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Date
17 December 2020

Our reference
T027-1439764924-633

Re: IFRS Foundation Consultation Paper on Sustainability Reporting

Dear Professor Reichlin, dear Trustees,

I would like to thank you for the opportunity to respond to this important consultation document, and to express our support for the IFRS Foundation to play a key role in setting sustainability reporting standards.

As a central bank and supervisor we are convinced that growth is not sustainable if it is accompanied by harmful environmental effects. Furthermore, environmental challenges can be a source of financial risk. Financial institutions can be exposed to physical risks by financing companies that are negatively impacted by environmental degradation. Next to this, financial institutions can be exposed to transition risks by financing companies that have a negative impact on the environment. As a supervisory authority we expect financial institutions to manage such risks. Furthermore, while it is up to governments to set out credible long-term policies for the transition to a sustainable economy, the financial sector plays a key role in facilitating this transition.

For financial institutions to manage their risks and play their role in the transition, it is essential they have access to information regarding the impact of environmental challenges on a company, as well as the impact of the company on the wider environment. The information that the financial sector uses is only as strong as the corporate disclosures it is built upon. The quantity, quality and consistency of corporate reporting on sustainability-related information therefore needs to improve. Credible and comparable sustainability information,

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complementing the financial information already available, should be readily available for all market participants, shareholders and other stakeholders.

We believe the reporting of such information on climate risks and sustainability indicators is most effective when it is aligned with the requirements of accounting standards, and forms an integral part of the (audited) annual accounts of companies. It is strongly desirable to have global standards, as this maximizes effectiveness and ensures a level playing field. We think the IFRS foundation is best positioned to set such standards as it has established itself as a key global standard setting body for corporate reporting, resulting in over 150 jurisdictions applying international financial reporting standards.

Please find our answers to the specific consultation questions in the annex below. I would like to stress that we consider time is of the essence here. A global and harmonized corporate sustainability reporting framework will only be effective if it is technically solid and garners widespread support. However, if developing such a framework takes too long, it will only be of limited use for the challenges we face. Furthermore, regional initiatives will continue to develop at the same time, making it more difficult to harmonize these initiatives under a global standard in the future.

Yours sincerely

Annex –Response to the IFRS Foundation's consultation questions

1. Is there a need for a global set of internationally recognized 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. To effectively create a sustainable global financial system we need global and harmonized standards for sustainability reporting. We think it is most effective when sustainability information is incorporated in accounting standards, thereby ensuring that they are an integral part of (audited) annual accounts of companies. This would be preferable at a global level, to maximize effectiveness and ensure a level playing field. Within such global standards there should be room for jurisdictions to apply top-ups in order to fit their sustainability ambitions, similarly to current accounting standards.

Although we applaud all the other initiatives that have been developed in this field, we would prefer the IFRS Foundation to take up this task, to ensure swift progress towards globally consistent reporting. The IFRS Foundation already has in place an operational process, a financial structure and a global network. Furthermore, as both the IASB and the SSB will be headed by the IFRS Foundation, this will safeguard essential alignment between financial and sustainability information.

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?
Yes, we think this is a good option. The creation of a separate board will mean there is dedicated expertise to develop technically sound standards. Moreover, by placing this new board under the governance structure of the IFRS Foundation, it will ensure credibility and trust in this new standard-setting body. Hence we support the efforts of the IFRS Foundation given that a new SSB will be

able to be quickly established within the current governance structure of the Foundation.

We would, however, like to stress that the development of sustainability standards should, in our view, be complementary to or in some cases even ingrained in the pre-existing IFRS financial reporting standards. The Foundation can ensure the alignment of the sustainability standards with the financial standards and vice versa.

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)?

We think these are all important aspects of success but would like to add that the Sustainability Standards Board should be set up without delay. As indicated in our accompanying letter, if the development of a sustainability framework takes too long, it will only be of limited use.

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?

To ensure global support for the SSB standards, we think it is important to involve stakeholders in the process. The Foundation has extensive relationships with various international stakeholder groups and has a track record of liaising with these groups to ensure global adoption and consistent application of the financial reporting standards. We support the IFRS Foundation in its efforts to use and enhance these relationships also for sustainable reporting standards to achieve globally accepted and consistently applied high-quality standards.

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

The Foundation can cover ground by building upon the established work of the leading sustainability and integrated reporting frameworks and standards such as TCFD, SASB, GRI, CDSB, CDP and PCAF. To this end, an SSB should move forward on the key principles as laid down in these different frameworks and standards. Furthermore, to allow for well balanced and globally accepted standards, an SSB could, without undue delay of the process, involve these existing initiatives in the technical development of the standards via stakeholder groups.

Furthermore, we reemphasize the need to ensure that sustainability information and financial information requirements are developed complementary to each other and will therefore need to be carefully aligned to ensure all stakeholders have an accurate and complete picture of the entity concerned.

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?

The IFRS Foundation should lay out the conceptual framework for Environmental, Social and Governance related information and, similarly to IFRS, enhance this framework with principle based standards covering various topics. Within such global standards there should be room for jurisdictions to apply top-ups in order to fit their sustainability ambitions, similarly to current accounting standards. This should be done without compromising comparability of the resulting reports and with the long-term goal of convergence to an international framework.

As the Foundation has extensive relationships with various international stakeholder groups, inlcuding jurisdictions, and has a track record of liaising with these groups to ensure global adoption and consistent application of the financial reporting standards, we expect jurisdictions to be adequately involved in the SSB and to not deem adjustments to the governance of the Foundation necessary.

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?

Both environmental and social challenges may expose financial institutions to risks. As a supervisor we examine these risks, for example risks caused by biodiversity loss, water stress, scarcity of resources and human rights controversies and we expect the financial institutions under our supervision to manage these risks. For financial institutions to manage their risks and play their role in the sustainable transition, they need credible information on all these aspects. We therefore think that an SSB should ultimately focus on incorporating all information that gives insight into the impact of a company on environmental and social challenges. However, we do understand and support the proposal in the consultation to initially prioritize climate-related risk because of its urgency.

After addressing climate risks, we strongly urge an SSB to prioritize biodiversity loss, as it is considered to be one of the greatest risks to society and the economy (See, for example: IPBES (2019), OECD (2019), WEF (2020) and Rockström et al. (2015)), and because of the material exposures financial institutions have to risks resulting from biodiversity loss .

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

In addition to our answer given to question 7, we recommend the IFRS Foundation bases their requirements for climate-related risk on work already done by TCFD and other relevant parties like the NGFS. To ensure standards are relevant and applicable, a clear definition is practicable but too narrow a definition could lead to material risks not being reported. Furthermore standards should in our view be principle-based rather than rule-based to allow for ever-changing risks to be appropriately reported by entities.

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

We doubt that a clear distinction can be made between information that is solely about the impact of a company on the environment and information that is solely about how a company is affected by environmental challenges. As is indicated in the consultation paper, there is a connection between a company's impact on the environment and the risks and opportunities for that company. Companies that have a considerable impact on the environment, can be particularly susceptible to environmental (transition) risks. This is also pointed out in the recently published EBA discussion paper on management of ESG risks for credit institutions and investment firms. Such information could be seen as pre-financial information. Therefore, to provide the market with all relevant information, it should be included in the standards.

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?

Preferably, sustainability information is part of the annual financial statements and as such is subject to a full audit. Where current audit standards do not sufficiently cover the topic, they should therefore be complemented with auditing standards for sustainability reporting. However, as it will take some time to have appropriate auditing standards in place and in view of the urgency required, we can also envisage that a transitional period will allow entities to report on sustainability without having the information subject to full audit requirements, as is the case with the financial information of the annual report.

We would like to stress though that trust in the sustainability reporting of entities is needed for the reporting to be effective. Trust can be built by having globally-accepted high-quality sustainability reporting standards where entities that apply these standards are subject to some type of assurance. We therefore consider assurance a key aspect of the reporting process and suggest at least some form of review on the reported information.

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

We have no further comments.