

To: Erkki Liikanen, Chair, IFRS Foundation Trustees

From: Professors of Accounting conducting research in the field of sustainability accounting and reporting and Editors of accounting journals that publish this research

Date: 15th October 2020

Open Letter regarding the IFRS Foundation's Consultation Paper on Sustainability Reporting

We write to you as Professors of Accounting researching in the field of sustainability accounting and reporting to summarise key findings from independent academic research. We do not write to give our support or otherwise to your proposal to establish a Sustainability Standards Board (SSB), or to address in detail each consultation question.

Signatories to this letter include Editors of the key accounting journals publishing research in this field, the *Accounting, Auditing and Accountability Journal*, *Accounting Forum*, *Accounting Organizations and Society*, *Critical Perspectives on Accounting*, *the Sustainability Accounting, Management and Policy Journal* and *the Social and Environmental Accountability Journal*. Together these journals have published a substantial volume of rigorous qualitative and quantitative research into sustainability (social and environmental) accounting and reporting over more than three decades.

We are seriously concerned about assertions made in your [Consultation Paper](#) and other reports informing your proposals including those of [Accountancy Europe](#) and the [World Economic Forum with the Big 4](#). Your proposals lack adequate evidence-based justification.

We are concerned that there has been little or no engagement with the extensive body of published accounting research on the topic of sustainability accounting and reporting and note that your informal engagements have not included academics (para 4 of your consultation paper).

Findings of independent academic research

Independent academic research finds that:

- Traditional corporate reporting, through what it counts and what it leaves as invisible, has led to significant environmental and human rights abuses and greater inequality between developed and lesser developed countries.
- Sustainability accounting and reporting practices have either a significant positive or significant detrimental impact on the future well-being of the planet and its people, depending on their purpose and design.
- A significant number of investors ignore climate change and other sustainable development risks that have an impact on long term value creation.
- Corporate and investor know-how is under-developed and resourcing of their responses to sustainable development issues insufficient to meet the complexity of the challenge.
- A profit and financial materiality focus leads sustainability reporting to make a negative impact on, or reduced contribution to, sustainable development.
- Significant impediments to high quality, transparent sustainability reporting include:
 - Its largely voluntary nature;
 - Where mandatory, being mostly unenforced;

- Lack of disclosures on management approach, strategy (including long term targets), governance oversight and governing body accountability that facilitate the integration of sustainable development issues into decision making;
 - Approaches to materiality that significantly narrow the identification of sustainable development issues that come under corporate purview;
 - External assurance engagements tending to be limited in scope to quantified indicators due to cost concerns and assurance provider conservatism (particularly by the Big 4);
 - Lesser developed countries lacking the skills and resources to comply with and enforce disclosure requirements;
 - National governments being slow to respond to the scientific evidence concerning impact of organisations on sustainable development issues and hence slow to implement regulation of the private sector.
- Different regions/ countries facing differing social and environmental sustainability issues and hence having different priorities.
 - Key drivers of sustainability reporting are a desire to minimise short term profit variations, gain stakeholder approval and enhance corporate reputation (particularly after reputation damaging incidents).
 - The longest standing sustainability reporting standard setter, the Global Reporting Initiative, has by far the greatest number of users. Multi-stakeholder input to the GRI Standards, and hence reputation amongst stakeholders, is a key reason for corporate take-up of the GRI Standards.

Consultation Paper proposals that are inconsistent with research findings

Your proposals not only fail to be cognisant of this body of research evidence, but overall will exacerbate the lack of corporate and investor responsiveness to sustainable development issues and accountability thereon. Further, a number of the above findings refute assertions in your Consultation Paper. We are particularly concerned about the following unsupported assumptions and statements in the Consultation Paper:

- Its claim that establishing an additional sustainability reporting standard setting body will lead to a reduction in the total number of global standard setting bodies.
- Its assumption (eg para 28) that stakeholders speak with one mind on the desired outcomes of sustainability reporting. They do not. Stakeholder expectations are diverse and sometimes conflicting.
- Its assertion (paragraphs 50-51) that anything other than an investor-oriented approach to materiality would increase complexity and delay standard adoption. There is no evidence for either assertion.
- The proposal (paragraphs 50-51) to begin with one purpose and conceptual framework and then switch to another will reduce complexity. We believe this will add complexity and render early standards not fit for purpose. A holistic evidence-based approach would be more relevant, more insightful and more impactful for dealing with sustainability issues.
- Your assertion that issues with the scope and take up of assurance relate to “difficulties of setting out qualitative sustainability-related disclosure requirements” (para 52). This ignores other key limitations on assurance – see above.

We call for an alternative approach to that you propose. The definition of materiality (together with the other Fundamental Concepts) in the [SDGD Recommendations](#) (from the perspective of value

creation for organisations and society and impact on sustainable development) was informed by academic research, was the outcome of a documented consultation and is a suitable starting point.

We urge you not to make decisions on a way forward without consulting and being informed by 30 years of significant and validated sustainability research published by our specialist research communities in this field. The well-being of future generations is in your hands.

Signatories

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