

IFRS CONSULTATION ON A GLOBAL APPROACH TO SUSTAINABILITY REPORTING AND A POSSIBLE FOUNDATION ROLE

Response from Insight Investment

December 2020

Insight Investment¹ is responding to the consultation issued by the IFRS on the formation of a global approach to sustainability reporting and the possible introduction of a foundation role.

As one of Europe's largest asset managers, we take seriously our responsibility to act as stewards of our clients' assets and, to this end, assessing sustainability information has always been an integral part of our investment processes as bondholders.

The richness and variety of data available to inform investment decisions has grown significantly in recent years and this has enabled fixed income investors to take much more considered views on factors they consider relevant to credit performance. Yet at the same time, the increased complexity and unevenness of sustainability data presents a risk to investors and our clients who can find themselves bewildered by the lack of consistency and comparability. This will be more relevant as clients, especially through regulatory pressure, adopt sustainability objectives for their portfolios. We also identify a widening gap between what investors require to support emerging client demands and what is currently available through companies' reporting.

We therefore welcome the IFRS Foundation's proposal to take leadership in developing globally consistent sustainability reporting standards, which we think is a positive step in confronting sustainability disclosure problems for investors.

To ensure the success of this initiative we advocate the following principles:

1. **Simplicity** – speaking both to our clients and the companies we invest in, a smaller subset of data which is both pertinent and comparable should be an initial priority. This is not to reduce a broader ambition to go further but to acknowledge the credibility such an initial first step would bring to the process.
2. **Incrementality** – a lot of positive work has been done around sustainability reporting best practice; something which builds on this work (e.g. SASB, TCFD, CDP) rather than circumvents it will be vital to get buy-in from investors who have already integrated some of this best practice into their investment processes.
3. **Breadth** – awareness of climate change calls for greater disclosure, but investors still encounter sustainability information weaknesses in areas including governance. The initiative should seek to encompass non-environment themes such as corporate governance to support markets with a holistic framework on sustainability reporting.
4. **Partnership** – ensuring all stakeholders are engaged in the initiative (both the producers and consumers of the information) and considering different perspectives by jurisdiction is a prerequisite for success. Policymakers will be fundamental to this and understanding the likely evolution of policy by geography should be a key starting point.
5. **Timeliness** – data inconsistencies are a problem now and are a hurdle to effective implementation and transparency. For a number of issues, most notably climate change, the hour for action is already late and good quality data that informs a smarter flow of capital to address these issues is urgent. We hope that any implementation roadmap acknowledges this urgency.

¹ Insight Investment is Europe's fourth largest investment manager, managing £732bn in assets (as at 30 September 2020) for pension funds, insurers, sovereign wealth funds and financial institutions. In our view, responsible investment is as an essential part of managing risk and deciding whether an investment is fair value. We were a founding signatory to the UN-supported Principles for Responsible Investment (PRI) in 2006 and have been systematically integrating environmental, social and governance (ESG) issues in our research process for more than a decade.

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 place a great deal of importance on integrating material ESG risks and opportunities into our investment process and would welcome any progress made towards broadening and harmonising sustainability reporting. This would enable us to make more informed investment decisions that can potentially reward companies with better access to capital. There would also be benefits for clients demanding more transparency beyond purely financial metrics.

We support the IFRS foundation in expanding its standard-setting activities into this area. Given its strong governance structure alongside its global presence and reputation, we believe the IFRS foundation is well placed to deliver the standardisation that is clearly required.

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. First, we see no reason why the existing robust governance structure would not be transferrable in principle to sustainability reporting standards providing, as you suggest, that enough expertise was onboarded. We believe that there is a benefit to having a standard-setting body which covers both non-financial and financial reporting under the same architecture – this lends a credibility of process but also enables a clearer representation of the alignment of financial and non-financial information in terms of materiality impacts.

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)?

For us, the key requirements of success for this initiative are covered in paragraph 31. The main point to add is that we think to 'bring people along on the journey' it will be very important to build on existing initiatives; the scope of the task is large but some very good work has already been carried out by bodies such as TCFD, CDP and SASB, and in many cases aspects of these approaches have already been integrated into investment processes. Scoping the users of the information and what is relevant by jurisdiction will be an important initial step ensure the overall success of the initiative.

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 would expect this to be the case. One of the benefits of the IFRS Foundation leading this initiative is the global nature of its network and the credibility of the organisation. Investors and other end consumers of this data are looking for leadership so would welcome steps taken.

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

As we mentioned in our answer to question 3, building on existing frameworks is likely to be critical to success given many have already been enthusiastically adopted by investors and regulators. We believe that in particular acknowledging the TCFD recommendations, the EU taxonomy architecture and some of the voluntary frameworks which have been developed over a number of years e.g. CDP and SASB, would be practical.

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?

There is currently no global consensus on what an appropriate and realistic sustainable reporting framework should look like with different stakeholders and jurisdictions having different priorities. Viewpoints on what represents materiality purely related to value creation vs the concept of 'double materiality' is an important hurdle to overcome. In this regard, while a single global solution would in

many respects be an optimal result, it is unlikely to be a practicable short-term goal. Instead, we support a modular approach which targets data likely to be important to all investors at the outset before broadening this out in a second stage to cover more extensive sustainability performance.

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

From the perspective of ourselves and our clients, climate-related financial disclosure is the key priority. This comes from both a risk perspective but also being able to fulfil regulatory obligations.

We acknowledge that sustainability issues extend well beyond climate however and therefore, while we would support a staged process that deals with climate first, we think at the outset providing a potential roadmap for the scope of the broader project would be beneficial in terms of adoption. A climate-only approach would lack credibility and ambition and may lead to a lower degree of adoption.

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

In many ways, it can be difficult to isolate what is purely a climate-related risk and separate that from broader environmental factors. Issues like biodiversity are inextricably linked to climate change and therefore a focused definition would need careful consideration of what factors would be captured. In principle, we agree with the prioritisation but would recommend consultation on what factors best practice would require.

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

Yes, we agree that pragmatically it makes sense to follow the gradualist approach suggested.

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?

Given the undoubted materiality of the sustainability information likely to be disclosed, it seems reasonable that it should be subject to assurance in the same way that financial information is, where possible; acknowledging additional expertise is likely required to provide an adequate level of assurance.

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

We welcome the steps taken in this document but would also urge a strong level of ongoing dialogue with regulators to make sure there is no divergence. An increase in quality and transparency is key here but also a recognition that a lot of institutions have limited capacity and resource to deal with complexity; simplicity should be a core objective alongside clear timelines so that all stakeholders have a clear roadmap to adoption.

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