

December 28, 2020

IFRS Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: Consultation Paper on Sustainability Reporting

Dear Members of the IFRS Foundation:

The “Group of Latin American Accounting Standard Setters” – GLASS and the Interamerican Accounting Association – IAA, welcome the opportunity to comment on the Consultation Paper on Sustainability Reporting.

This response summarizes the points of view of the members of the different countries that comprise GLASS and that of the sponsoring bodies and technical commissions of the AIC, pursuant to the following due process.

Due process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) of GLASS, created in October 2020. All country members had the opportunity to designate at least one member to participate in this TWG. Additionally, a virtual platform survey was made available for this study, based on the questions posed by the document under consultation, which facilitated the individual participation of professionals from all countries. All results were summarized, and this document served as a starting point for the TWG discussion process.

Each standard setter represented in the TWG carried out different tasks in their respective countries (for example, surveys, internal working groups). All results were summarized, and this summary served as the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary through virtual conferences. In those conferences, the TWG developed a final document based on the agreed-upon responses and technical points of view of its members. They have also attended numerous conferences and meetings organized by the IFRS Foundation and by UNCTAD-ISAR. Finally, the TWG document was submitted to and approved by the GLASS Board.

Bearing in mind the importance of the document and our special interest in sustainability reports, the Inter-American Accounting Association and GLASS have worked together in order to convey the opinion of Latin America. The IAA reviewed the document prepared by GLASS and made its observations and comments on the response, based on the work of its sponsoring organizations and its technical commissions. GLASS and IAA have a coinciding opinion and therefore a single answer is presented.

Overall comments

It should be noted that, in general, all member countries support the initiative of the Trustees to identify the interest of Stakeholders in non-financial information linked to sustainability and what the Foundation could do in response to such interest.

Glass and IAA support the IFRS Foundation's interest in including sustainability issues among its priorities, given the growing demand from investors and stakeholders in general for having non-financial information that allows a comprehensive view of the organizations. Their work can help reduce the level of complexity as well as achieve greater consistency in sustainability information.

In particular, we agree on many aspects of the diagnosis presented: a) there is a growing and urgent demand seeking to improve the consistency and comparability of information on sustainability from and towards companies b) there is the threat of increasing fragmentation in issuance of these standards, showing the need for a global framework; c) the IFRS Foundation efficiently advances in the objectives of developing financial reporting standards that provide transparency, accountability and better functioning of world financial markets; d) This positive experience can be taken advantage of in the area of sustainability reporting, but it requires support and a close institutional relationship with governments, regulators and national issuers that have technical experience, trained personnel and international recognition to their credit.

Special agreement deserves the proposal that the objective is that companies to disclose that sustainability information auditable or subject to external assurance, and that the objectives of developing a framework for sustainability reporting which is coherent with and connected to financial reporting.

However, we wish to highlight some comments on these topics that came to our attention, for a broader evaluation of the activities and focus on the regulations related to the sustainability reports to be carried out by the IFRS Foundation:

1 – Stakeholders

The document mentions that large institutional investors demand better disclosure of climate risks and sustainability indicators. These investors use sustainability reporting to inform their decisions and want comparable and verifiable information. We believe that the need for information should not only be considered by investors or investors, but by a broader group of stakeholders, since companies interact with other interested parties in reliable information for decision-making. We know and understand the importance for the IFRS Foundation to respond to its stakeholders, but we understand that the decisions that the Foundation will make will have an effect not only on those interested in financial information, but on a wide spectrum of decision-makers, and for this reason the interest of investors should be considered, making a suitable balance from the beginning of the work.

2 - Creation of a new Sustainability Standards Board to become a standard-setter that works with existing initiatives and building upon their work.

We agree that it is the best of the available options, but it requires the use of experience in the operation of the IASB, formal and informal mechanisms to communicate between both Councils; existence of a 3-level structure: The Council, the Government of the Trustees, and the Monitoring Council. Additionally, it should meet certain requirements for it to have a chance of success: a) sufficient worldwide support from authorities, regulators, and market stakeholders; b) guarantee the suitability of its governance structure, c) achieve the technical knowledge of all participants, d) obtain adequate funding, e) not compromise the achievement of the current mission and the current resources of the Foundation and f) alliance with standards-setting organizations with recognized experience and acceptance by stakeholders, and g) execution of cooperation and support agreements with organizations that have experience or can contribute their research in the matter, including GLASS and the IAA.

3. Initially focused on climate-related risks.

The problems caused by climate change are a priority for all organizations, but there are also other causes that broadly involve other environmental issues and there is no doubt that they also impact and produce social and economic effects. For this reason, we believe that the approach to address the issuance of standards must be comprehensive, that is, the economic, social, environmental and government effects in general must be disclosed (ESG approach). Many of the existing regulatory initiatives allow the preparation of reports that meet all the dimensions mentioned.

Also, a comprehensive approach would contribute to a delay in stakeholder expectations, given the characteristic dynamism of the evolution of sustainability.

4 - Approach on Materiality.

The document states that the principle of 'double materiality' would significantly increase the complexity of the task and could have a potential impact on delaying the adoption of standards. Therefore, it is recommending a progressive approach starting with the single approach and progressing to the double approach. On this point, our Organization has deeply analyzed the alternatives presented and widely discussed this concept. Work was carried out based on the clarification that the dual approach is the effect of the environment (or climate) on the organization and of it on the environment, a criterion confirmed at the Round Table organized by IFAC recently.

In this sense, our Organization adheres to the principle of 'double materiality', since it is not possible to understand and report on sustainability in any other way (from a single perspective) and does not agree (as indicated in 7), that the approach can be carried out in a progressive form.

5 – Global fragmentation of standards.

The document indicates that many organizations offer normative frameworks for sustainability information, which are intended to meet the specific needs of their own stakeholders. This creates a danger of increasing regulatory fragmentation globally. However, our organization considers that the new Council should build on the work established by the organizations that are acting in the matter, such as SASB and GRI.

For this reason, we recommend that the future Board of the IFRS Foundation work jointly with the issuers of sustainability standards that have been working for a long time and perfecting their work in accordance with the dynamics and evolution of the information needs of the Interest groups.

6 – Existing initiatives

In relation to the request for opinion on how the Foundation could work with efficient regional and national initiatives, we suggest joint work with the bodies that develop the existing regulatory frameworks (GRI, SASB, CDSB, TCFD, UNCTAD) and with national governments to achieve a widely accepted global standard. In the new Council, there should be representatives of the bodies, with voice and vote, and in turn, form a working group including representatives of those standard setters to develop a regulatory framework. We think that the number of members should not cause inefficient work.

7 - Comprehensive vision

If we combine the initial definitions raised by the document, in relation to a) the initial vision for the standards of sustainability reports based on the interest of investors; b) the focus on “climate first”, and c) applying simple materiality aiming only at the effect that the climate produces in companies, we find a product that our Organization does not share, as expressed in each of the points.

Therefore, we emphatically propose a comprehensive approach to the three elements mentioned that concludes with the need to show the comprehensive work plan and not just the beginning (as the document is focused on). For example, when mentioning the approach used for these standards, it should be indicated that the interest of all users of the sustainability information will be sought, and that the beginning will be from the interest of investors, that the approach will be made from double materiality, starting from simple materiality, etc.

Specific Comments

In addition to expanding our above comments, attached please find our specific responses to the eleven questions presented in the Consultation Paper on Sustainability Reporting.

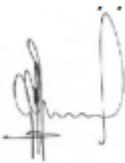
Contact

If you have any questions about our comments, please contact glenif@glenif.org or to aic.contadores.1949@gmail.com

Sincerely yours,



María Clara Cavalcante Bugarim
Chairwoman of IAA



Jorge José Gil
Chairman of GLASS

ANNEX

Responses to the Consultation Paper on Sustainability Reporting

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?

GLASS and IAA Response

Yes, both Organizations believe that a global set of internationally recognized sustainability standards is necessary due to the growing demand from investors and interest groups in general for having information on sustainability. This would help reduce the level of complexity and achieve greater consistency in said information.

Both Organizations consider it positive that the IFRS Foundation plays a role in the creation of regulations on sustainability, taking advantage of its recognized experience in the development of financial reporting standards that provide transparency, accountability, and better functioning of global financial markets, but requires the joint work with entities of proven track record and international recognition, providing technical experience and trained personnel.

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?

GLASS and IAA Response

We understand that it is the best of the available options, as long as the experience of the operation of the IASB is taken advantage of efficient communication mechanisms are generated between both Councils, a three-level structure is configured: The Council, the Government of the Trustees and the Council Monitoring and technical work teams are achieved with a high level of knowledge in the matter and sufficient funding for the new board to meet its objectives.

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)?

GLASS and IAA Response

The existence of a 3-level structure is considered adequate: The Council, the Government of the Trustees and the Monitoring Council. Additionally, it should meet certain requirements for it to have a chance of success: a) sufficient worldwide support from authorities, regulators, and market stakeholders; b) guarantee the suitability of its governance structure, c) obtain the technical knowledge of all participants, d) obtain adequate financing, and e) not compromise the achievement of the current mission and resources of the Foundation and g) execution of cooperation and support agreements with organizations that have experience or can contribute their research in the matter, including GLASS and the IAA.

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?

GLASS and IAA Response

It is important to use your relationships with stakeholders to achieve a set of global standards, and you should promote the participation of public authorities, global regulators, and interest groups. However, we believe that the development of standards should be worked on with organizations experienced in the formation of existing sustainability indicators and standards such as SASB and GRI, among others.

Question 5

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

GLASS and IAA Response

The new Council should be built on the work carried out by the organizations that are acting in the matter, such as SASB, GRI, CDSB, TCFD, UNCTAD, therefore we recommend that it work together with the issuers of sustainability standards that are working and perfecting them according to the dynamics and evolution of the information needs of Stakeholders. In this way, a standard with broad global

acceptance would be achieved.

It is recommended that in the new Council there are representatives of the organizations, with voice and vote and, in turn, form a technical working group that includes representatives of those standard setters. The number of members should not cause inefficient work.

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?

GLASS and IAA Response

The existence of various bodies offering normative frameworks on sustainability for each public increases the risks of fragmentation worldwide. For this reason, we believe that joint work with these issuers, centralized in the Board of the IFRS Foundation, is necessary to achieve unification of criteria and a standard of global acceptance.

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?

GLASS and IAA Response

This criterion is not shared. The problems caused by climate change are a priority for all organizations, but there are also other causes that widely involve other environmental issues that also impact and produce social and economic effects. Therefore, the approach must be comprehensive, establishing working groups for each dimension of sustainability (economic, social, and environmental).

Question 8

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

GLASS and IAA Response

Our Organization believes that the approach must be comprehensive; all effects with an ESG approach must be disclosed. The block treatment suggested in the document would contribute to a delay in stakeholder expectations, given the characteristic dynamism of the evolution of sustainability.

Question 9

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

GLASS and IAA Response

The document states that the dual materiality approach would significantly increase the complexity of the task and could have a potential impact on delaying the adoption of the standards, therefore it recommends a progressive approach starting with simple materiality. Our organization has deeply analyzed the alternatives presented, working on the basis that the dual approach is the effect of the climate on the organization and the latter on the environment.

We adhere to the dual materiality approach as it is not possible to understand and report on sustainability with a partial perspective. For this reason, we do not agree that the approach is progressive.

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?

GLASS and IAA Response

The information must be externally auditable. This would improve the credibility of it by users. Otherwise, it is likely that it will not be considered reliable by stakeholders for decision making. This implies that the pertinent standards must be developed for said verification, based on those developed by IFAC's Issuing Councils.

Question 11

Stakeholders are welcome to raise any other comment or relevant matters for our consideration.



Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin American
Accounting Standard Setters

GLASS and IAA Response

Our Organization supports the initiative of the Trustees to identify the interest of stakeholders in sustainability information. However, we believe that the need for information on the part of investors or investors should not only be considered, but also that of a broader group of interest groups, given that companies interact with other interested parties.

If we combine the definitions raised in relation to the initial vision considering the approach for investors, the option of "climate first" and the perspective of simple materiality pointing to the effect that the climate produces in companies, we find a product that does not share our Organization and that is why we emphatically propose a comprehensive approach that concludes the need to approve a comprehensive work plan, with a complete approach and not only the beginning, in such a way as to indicate that it will seek to satisfy the interest of all users of sustainability information.