Sustainable Finance initiative

(852) 3703-3472
sustainablefinance.hk/

28 December 2020
IFRS Foundation Trustees
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Re: Consultation Paper on Sustainability Reporting

To IFRS Foundation Trustees:

We are writing to express our support and provide feedback on the proposed creation of a Sustainability Standards Board ("SSB") under the governance structure of the IFRS Foundation to develop global sustainability standards (the "Consultation").

Sustainable Finance Initiative (SFi) is a dedicated platform for private investors to learn, connect and invest together as a community, with a mission to mobilize private capital for positive impact and accelerate Hong Kong's transition towards being a hub for sustainable finance. The platform was incubated by RS Group and launched in June 2018. Since launch, SFi has built a community of private investors who believe in the importance of ESG considerations in their wealth management practices and are increasingly active in the deployment of capital for impact.

We applaud the IFRS's proposal to establish a SSB and strongly support IFRS's approach in seeking to harmonize and streamline sustainability reporting. The proposed approach is a fundamental building block to achieve coherence and comparability, with connection to financial reporting, which could ultimately benefit investors and other primary users of financial statements. The timely and effective development of such is crucial in order to capture the growing demand from primary users of financial statements on sustainability reporting and to reduce the complexity in global sustainability reporting.

Overall, we agree with the proposal set forth in the Consultation. However, as a community of private investors, we want to see IFRS Foundation take bolder initiatives to align with its international peers in a fragmented space and take the lead to go beyond just addressing climate-related risks.

We have co-signed the consultation response issued by Social Value International ("SVI"). In general, we agree SVI's recommendation. However, as a private investors collective, we raised further comments below as a complement in order to strengthen the Standards from an investors' point of view. A copy of SVI's response is attached.

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?

SFi view as private investor collective

- As stated by the IFRS in its Consultation Paper on Sustainability Reporting,

  "the IFRS Foundation's mission is to develop IFRS Standards that seek to bring transparency, accountability and efficiency to financial markets around the world"

  A substantial amount of research papers and statistics are available in the market proving that Environmental, social, and governance (ESG) factors will affect the long-term business value/stock price of a company and the financial performance of investments. Therefore, now is the right moment for IFRS standards to incorporate ESG information that is material to various stakeholders to making financial decisions. We believe therefore that there is a need for a single, coherent, and global set of recognized sustainability reporting standards that enhance transparency, accountability, and efficiency in the financial markets.

- Given the wide adoption of IFRS around the world, the IFRS Foundation should play a role in setting the sustainability reporting standards and expand into this area. IFRS should objectively provide companies with the tools and metrics to identify material ESG risks, and assess their materiality and need for disclosure to enhance transparency towards primary users of general-purpose financial statements (including existing and potential investors, lenders and other creditors). We want to make sure IFRS maintains its objectivity, so any changes to the mission statement of IFRS Foundation should be carefully looked at.

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

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?

SFi view as private investor collective

- We are encouraged to see that the Foundation's proposal does not suggest to create sustainability reporting from scratch, but rather leverage on existing work initiated by leading sustainability standard setters. It is obvious that there are some merits and demerits from each individual sustainability standard, and with IFRS experience built from standard setting on comparability and consistency of accounting language, IFRS is in the ideal position, as an external and objective body, to align these standards and pick the merits from each standard that are more widely accepted by the market practitioners. We would imagine IFRS Foundation to be a proponent of the Impact-Weighted Accounts Initiative (IWAI) and value balancing alliance, where its methodology will enable the primary users of the financial statements to account for the positive and negative impacts (of their stakes) towards the company.

- In accordance to SASB's view on this matter, the ideal solution is to be found in a system that combines
    - the comparability of standardized quantitative metrics, i.e. material sustainability information addressing the needs of investors. In this context, the IFRS Foundation would leverage on existing standards and frameworks built with the purpose of providing information that is material from a financial standpoint, e.g. Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TCFD). This would be in line with IFRS's objective to promote transparency and comparable information to help investors make well-informed decisions;
    - the crucial contextual information provided by principles-based frameworks: i.e. sustainability disclosure focused on issues that are financially material and reporting focused on broader societal impacts and objectives, e.g. the Sustainable Development Goals (SDGs) or the Global Reporting Initiative (GRI)

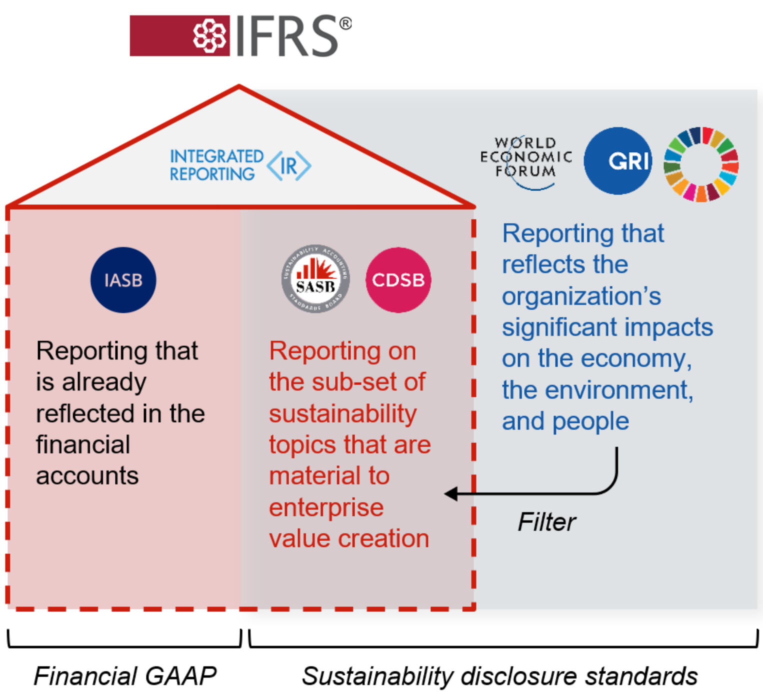
  In our view this would provide a framework to address the full gamut of material ESG factors without just including the most urgent one, the climate crisis.

- The Impact Management Project ("IMP") framework seems to be more widely adopted by the private sector. However, as showcased from their paper, IMP can be applied to

(852) 3703-3472
sustainablefinance.hk/

public market as well, and serves as a guide to public markets investors to direct capital away from listed companies that harm people and the planet, and towards listed companies that mitigate/reduce harm/contribute to solutions to social or environmental challenges.[1] Hopefully this could encourage the big corporates to think about and report their impact (both positive and negative) on stakeholders. Nevertheless, confessed that ultimately, not every company has adopted a mission that considers its impact on the people and the planet, and for forward-thinking, impact-focused companies, getting a B-Corporation Certification has become an increasingly popular way to show and report their progress. Notwithstanding, no single framework is perfect at this fragmented space, IFRS Foundation should take reference to IMP in enhancing comparability across the full spectrum of business ownership models, and providing useful data for financial decision making. Also noted that IMP has announced in September 2020 to form a structured network with 5 global organizations – Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB), we propose the IFRS Foundation to closely observe their developments and how the structured network will work together to put forward the elements necessary for a more comprehensive corporate reporting.

- Overall, IFRS SSB is a great development, and we would like to remind the Board that the enhanced standards will become the guide for the market to report against, in terms of Taxonomy and Sustainable Finance Disclosure Regulations, which are actually legally binding. Therefore, consistency and comparability are key.



[1] https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Neuberger-Berman-Public-Markets-Paper.pdf

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?

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

SFi view as private investor collective

- We advocate for adopting a wider focus on environmental and social risk beyond just climate change, given the strong interlinkages between climate change and other environmental and social issues, as well as the inherent risks associated with issues like air/water pollution and deforestation/biodiversity. Notwithstanding the urgency of the climate crisis, it should not be denied that social factors, such as child labor and worker safety in hazardous workplaces, have been causing numerous work accidents and death cases daily. These headlines are definitely negative news for a company and may adversely affect its share price. Therefore, in the long term, companies should disclose these social data and risk management approaches for financial statements audience to make a well-informed decision.

- We recommend IFRS Foundation to balance the time constraints and disclosure coverage when launching Phase I sustainability reporting. There are many aspects of ESG data (even the broad SDG Goals contain 17 areas) and each of them are pressing problems in their own merit. It is unreasonable to launch a complete set of standards only once every single element has been defined. Reducing complexity might be a preferred option, whereby we start from the less-controversial/widely accepted metrics/disclosure frameworks, get real market feedback from Phase I, and then take into account the lessons learnt as we progress to Phase II. Meanwhile, Phase I is an optimal stage to get market practitioners up to speed in terms of knowledge and attitude.

- Acknowledged some concerns over “double materiality”/ “dynamic materiality”, in short, we encourage companies that are more ready/advanced to voluntarily make disclosures on these aspects, e.g. by adding a footnote commentary. For more details, please refer to our response in Question 9.

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

SFi view as private investor collective

SASB describes the purpose and relevance of double-materiality (to which reference is made in paragraph 50 of the IFRS Consultation) as follows:

"[…] double materiality perspective appropriately acknowledges that non-financial information is important to multiple constituencies. It effectively captures the important interactions between businesses, the markets they serve, and the world in which they operate, and it enables meaningful accountability to a broad range of stakeholders."

With regards to this definition, SFi believes that reference should be made to SASB's approach to materiality, as it addresses the issues pointed out in paragraph 50. The SASB approach identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry. In our opinion this is the right approach at this stage, as it provides the tools to assess the financial materiality of sustainability issues, the disclosure of which should provide useful and relevant information to investors to make well-informed decisions.

Having taken into account some standpoints from adopting a double materiality concept in that certain financial impacts may only materialize in the long term, often over a period much longer than what is considered in traditional financial reporting, ideally SFi are happy to see in the future that all businesses are looking into every aspects of their business that may influence people and the planet. However, from a practical perspective, we need to have a solid understanding and knowledge within a sustainable topic, backed by sufficient research, before we can build well-thought metrics to measure and assess ESG aspects. The climate crisis is undoubtedly an established one that we can make reference to, whereas the biodiversity issue (which is in fact more urgent than the climate crisis) may need more research and reporting guidance on how one should disclose/interpret/compare it, before the market can come up with a generally accepted standard for it. However, we believe all decision-useful sustainability factors should be the focus here, not just the climate alone. It is proposed to focus on the climate crisis first, but a plan/milestone schedule for other environmental/social issues and beyond will be needed.

Moreover, double materiality factors are critical to developing meaningful company level strategies. Acknowledged that setting double materiality standards is a challenging task, not doing this from the outset would be a mistake. We should strive for an integrated reporting that covers the impact of ESG factors on companies and investors, and one that factors in the impact of companies and investors on society. However, the concept of integrated reporting means the presentation of a combination of (1) Financial Statements, (2) Unaudited Supplementary Financial Information, and (3) Corporate Social Responsibility ("CSR") Report. For (1), due to IFRS's objectivity and relevance to decision-useful financial information, IFRS applies to Financial Statements. Regarding (2), it is also a consent among users that the information disclosed in Unaudited Supplementary Financial Information could not be materially inconsistent with the financial statements. For (3), currently the CSR report discloses sustainability information and does not need to comply with IFRS. We believe that IFRS has its recognized role in standard setting, and helpful image in financial decision making. Therefore, we agree that “double materiality” is critical in integrated reporting, however, it is not necessary to request “double materiality” under IFRS context. We recommend the Board to work with GRI to develop a holistic solution (which is also the position of the European Securities and Markets Authority). And we are optimistic that the context of double materiality will slowly migrate into a single materiality in the future when the market gets more educated.

Aligned with the Conceptual Framework for Financial Reporting, one should balance the costs and benefits in relation to reporting. In case the cost associated with capturing data and disclosing on a particular sustainability topic is too steep and not justified by the benefits of reporting on that information, we would rather suggest making a disclosure note stating the reasons/difficulties in making disclosures.

Another consideration worth noting is that the information needs of each primary user may differ and we are not intended to meet the information needs of all primary users. The role of IFRS should therefore be catering the common needs of majority users of financial statements, i.e. the ones in need of information that is useful in making financial decision.

We are well aware that the market is pushing the corporates to report to the general public and other stakeholders, which may not be the original focus of the corporates. In order not to over-complicate the financial reporting process, we prefer the financial statements to disclose information that is financially material to the company. For ESG data that is highly relevant and useful to understand the business, but not required to be disclosed in financial statements, we encourage the company to disclose it in the financial statements under the “Unaudited Supplementary Financial Information” section (e.g. in the banking sector, overdue schedule of loans and advances is not required to disclose but most banks would disclose in “Unaudited Supplementary Financial Information” section of their interim/annual report). For other ESG data that is less relevant to the industry but the company still prefers to disclose, we encourage the company to disclose it in the CSR Report, or through other public relation communication means (e.g. disclosing a company’s ethical purchasing policy). Noted that different levels of ESG data might be difficult to distinguish, it is recommended that IFRS Foundation could provide some guidance on how to distinguish for reporting companies to reference on.

(852) 3703-3472
sustainablefinance.hk/

With developed working relationships with International Auditing and Assurance Standards Board (IAASB) and the audit profession, expertise and experience in creating financial reporting standards with regards to auditing challenges, we believe the SSB would invite auditors (both financial and sustainability auditors) to join in setting a practical sustainability standards hand in hand. Acknowledged that International Standards on Auditing (ISA) has a well-established framework on setting materiality in terms of monetary amount, it may need more guidance from IFRS on materiality judgement in terms of the nature of a sustainability event. Nevertheless, same as the usual approach, auditors could engage sustainability specialists in assessing the financial materiality on sustainability events/risks and whether these should be recognized, measured and disclosed, similar to how auditors engage valuation/tax specialists in a usual engagement. And auditors may already gain sustainability assurance experience from previous special purpose audit engagements/engagements with agreed upon procedures.

Yours Sincerely,

Sustainable Finance Initiative (SFi)

We the following family offices, foundations and private investors endorse and support the views presented by SFi in this submission, and also take this opportunity to express our perspectives for further refinement of the IFRS proposals.

Signed (in alphabetical order):

RS Group

Leonie Kelly, SFi Advisor