



# Association of Accounting Technicians (AAT) response to the IFRS Foundation Consultation Paper on Sustainability Reporting

## 1. Executive summary

- 1.1. **AAT believes there is a need for a set of internationally recognised sustainability reporting standards to be agreed as soon as is practicable.**
- 1.2. **AAT wholeheartedly backs measures to improve reporting on sustainability issues, especially in relation to global consistency and therefore welcomes IFRS involvement in such issues.**  
However, AAT is concerned that no timescales for action are set out in the 22 page consultation document and recognises that some countries, notably the UK, cannot wait for internationally agreed standards to be agreed and are therefore proceeding at pace.
- 1.3. **AAT supports the establishment of a new Sustainability Standards Board (SSB) under the governance structure of the IFRS providing this is done so quickly.**
- 1.4. **AAT believes climate related information should be the initial focus of the SSB.**  
However, whilst the SSB should prioritise climate-related risk it could simultaneously consult on other environmental priorities.
- 1.5. **With regard to materiality, AAT suggests that the SSB focus on the needs of investors and other market participants first whilst eventually adopting an approach that deals with materiality for multiple stakeholders.**  
To provide reassurance to such stakeholders, and certainty for all, it would be particularly helpful if a timescale for achieving this were to be set out by the SSB.
- 1.6. **AAT believes that any attempts to achieve globally consistent sustainability reporting practices must be subject to external assurance.**

## 2. AAT response to the consultation document

### **Is there a need for a global set of internationally recognised sustainability reporting standards?**

- 2.1. Yes. AAT very much agrees with the taskforce assessment that there is a growing and urgent demand for sustainability reporting.
- 2.2. Since this consultation was published in September, the UK has taken an international lead on this issue, with the British Government confirming that the UK will become the first country in the world to make Task Force on Climate-related Financial Disclosures (TCFD) aligned disclosures fully mandatory across the economy by 2025<sup>1</sup>.
- 2.3. This represents a significant and welcome enhancement on the existing 'comply or explain' approach.
- 2.4. In fact, the roadmap for implementing mandatory disclosures includes many which will come into force by 2023.
- 2.5. This provides a useful template for the IFRS to follow, both in terms of necessary action and crucially the pace of change.
- 2.6. To be effective, there is an urgent need to ensure international consistency and comparability and AAT therefore recognises the need for standards which are internationally recognised to be introduced as soon as is practicable.

### **Should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?**

- 2.7. Yes. The IFRS Foundation has a strong track record in these areas and so AAT believes that the Foundation engaging with this wider reporting requirement would be beneficial.

### **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?**

- 2.8. Establishing a new Sustainability Standards Board (SSB) under the governance structure of the IFRS Foundation to develop global sustainability standards would appear to be a sensible approach providing this is undertaken speedily to match or ideally exceed the pace of reform in countries like the UK.
- 2.9. With the SSB operating alongside the IASB, and the two boards would certainly benefit from the increasing interconnectedness between financial reporting and sustainability reporting.
- 2.10. AAT very much agrees with the consultation document observation that using the knowledge base of the accountancy profession is a vital component in developing high-quality and consistent measurement and disclosure requirements in sustainability reporting.

### **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)?**

- 2.11. Achieving the level of separate funding required and the capacity to obtain financial support is naturally crucial to success as is securing the appropriate level of technical expertise.
- 2.12. AAT believes that each of the other success criteria are desirable and that this list is sufficiently comprehensive, with the possible addition of something relating to the speed of action - timescales and milestones for success do not appear anywhere in the consultation document.

<sup>1</sup> Chancellor sets out ambition for future of UK financial services, 9 November 2020:  
<https://www.gov.uk/government/news/chancellor-sets-out-ambition-for-future-of-uk-financial-services>

**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?**

- 2.13. As indicated in previous responses, AAT recognises that some countries are moving to mandate climate related reporting (such as the UK has pledged for 2023-2025). This means that securing agreement in principle that the IFRS standards are those that should be adopted requires any SSB to move extremely swiftly.
- 2.14. It can only do so by effectively utilising its existing stakeholder relationships, primarily those with global regulators and governments around the world.
- 2.15. Failure to do so could result in any new SSB being rendered irrelevant before it has had an opportunity to commence any meaningful activity.

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

- 2.16. AAT agrees with the Foundation that merely maintaining the status quo would provide no real benefit and is therefore not a credible option.
- 2.17. AAT also recognises the challenges in attempting to facilitate and harmonise existing initiatives that may cause fragmentation and add complexity, "...by adding another voice to the discussion."<sup>2</sup>
- 2.18. Establishing an SSB is therefore likely to be the best way forward in helping to build on existing initiatives to achieve further global consistency.
- 2.19. AAT recommends that this SSB seek to consolidate existing initiatives by identifying those that are already commonly adopted and for these to then be used as the basis for developing consistent standards.
- 2.20. The TCFD recommendations and the EU NFRD are obvious examples of this. AAT would also recommend that senior expert representatives from these initiatives are urged to join the proposed SSB.

**How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?**

- 2.21. Please see above (2.19-2.20).

**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?**

- 2.22. AAT supports the Task Force's research and informal consultation findings that indicate global sustainability-reporting standards for climate-related information is the most pressing concern and that this should therefore be the primary area of focus.
- 2.23. However, the narrowness or otherwise of the proposed SSB's focus is very much dependent on resources both financial and human. If these are limited, then AAT absolutely believes climate related information should be its initial focus although whilst the SSB should prioritise climate-related risk it could simultaneously consult on other environmental priorities.
- 2.24. Given a broader environmental focus is already being followed in many jurisdictions, a broader approach will ensure the SSB remains at the forefront of developments rather than having to play catch-up with what the fastest acting jurisdictions are doing.
- 2.25. AAT agrees that the SSB could broaden its work over time to focus on other priorities beyond a specifically climate or environmental focus (for example into social and other related matters) as

<sup>2</sup> IFRS Foundation, Consultation Paper on Sustainability Reporting, September 2020:  
<https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf>

demands change and that such a tiered approach would be more manageable and likely to produce better quality outcomes.

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

- 2.26. AAT very much supports the eventual development of standards referring to the principle of 'double materiality' but also acknowledges that if the SSB were to adopt a double-materiality approach now, *"...this could substantially increase the complexity of the task and could potentially impact or delay the adoption of the standards"*<sup>3</sup> which is clearly not a desired outcome.
- 2.27. AAT therefore suggests that the SSB focus on the needs of investors and other market participants first whilst eventually adopting an approach that deals with materiality for multiple stakeholders.
- 2.28. To provide reassurance to such stakeholders, and certainty for all, it would be particularly helpful if a timescale for achieving this were to be set out by the SSB.

**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?**

- 2.29. Yes. AAT believes that any attempts to achieve globally consistent sustainability reporting practices must be subject to external assurance.
- 2.30. Given the IFRS Foundation has expertise in creating financial reporting standards and has developed working relationships with the International Auditing and Assurance Standards Board (IAASB) and the audit profession, it would make sense to commence work on globally consistent requirements with these bodies as soon as is practicable.

### 3. About AAT

- 3.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.
- 3.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

### 4. Further information

- 4.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:
- 4.2. E-mail: phil.hall@aat.org.uk      Telephone: 07392 310264      Twitter: @PhilHallAAT
- 4.3. Association of Accounting Technicians, 140 Aldersgate Street, London, EC1A 4HY

Thursday 17 December 2020



<sup>3</sup> IFRS Foundation, Consultation Paper on Sustainability Reporting, September 2020:  
<https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf>