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**International Financial Reporting Standards (“IFRS”) Foundation**

email to [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

or through <https://www.ifrs.org/projects/open-for-comment/>

## AAMG Response on Consultation Paper on Sustainability Reporting

On behalf of the Asset Management Group (“AAMG”)<sup>1</sup>, a separate and independent division of the Asia Securities Industry & Financial Markets Association (“ASIFMA”)<sup>2</sup>, we would like to submit our responses to the questions in the Consultation Paper on Sustainability Reporting issued by IFRS Foundation in September 2020.

Please see our responses (in *italics*) below:

**Q1. 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?**

*Yes, we see a proliferation of climate-related, environmental and sustainability standards introduced or being introduced by private-sector standard setters as well as regulators and our members are concerned that they will be subject to a multitude of standards if each jurisdiction they operate in adopts different standards.*

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<sup>1</sup> AAMG is made up of 35 of the largest global asset managers in the world. A list of the AAMG members can be found here: <https://www.asifma.org/membership/members/>. Our members manage over USD 41 trillion in AUM globally as of September 2020.

<sup>2</sup> ASIFMA is an independent, regional trade association with over 140 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive, and efficient Asian capital markets that are necessary to support the region’s economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, AAMG also provides insights on global best practice and standards to benefit the region.

## DEVELOPING ASIAN CAPITAL MARKETS

*We and our members welcome a coherent and comprehensive set of internationally recognised, investor-focused, industry-specific sustainability reporting standards, to provide consistency across markets and ensure the reliability and comparability of sustainability reporting.*

*AAMG is supportive, in principle, of the IFRS Foundation playing a role in setting such global sustainability reporting standards. However, AAMG's support for the IFRS Foundation's proposals is dependent on the IFRS Foundation committing to build upon the established work and accumulated knowledge and expertise of the Sustainability Accounting Standards Board ("SASB") and the Task Force on Climate-related Financial Disclosures ("TCFD") Recommendations, which many of our members use.*

*AAMG believe that the approach taken by SASB to sustainability reporting, as well as SASB's focus on enterprise value creation, is worth following. SASB's set of 77 industry standards across 11 sectors, from financials and healthcare to infrastructure and renewable resources, provide a well-developed set of globally applicable and industry-specific standards that would identify the minimum range of financially material sustainability topics and their associated metrics for a typical company in a particular industry.*

*While AAMG understands concerns raised by the IFRS Foundation that diverse approaches risk increasing global fragmentation of standards, we would like to stress that a one-size-fits-all assessment would be insufficient to take into account each industry's unique sustainability profile and would significantly undermine the usefulness of the data. We see no conflict but rather a lot of benefits from the IFRS Foundation adopting or incorporating the SASB model, at least as a starting point and leverages the wealth of technical knowhow and human capital within SASB. AAMG is also of the view that SASB should be integrated into the governance framework of any future sustainability standards board. In particular, AAMG considers that SASB's Investor Advisory Group and Standards Advisory Group – which is comprised of volunteer industry experts from corporations, financial institutions and third parties that provide ongoing feedback on implementation of standards and advise on emerging sustainability issues – should both assist the standard-setting expert board proposed by the IFRS Foundation.*

*Finally, while AAMG would like to see SASB's work incorporated into the IFRS Foundation's new reporting framework, we understand that such incorporation would likely take some time. As the further development of SASB's standards is still needed, AAMG does not believe that such development should be stalled or disrupted by the process of integrating SASB's existing body of work into the IFRS Foundation's framework.*

**Q2. 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?**

*We understand that the proposed SSB would sit alongside the International Accounting Standards Board ("IASB") and be governed by the same Trustees of the IFRS Foundation, who are in turn accountable to the IFRS Foundation Monitoring Board. AAMG generally believes this would be an appropriate approach and would note that current regional representation across the three-tiers of governance should also be reflected in the composition of the proposed SSB. Functional representation (as discussed further below) should include those with professional competence and practical experience in sustainability reporting, but not at the expense of the regional representation.*

AAMG considers that a key objective of the SSB should be to provide data that is useful for investors and we would like to see a specific reference to investors in the mission statement of the SSB.

To achieve this objective, full-time investor representation at a governance level within the SSB is essential. There should be balanced voting representation, which includes individuals with experience of using sustainability information to make investment decisions. Therefore, the IFRS Foundation should ensure that the membership of the SSB is representative of the key stakeholders, including in particular, stakeholders that will actually use the standards in practice (such as institutional investors and asset managers). Moreover, the SSB needs to have stable and consistent funding, which comes from independent sources in order to prevent conflicts of interest.

These prerequisites are critical for the IFRS Foundation to optimally play its role in setting global sustainability standards. In addition, it is important that the IFRS Foundation leverages not only its technical expertise and experience of developing international standards but also that of SASB. AAMG recognises the potential benefits of interconnectedness between the IASB and the SSB, such as in terms of knowledge sharing and research synergies, but would like to reiterate that its support for the development of an SSB is dependent upon SASB playing a central role in the SSB from its inception.

**Q3. 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)?**

AAMG agrees that achieving a sufficient level of global support from public authorities, global regulators (both from developed and emerging markets), and market stakeholders (including investors), is essential for the success of the proposal. This will necessitate the SSB quickly developing credibility across all stakeholder groups, which will require the IFRS Foundation to engage broadly and openly to ensure both the SSB and any standards it prepares respond effectively to stakeholders' interests. AAMG feels particularly strongly that the IFRS Foundation should ensure any reporting standards are appropriately tailored to provide investors with meaningful and reliable data on which to base their investment decisions. From an investor's perspective, materiality is also a key consideration for any reported data, which should be objective, measurable, transparent, and enforceable. This is vital for asset managers to get comparable information across different companies and assets.

In this regard, AAMG fully endorses the well-established and widely used approach of SASB, which identifies financially material issues on an industry-by-industry basis, i.e. those issues that are reasonably likely to impact the financial condition or operating performance of a company and which are therefore of most importance to investors.

Likewise, AAMG would encourage the IFRS Foundation to leverage experience and know-how from the TCFD in relation to preparing climate-related disclosure requirements which are underpinned by the concept of financial materiality.

AAMG would also stress the importance of securing appropriate technical advice or expertise, especially since the IFRS Foundation does not currently have experience in developing sustainability reporting standards. It is encouraging that the IFRS Foundation has acknowledged the need to leverage existing work of eminent standard-setting bodies and, perhaps, also their human capital. However, AAMG believes that there should be genuine diversity of knowledge and expertise across the SSB, at both a staff and governance level. It would also be prudent for the IFRS Foundation to adopt an inclusive and consultative approach, reaching out and bringing key partners from industry and the investment community globally, into the standard development process.

**Q4. 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?**

The IFRS Foundation should use its existing relationships to aid in the adoption and consistent application of SSB standards globally. AAMG notes that a key advantage of the IFRS Foundation's proposals over alternative proposals is that the IFRS Foundation already has an extensive global network, with IFRS standards on financial reporting having been adopted in over 140 jurisdictions. However, it is also important to note that recognition needs to come also from public authorities that may wish to have their "say" in devising reporting standards applicable in their respective jurisdictions. In this regard, promoting regulatory discussion and convergence remains a key priority. AAMG believes the IFRS Foundation should use its existing relationships with stakeholders, including governments, supranational bodies and regulators from developed as well as emerging markets, to secure widespread adoption and consistent application of its standards.

In terms of conditions, as noted above, our key concern is that the SSB does not reinvent the wheel with its standards, but rather focuses on building upon the existing and respected progress made by SASB and other leading sustainability standard-setting bodies. We would also like to reiterate that it is particularly important that the SSB engages with stakeholders in economies and regions at all stages of development, throughout the evolution and implementation of SSB standards globally.

**Q5. How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?**

AAMG would like to reiterate the points made in response to Question 1 and 2 above that highlight our strong belief that the IFRS Foundation should collaborate with SASB and other existing initiatives in sustainability reporting to ensure that the perspectives of investors are fully reflected in the standards.

AAMG notes that a "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting" (the "Joint Statement"), which was co-authored by SASB, proposed a modular "building blocks" approach to collaboration between the IFRS Foundation and the alliance of standard-setters. We understand that this approach would involve a global corporate reporting system made up of "building blocks" based on distinctive materiality concepts. As explained further in the response to Question 9 below, AAMG would strongly recommend that the IFRS Foundation focuses first on the financial materiality approach adopted by SASB. This concept is broadly understood across global markets, which should facilitate harmonisation of reporting standards.

**Q6. How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?**

*AAMG would reiterate the points made in our response to Question 5 above. In particular, AAMG strongly recommends that the IFRS Foundation focus initially on building consensus across jurisdiction on the application of global reporting standards relevant to financial materiality. In its efforts, we would suggest that the IFRS Foundation work closely with national and supranational bodies to avoid duplication / conflicts with jurisdictional initiatives and create a more effective framework that adds value for investors.*

**Q7. 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?**

*As noted in our response to Question 1, AAMG would recommend that the IFRS Foundation leverage the industry-specific approach of SASB. Although the climate emergency is unquestionably an urgent concern for all market participants, AAMG is of the view that to focus exclusively on climate-related financial disclosures would fail to capture the full universe of sustainability issues that are “financially material” across different industries. Therefore, AAMG would encourage the IFRS Foundation to work closely with SASB to build on their existing work to create a broader set of globally applicable and industry-specific standards underpinned by robust research and market engagement, which identify the minimum range of financially material sustainability topics and their associated metrics for a typical company in a particular sector or industry (and not just those limited to climate).*

*However, AAMG is aware that climate-related financial disclosures form an important part of many of the industry-specific reporting frameworks referred to above, and therefore the IFRS Foundation should also work closely with the TCFD when developing climate-related aspects of its sustainability reporting standards going forward.*

**Q8. Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?**

*Please see our response to Question 7 above.*

**Q9. Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?**

*AAMG believes that the IFRS Foundation should prioritise the development of robust sustainability standards which focus on financial materiality. This approach is aligned with the IFRS Foundation’s objective to promote “high quality, transparent and comparable information” to “help investors...in the world’s capital markets, and other users of financial information, make economic decisions.” As explained in our response to Question 5, the “financial materiality” concept is broadly understood across global markets, which should accelerate harmonisation of reporting standards across jurisdictions. Therefore, we would like to suggest that SASB’s standards, which focus on enterprise value creation, form the basis on which to build the IFRS Foundation’s global reporting standards.*

**Q10. 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?**

*AAMG considers achieving a degree of assurance, equivalent to that in financial reporting, should be a long-term objective of the SSB, in order to effectively mitigate the risks of greenwashing. In our view, it would be premature to introduce mandatory audit or external assurance of sustainability disclosures at the outset, particularly given that verification or assurance of reported ESG data by companies and asset managers is such a nascent area. In addition, it is not clear at this stage which (if any) auditors or service providers are qualified to provide the requisite standard of audit/assurance for ESG disclosures. Given the inconsistencies that would inevitably arise at this early stage from differing independent examiners' review of the disclosures, we do not believe that the considerable cost burden which this requirement would place on asset managers can be justified.*

*Accordingly, AAMG recommends that the IFRS Foundation focus first on securing a mandate to set the global standards and subsequently on ensuring the standards gain traction across a range of sectors and industries. Only after the IFRS Foundation's global sustainability standards are widely accepted and consistently applied and it is clear that there is sufficient professional expertise to carry out the work should mandatory audit/external assurance be phased-in (with those industries considered highest risk for greenwashing subjected first to these requirements).*

**Q11. Stakeholders are welcome to raise any other comment or relevant matters for our consideration.**

*No further comments.*

Please feel free to contact Eugenie Shen at [eshen@asifma.org](mailto:eshen@asifma.org) or Yvette Kwan at [ykwan@asifma.org](mailto:ykwan@asifma.org) if you have any questions regarding any of our comments.

Yours sincerely,



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