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IFRS Foundation Consultation Paper on Sustainability Reporting, the Danish EFRAG-mandate

Dear Mr. Liikanen,

Thank you for the opportunity to respond to your [Consultation Paper on Sustainability Reporting](#).

The Danish EFRAG-mandate is a group of five individual large organisations in Denmark representing thousands of businesses, banks, mortgage institutions, insurance companies, pension funds, auditors and CSR experts in Denmark.

We welcome your Consultation Paper. There is demand from users and preparers for global standards on non-financial information, which would increase the global comparability and transparency of sustainability reporting.

We have summarised our key points below, before working through the specific questions posed by you one-by-one:

- There is a need for international consolidation and convergence of sustainability reporting standards to increase the global comparability and transparency of the report. The lack of harmonized and globally applied standards often leads to inefficiency, e.g. duplication of reporting in some areas and gaps in other areas.
- We encourage you to establish a strong working relationship with the EU due to the current EU initiative in developing a set of non-financial reporting standards. The European initiative should be seen as a strong partner and source of inspiration in the development of these global standards.
- We support EFRAG in assuming the role of European standard setter. However, should the IFRS Foundation move towards becoming the global standard setter also in the field of non-financial reporting, we would envisage strong working arrangements between EU/EFRAG and the SSB. Such process should ensure that companies and financial institutions with international presence do not have to report under two sets of standards, hopefully by adopting an endorsement mechanism and thereby embedding the potential international standards into the NFRD landscape of reporting. It will therefore be important for you to collaborate with the EU.

- The development of a SSB to operate under the governance structure of the IFRS Foundation is an appropriate approach. Members of the SSB should be committed to adoption/endorsement or promotion of the standards within their jurisdictions or globally. You should use your relationships with stakeholders to aid the adoption and consistent application globally.
- The initiative should cover the double materiality perspective (the entity's impact and dependencies).
- The SSB should start with climate but broaden scope of topics. Climate-related risks should incorporate broader environmental factors and social aspects.
- The SSB should consider the auditability/verifiability of the information required in the standards. A discussion about audit requirements is relevant when discussing endorsement in different jurisdictions. As such, the SSB should not set audit requirements.

We kindly refer to Annex 1 of this letter for our detailed responses.

Should you have any questions, please do not hesitate to contact Thomas Krath Jørgensen, FSR – Danish Auditors, at tkj@fsr.dk.

Yours sincerely,

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About the Danish EFRAG-mandate

The Danish EFRAG-mandate consists of five individual organisations:

- FSR – Danish Auditors is Denmark's trade organisation of auditing, accounting, tax, corporate finance and CSR.
- Insurance & Pension Denmark is the Danish trade association for insurance companies and pension funds.
- Finance Denmark is the business association for banks, mortgage institutions, asset management, securities trading and investment funds in Denmark.
- The Danish Chamber of Commerce (Dansk Erhverv) is the network for Trade, IT, Industry and Service in Denmark.
- Confederation of Danish Industry (DI) is a private business and employers' organisation representing thousands of companies in Denmark.

Annex 1 – IFRS Foundation CP – questions for consultation

We are pleased to provide below our detailed responses to the questions one-by-one.

Question 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?

Yes, we believe there is a need for international consolidation and convergence of sustainability reporting standards to increase the global comparability and transparency of the report.

Today, companies are spending a lot of resources on preparing non-financial reporting, but the lack of harmonized and globally applied standards often leads to inefficiency, e.g. duplication of reporting in some areas and gaps in other areas. A global set of internationally recognized sustainability reporting standards should ensure higher level of comparability and transparency as well as a more cost-efficient reporting.

From a European and Danish perspective we do urgently need a framework for the reporting under the coming EU Non-Financial Reporting Directive (NFRD), taking into account both the current developments and consistency between the increased reporting requirements as well as the broad audience intended under the NFRD. Having regard for this, we strongly believe there is a need for a globally applied set of internationally recognized sustainability reporting standards building on existing frameworks/standards and major initiatives. From our perspective, the European initiative on non-financial reporting should be seen as a strong partner and source of inspiration in the development of these global standards.

We believe that the IFRS Foundation is in a good position to function as a focal point for a consolidation, but it is very important that the IFRS Foundation can secure that the standard setting will be globally applied.

Question 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 believe this would be an appropriate approach to ensure an appropriate governance.

The current IFRS structures are well established, supported and respected by the relevant users being capital market participants and other investors and lenders. However, it will be very important for the IFRS Foundation to ensure the right competences are in place both in the new board and in the organization in general.

The due processes established by the IFRS Foundation and the IASB could also prove to be beneficial for non-financial standard setting and should contribute to high-quality standards.

Members of the SSB should be committed to adoption/endorsement or promotion of the standards within their jurisdictions or globally.

Question 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 believe the list is already very comprehensive and we have not identified major gaps in the success factors.

However, the IFRS Foundation should broaden the scope in terms of topics included to E, S & G, but we think that the suggested approach (starting with the E) will function as a good starting point. Furthermore, in order to fully cater for the relevant users – i.e. capital market participants and other investors and lenders – we believe the initiative should also cover the double materiality perspective (the entity's impact and dependencies).

Question 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?

Yes, we believe the IFRS Foundation should make use of its network. However, we note that an endorsement mechanism must be established in the EU. Therefore, it will be important for the IFRS Foundation to collaborate with the EU.

We also strongly encourage the IFRS Foundation to enter a dialogue with other key stakeholders including international organizations to understand how they can support adoption and consistent implementation globally as well as what endorsement mechanisms they are looking for.

This is an area where further work is needed.

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

We would encourage the IFRS Foundation to establish a strong working relationship with the EU due to the current EU initiative in developing a set of non-financial reporting standards.

The sustainability agenda in Europe is accelerating on an unprecedented speed and is central to both EU policy making and the regulatory agenda. The EU needs a reporting standard that will have to be consistent with the EU legislation and regulatory requirements to facilitate not only the compliance with the legislation, but also companies' transition, and the support financial market participants can offer. Thus, we support EFRAG in assuming the role of European standard setter.

This also implies, that should IFRS Foundation move towards becoming the global standard setter also in the field of non-financial reporting directed at the capital markets, we would envisage strong working arrangements between EU/EFRAG and the SSB under IFRS Foundation. Such process should ensure that companies and financial institutions with international presence do not have to report under two sets of standards, neither should EU companies reporting under the EU standard be required to switch from one to another in a short period of time, requiring double investments and adjustments of processes and IT systems.

Furthermore, we believe the IFRS Foundation should understand the diversity in terms of intended users and the approach taken in the existing different international frameworks before building upon them. Where some frameworks are essentially reporting frameworks, other initiatives focus more on impact and transition than on reporting. In this respect a “building block approach” may be relevant, identifying areas where the initiatives would have similar coverage and user group to that expected by the IFRS Foundation and on the other hand initiatives going beyond.

Question 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 would like to refer to the answer of question 5 above.

Question 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?

We presume the question concerns non-financial climate-related disclosures and not financial disclosures as indicated in the question.

As we have outlined in the answers to question 2 and 3 above, we believe the intended user group should be capital market participants and other investors and lenders, but the scope of topics as well as the approach to materiality should be broader. The users have moved beyond simply looking at financial materiality, and thus a set of non-financial reporting standards would need to reflect this.

Yes, we do support the prioritization of climate, but the SSB should in parallel prioritize a conceptual framework for their standards having regard for and outlining a broader materiality concept catering for the double-materiality approach outlined in for instance the EU initiatives and a broader scope of topics.

We also strongly encourage the SSB to issue or develop a roadmap for their standard setting plan to enable increased acceptance and uptake globally. From a preparer and user perspective, being able to plan for the long term is an important aspect as they will all need to change and adapt their processes.

In addition to the collaboration with the EU mentioned earlier we would also encourage the SSB to take the work done by the Task Force on Climate-related Financial Disclosures (TCFD) into consideration when starting their work on developing a climate-related reporting standard.

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

We believe the SSB should start with climate but broaden scope of topics (but limit the intended users to capital market participants and other investors and lenders).

We also believe that climate-related risks should incorporate broader environmental factors (e.g. water and biodiversity issues) and include social aspects (e.g. from transitioning to sustainability).

It is important to understand that these risks will vary depending on the industry and region as well as they will change in time. Therefore, a focused and static definition of climate-related risks is impracticable.

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

No, we believe the definition outlined in paragraph 50 is too narrow.

We do agree with a capital market focus, defining the users as capital market participants and other investors and lenders, but as we have indicated earlier, these users also have a double-materiality perspective in today's world. Therefore, the SSB would need to broaden their materiality concept.

Question 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?*

Yes, however, we do not believe the SSB should set audit requirements, but they should consider the auditability/verifiability of the information required in the standards, since many users, including investors and lenders, would need assurance on key information to be able to use the information in their decision making and reporting about their investing and financing activities.

A discussion about audit requirements is relevant when discussing endorsement in different jurisdictions.

The mandate of the SSB should be to consider the auditability/verifiability of the required information, including the possible level of assurance or verification. E.g. audit/verification of forward-looking expectations differs from audit/verification of historical data and it may not be possible to provide the same of level of assurance, if any.

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

On a longer term, a global standard on non-financial information should also be able to facilitate a proportionate inclusion of small and medium-sized entities (SMEs), taking into account that SMEs often lack necessary resources to address sophisticated sustainability reporting.

No other comments raised.