff have questions or seek further elaboration of our views, please contact Mohini Singh at +1.434.951.4882 or by email at mohini.singh@cfainstitute.org or Sandra Peters at +1.212.754.8350 or by email at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Senior Head, Global Financial Reporting Policy
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Cc: Corporate Disclosure Policy Council

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ATTACHMENT A

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10 June 2020

Olivier Boutellis-Taft
Chief Executive Officer
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RE: Interconnected Standard Setting for Corporate Reporting

Dear Mr. Boutellis-Taft:

CFA Institute[1]appreciates the opportunity to comment on Accountancy Europe's publication *Interconnected Standard Setting for Corporate Reporting* ("The Report"). We appreciate Accountancy Europe's leadership efforts on this important topic. CFA Institute is providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally and in consultation with the Corporate Disclosure Policy Council ("CDPC").[2]

Support Converged Standards: Facilitates Global Investment

As an organization comprised of global investment professionals, we have consistently supported high-quality global financial reporting standards. We supported the convergence of IFRS and US GAAP because we believed, and still believe, that a single common high-quality language for interpreting financial results is beneficial to investors. While companies report based upon their country of domicile, investors seek investment opportunities globally and a common language makes comparison, the life blood of investment analysis, much easier. In today's world, investors must be multi-lingual while companies are singularly

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[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

lingual reporting their results based upon accounting and reporting standards in their domiciliary or listed jurisdiction. Capital increasingly crosses borders and artificial constructs such as accounting or reporting by jurisdiction make the investing process more challenging.

Our view on the need for consistency and uniformity of information described in the report as "non-financial information" is no different. A solution that results in greater global convergence around such disclosures would be optimal for investors. We don't disagree with the nine principles. They are broad stroke principles of standard-setting. That said, we set forth below several considerations that come to mind as we review the Report[3].

Long-Term Value Creation & Integrated Reporting

The notion of a sustainable business model and long-term value creation is not something new to the CFA Program or CFA charterholders. These concepts are foundational to the fundamental valuation and investing we have promoted, trained investors to implement and advocated for information to accomplish, for over nearly the entirety of the last century – not simply because of the current emphasis on environmental, social and governance (ESG) and sustainability reporting.

We have supported the notion of Integrated Reporting (IR) and the efforts of the International Integrated Reporting Council (the IIRC or Council) over the last several years because we believe it provides a useful conceptual framework for considering the value creation process. As the IIRC considers how it will move forward in a world that is rightly considering how the plethora of reporting initiatives converge, we believe there are two valuable intangibles from the Integrated Reporting initiative. First, the framework is a very useful tool for considering how value is created. The challenge, in our view, the IIRC has faced is that it has not sufficiently bridged, or mapped, this value creation model to the existing reporting requirements to enable companies, investors and regulators broadly to understand how such framework can be deployed or embedded within the existing reporting regimes.[4] An additional challenge is that the IR framework does not provide sufficiently detailed guidance to result in the comparable, consistent and reliable data needed by investors. The framework is an important conceptual work that should be built upon in any effort to converge standards. Second, the meeting of the interested parties at the semi-annual IIRC meetings has been useful in creating a dialogue and increasing knowledge regarding the needs of stakeholders and the need for a uniform framework and consistent, globally applicable standards. This dialogue is important in bringing all stakeholders along in this journey toward a more converged solution as it relates to "non-financial information."

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[3] CFA Institute will also be responding to the European Union's consultation on the non-financial reporting directive. Please also refer to that comment letter when completed. It will be posted under comment letters on CFA Institute's website.

[4] This is especially the case in the United States, where even as the U.S. Securities and Exchange Commission disclosure requirements under Regulation S-K have been under review. The SEC has recently issued proposed rules to consider revisions to the Business, Risks, Management Discussion and Analysis and Selected Financial data. Our comment letters related to these proposals are available under comment letters on CFA Institute's website.

"Non-Financial Information" May Need Clarification or Rebranding

CFA Institute's history and success in training investment professionals is inextricably linked with the proliferation of information for investment decision-making that began after the 1929 stock market crash and the passage of the Securities Acts of 1933 and 1934 in the United States – and then expanded globally. The growth of the CFA Program and our global membership of investment professionals is visibly connected to the growth and transparency of information in markets as such markets grow and mature. We have spent nearly 70 years advocating for information that is decision-useful to investors. CFA Institute has devoted substantial resources over these many decades to developing thoughtful, informed views on financial reporting and seeking to continually represent the most comprehensive, thoughtful and informed views of the investor community on such issues.

Similarly, we have spent the last several decades focusing on the importance of governance and the related disclosures. Recently, there has been an increasing awareness and attention to the elements of environmental and social factors that have an impact on the financial value of a business – and as it relates to civil society and values-based objectives.
Integral to this evolution, however, is information and metrics that don't simply convey values or risk but demonstrate how such values or risk translate into measurements of financial value creation. As we observe the discussion of financial value vs. values, we perceive there is less of a recognition that such information and metrics should be measurable and quantifiable into value creation for investors.

We understand the origins of the term "non-financial information". However, as we observe the usage of the term "non-financial information" we are not convinced it best serves the convergence efforts being sought in the Report. To some, the term connotes an absence of linkage of such information to financial value creation and in doing so may not engage investors or regulators across the many jurisdictions in the manner that is necessary to reach a converged solution. For some, rather than being information not currently quantified and accounted for in financial statements, it is perceived as information of no financial consequence – only relevant for values or civil society objectives. In order to garner greater global support from investors this perception must be addressed. Those not bought in to the notion of "non-financial information" need to see there is a demonstrable link to financial performance and financial value creation from the provision of this information. The Report acknowledges, to a degree, this connection, but it needs to be more fully developed.

The term, in our view, can be a barrier to entry for some investors. We think this must be recognized and addressed to be overcome. Further, our approach even in financial reporting is that what gets measured and disclosed is what gets monitored by management and others. This is true with "non-financial information" as well, but the added step of demonstrating the linkage of the information to financial value creation is essential to investors globally accepting the need for such information and preparers agreeing to provide this information. Said differently, the information cannot only be qualitatively and intuitively valuable. As our experience has taught us, such qualitative disclosures become boilerplate. Without linkage to measurements that demonstrably connect to financial value creation they will not be widely adopted.

Reporting is Communication:
Know Your Audience (Investors) & Communication Objective (Financial Value Creation)
We have long said, that reporting of all types is communication and communication is a behavior of management. Central to effective communication is to "know your audience" and the "communication objective." As we observe the current dialogue on ESG and sustainability disclosures, we believe there may be an attempt to meet the information needs of many stakeholders who have many different objectives through disclosure regimes meant to serve investors – not all stakeholders. (e.g. see discussion below regarding location of information). Further, there is a conflation of objectives at time. For example, information that supports values rather than financial value investing.

With a wide variety of audiences and communication objectives, convergence will always be more challenging – maybe impossible. For that reason, we believe the Report needs to clarify the audience and the communication objective before considering an oversight structure that seeks to integrate the audience and communication objective of financial reporting with that of "non-financial information."

We do not support an integration approach that would confuse the notion that International Financial Reporting Standards and the International Accounting Standards Board (IASB) is meant to provide information to investors in making investing decisions. We worry that a separate board or an oversight function that conflates the information needs of all stakeholders with those of investors would be detrimental to the financial reporting ecosystem that is meant to serve investors.

That is not to say that stakeholders other than investors – or investors who invest based upon values alone – don't have valid information desires or needs. Disclosures meant to advance specific values or civil society objectives may serve policy objectives or the values of those seeking to gain such disclosures, but such disclosures may not be directly correlated to the IFRS Foundation and IASB's objective which is to provide information for investors. As such, creating an oversight body for the IASB with and International Non-Financial Standards Board (INSB) may be inconsistent as their principle audience and communication objectives are different. The impact could be a change to the conceptual framework for IFRS putting other stakeholders as the principle audience for financial reporting – an outcome we would not support. As such, it would appear that Approach 3, with a separate governance structure, might be more consistent with that objective than Approach 4, but we worry that even Approach 3 – with joint oversight by a monitoring board that may include those with different stakeholder objectives – may result in a conflation of audiences and objectives.

As we consider the proposed models, one thing which is not sufficiently clear is who will be the audience for the standards (both financial and non-financial) and will they be focused on investors or all stakeholders. We think this must be crystal clear. We cannot support an organizational structure or conceptual framework that conflates the information needs of investors with the information needs of a wider group of stakeholders.

Before moving forward, we think it is essential to consider who the information is prepared for and the objective of the information. We think it is important to be clear on what investors need and what is material to their investment decision-making process and then consider separately the information needs of other stakeholders (i.e. including investors who invest based upon values over value). That is not to say they are mutually exclusive, it is just to say that the discipline in thinking this through is essential.

The SASB's efforts have been disciplined in this distinction. The SASB standards have a precise articulation of the audience (investors) and objective of the standards – information that is financially material and relevant to all types of investors in making their investing decisions.

We worry that those seeking to promote values and policy objectives of various civil societies may dilute the appeal of a globally integrated corporate reporting framework. We believe a first step would be to focus on the needs over investors and build from there.

Location of Information Matters
The Report does not mention the location of "non-financial information" and where it will be reported. This is a very important question to be answered.

While in some countries all companies prepare accounts and annual reports, this is not the case in other jurisdictions. In other jurisdictions only publicly-listed companies must release information publicly. Given that some who support additional ESG and sustainability information for a variety of objectives (values and civil society) are pushing for the inclusion of such information in the annual reports of listed companies, this creates push-back from companies and regulators whose focus or objective is to provide information only financially value relevant to investors. They are averse to inclusion of such information in securities regulatory reporting requirements believing and asserting that it creates an unequal burden on publicly listed companies.

We worry that requiring publicly listed companies to provide disclosures that support values or civil society-based objectives – simply because they have a public reporting obligation to investors under securities laws may penalize publicly listed companies by placing that disclosure burden on them simply because of an existing public disclosure regime. They, however, should not have greater burden than other companies when it comes to values or civil society-based reporting objectives. This will have the impact of pushing more companies out of the public market.

Many believe that simply because a company has listed and accessed the public capital markets – and has publicly available information – does not mean they have a higher obligation to provide information that supports values or civil society-based objectives. Such dual objectives and the use of disclosure regimes for publicly listed companies to effectuate such disclosures and change will, in our view, slow support and adoption of such disclosures. For that reason, we believe the Report must distinguish obligations of reporting companies and the location of such disclosures based upon their existing reporting obligations as publicly listed companies.

Funding
As we look through the various alternatives, and the Report more broadly, we don't see any mention of how each of the alternatives might be funded. CFA Institute has spent significant time and effort outlining the elements of independent standard-setting. Top amongst these is the source of funding for the standard setters. As we consider all of the various reporting initiatives, we evaluate funding supporting such initiatives as this has a direct bearing on the standards development process. Over the years, we have considered this issue in the funding of the U.S. Financial Accounting Standards Board (FASB) and the IASB. In our view, before we could endorse a proposal we would need to understand how it would be funded.

Materiality
As we note above, we believe the audience and the location of the reported information drive the purpose of the reporting – and the definition of materiality. Without a clear articulation of the intended user of the information – materiality cannot be defined and refined. With investors as the primary focus, we believe the existing concept of financial materiality could be applied. We view the concept of "environmental and social materiality" as more an impact assessment than a materiality concept in the same vein as in the existing standard-setting context.

This is not to say that concepts of materiality that assess the impact of the company on the environment and vice versa are not important. It is simply to say, that investors and others in the financial reporting ecosystem do not have embedded in there thought processes additional notions of materiality. Additionally, many of those advocating for the inclusion of addition ESG and sustainability metrics have not been schooled in the notions of financial materiality and how it is applied in the construction of financial statements – and litigated in court proceedings.

As those long schooled in the concepts of materiality – and who have written extensively on the topic of materiality – we find an increasing number of stakeholders who are using the term materiality without an extensive understanding of the long history of this topic in the financial reporting space. We believe it is absolutely essential that this is clarified to be able to move forward. Mixed understanding and mixed messages on materiality are a barrier to moving the efforts included in the Report forward.

We note the Report does not address specifically the EU's concept of materiality, or dual materiality. The concept of materiality must be talked about clearly to move the efforts in the Report forward.

Where to Start: Investors

Having spent many years advocating for the convergence of accounting standards, we recognize that differing or competing objectives will deter convergence. For that reason, we believe, in developing an integrated and global approach for "non-financial information", it is essential to recognize that differing civil society and policy objectives in jurisdictions and differing values may deter progress on convergence. For that reason, we believe that any global approach is best commenced with the financial value creation objectives of investors – in this way jurisdictions don't dismiss the proposals based upon the objectives or audience of the information, or its location.

Again, this is not to say that the information needs of other stakeholders are not important. Investors, in fact, are not a monolith and want to invest, for themselves or for their clients, based upon these civil society and policy objectives. Rather, our point is that in commencing a convergence effort that connects to the existing efforts of the IASB and IFRS Foundation it is more likely to be successful to begin with agreement on the audience for the information (investors) and the communication objective (financial value creation). We believe a focus on investors with an objective of financial value creation could be a catalyst for convergence.

Subsequently layering on disclosures meant to meet the needs of other stakeholders with other objectives – and considering their location – will provide the needed differentiation and discipline necessary to garner support from all stakeholders to accept the disclosures necessary to meet multiple objectives. This ability to layer and distinguish financially value relevant information from values or civil society-based objectives is also very important to investors who want to make – or need to explain to their clients – trade-offs between investment decisions made based-upon financially value relevant information and those based upon values or civil society-based objectives. Professional investors, investing on behalf of others, will want to be able to make such distinctions to act in the best interest of their clients.

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Thank you again for the opportunity to comment on the Report. If you or your staff have questions or seek further elaboration of our views, please contact Sandy Peters by email at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Senior. Head, Global Financial Reporting Policy

cc: Josina Kamerling, Head, EMEA Regulatory Outreach, CFA Institute
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Erkki Liikanen, Chair, IFRS Foundation
Steven Maijoor, Chair, European Securities Market Authority
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