



EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

The Co-operative Difference : Sustainability, Proximity, Governance

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## EACB Comments

### on the IFRS Foundation's consultation about Sustainability Reporting

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### **General comments**

The members of the EACB gladly take the opportunity to comment on the IFRS Foundation's consultation about **Sustainability Reporting**. The EACB answer will focus on all the 3 aspects of the consultation concerning the need for global sustainability standards, the IFRS Foundation role and the scope of that role.

The EACB members believe that the current fragmentation is confusing and far too complex. For this reason, there is an urgent need to improve the consistency and comparability of sustainability reporting. Please find below the EACB answers to the specific questions:

### **Answers to specific questions**

Q.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?

EACB believes that companies should disclose their environmental & social strategies, their transition policy and their governance as well as how they implement these strategies (action plans and KPIs). The Sustainability reporting should better clarify the risks and opportunities (definition of short/medium/long term risks and opportunities), as well as the processes for identifying and assessing those risks and opportunities. EACB believes that the current disclosure requirements of the Sustainability reporting do not fully ensure companies report the information that financial sector companies will need to meet the requirements imposed by a range of new regulatory pieces (i.e. Taxonomy Regulation, Disclosures Regulation, Climate-related Benchmarks Regulation, provisions under the CRR2/CRD5 package). The new sustainability reporting should also be implemented taking into consideration the development of the disclosure requirements established by the technical screening criteria of the Taxonomy Regulation.

In general, EACB advocates the creation of international non-financial reporting standards instead of only European ones. Ideally the ESG reporting should be developed globally and at all levels of the economy to fulfil the data gap. Nevertheless, if the EU would decide to set standards (e.g. NFRD, EC new mandate to EFRAG) it should continue its commitment to global standards and contribute actively to a global solution. It is therefore worth considering the creation of an international standard setter for non-financial reporting under the auspices of the IFRS Foundation.



Q.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?

EACB believes that the IFRS Foundation has an international network which can allow to try and test different structures for the Sustainability Reporting. The main advantage of the IFRS Foundation lies above all in its independence, which ultimately guarantees its acceptance. Moreover, the Foundation already has widespread international market acceptance in financial reporting, supported by the integrity, transparency and public accountability of its governance arrangements. However, in our opinion, there should be a clear separation between reporting standards and political interests. A reporting standard should be developed independently. Political interests should not be advanced through reporting, but through mechanisms such as taxation or investment. From this aspect, the EU and other international bodies could set their own priorities concerning those type of mechanisms.

Q.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 would like to highlight the importance of Paragraph 31. Financial and non-financial reporting requirements must not contradict each other. At the same time, we believe that the idea of mandatory integrated (financial and sustainability) reporting should not be pursued due to the information overload that this might entail.

EACB members rather stress that well-established, internationally recognized recommendations (e.g. of the TCFD) and methods must be considered. Supervisory requirements and recommendations on the disclosure of non-financial information should also be considered. It must be ensured that current expertise and developments on the disclosure of sustainability-related/climate-relevant information are continuously integrated into the SSB's work. Finally, we believe that the possible new structure should integrate or build upon already existing reporting formats, to be sure that standards achieve the broadest possible acceptance.

Q.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?



EACB recognizes that there is a timing issue. However, Auditors, accountants, relevant existing standard setter organizations (in particular GRI, SASB but also TCFD, IIRF, CDP and many others) and representative from the Sustainable Finance Platform should be involved in the development of Non-Financial Reporting Standards. We believe that none of the existing standard and framework, applied on its own, resolve the problems identified while also enabling companies to comprehensively meet the current disclosure requirements.

Existing disclosure frameworks of NFI, whether at EU level with the NFRD or at global level (TCFD, GRI etc.) all predate, by definition, the sustainable finance action plan (SFAP) and the EU Green Deal.

In the meantime, in the EU the NFRD Guidelines on reporting climate-related information (June 2019), the sustainable investments disclosure regulation (Regulation (EU) 2019/2088), CRR2 pillar 3 requirements and the so-called Taxonomy Regulation have been adopted.

For this reason, we need a simple International Non-Financial reporting standard for all companies for reporting a harmonized set of non-financial information aligned with the TSC of the EU taxonomy.

Finally, we believe that IASB could play an important role in setting such a standard, involving stakeholders, like relevant standards setter and professional associations, in the process: inclusiveness and pluralism should be guaranteed together with transparency in the process.

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

EACB believes that cooperation and teamwork between the IASB, EU and other relevant stakeholders like the GRI and TCFD is really important to establish international and Coherent Non-Financial reporting standard.

Q.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?

We see merit in including national representatives on the Monitoring Board (as members or trustees), therefore involving them to a greater extent.



Q.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?

Given the currently prevailing urgency and the public perception of this issue, EACB advocates that the SSB concentrate upon developing a climate-related sustainability reporting standard before turning towards other topics. Any other approach would probably take too long until agreement can be reached on all ESG factors within the standard-setting process. Going forward, however, we welcome the SSB extending its activities to further ESG topics. The EACB believes that the IASB's considerations may well be investor centric. Investors' decisions are the most crucial for a transition to a low-carbon economy. It is therefore reasonable, in our view, to focus on investors' expectations in a later stage.

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

Overall, in the long term, EACB believes that the "climate-first" approach is too narrow. A non-financial standards board should also deal at least with environmental standards. The EACB welcomes a more comprehensive consideration/discussion of ecological factors, whereby it is imperative that regulatory developments and socio-ecological aspects are also respected.

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

In general, EACB believes that guiding principles such as relevance and materiality should be the same for both financial reporting and non-financial reporting. Otherwise, it will be difficult to prepare an integrated report. The "double materiality" concept does not really fit financial reporting principles.

Q.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?

EACB suggests a gradual evolution of the current framework. This means that, during an initial phase, companies should not be required to disclose their materiality assessment



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process and should apply a limited assurance engagement on the non-financial information published. This could give them enough time to reach the same level of awareness, allowing companies to become familiar, gradually, with more stringent assurance requirements that could end with the adoption of a reasonable assurance engagement on the non-financial information published. At the end of this process, we believe that assurance provider should assess the reporting company's materiality assessment process.

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