

December 30, 2020

**The Trustees of the IFRS Foundation,
The Columbus Building,
7 Westferry Circus,
Canary Wharf,
London,
E14 4HD**

Submitted electronically via IFRS.org

RE: Consultation Paper on Sustainability Reporting

Dear IFRS Foundation Trustees,

BlackRock¹ is pleased to have the opportunity to respond to the Consultation Paper on Sustainability Reporting.

BlackRock strongly agrees that there is a need for a global set of internationally recognized sustainability reporting standards. We believe the IFRS Foundation has a central role to play in setting such standards, given its domain expertise and the relationships it has with public policy makers and market regulators, which are essential to establishing a credible reporting system that achieves global recognition and adoption. We suggest that a Sustainability Standards Board would be most effective if it were to build on the work of the private sector initiatives that have made considerable progress to date on sustainability reporting. It will also be important to coordinate closely with policy makers in those jurisdictions developing sustainability reporting requirements. The key to success will be to avoid duplication and, more importantly, contradiction so that reporters and users of sustainability information benefit from having global sustainability reporting standards.

We welcome the opportunity to comment in more detail below on the issues raised by the consultation paper and are available to further discuss any of our points.

Yours faithfully,

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¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

IFRS Foundation Consultation Paper on Sustainability Reporting

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?**

BlackRock strongly agrees that there is a need for a global set of internationally recognized sustainability reporting standards. With the increased awareness of the financial materiality of environmental, social and governance – collectively sustainability – factors to companies’ long-term performance and prosperity, investors and other stakeholders need a clearer picture of how companies are managing sustainability factors today and for the future.

In January, BlackRock called for companies to enhance their sustainability reporting, highlighting that: “Important progress improving disclosure has already been made – and many companies already do an exemplary job of integrating and reporting on sustainability – but we need to achieve more widespread and standardized adoption.”² We are encouraged that over the past 12 months many more companies are publishing substantive disclosures on their sustainability.

However, the proliferation of disclosure approaches, many of which are overlapping, has led to duplicative efforts by reporters and a lack of consistent and comparable data. Convergence to establish a globally recognized sustainability reporting framework and set of standards would improve the information available to capital markets and reduce the reporting burden on companies.

We believe the IFRS Foundation has a central role to play in setting such standards, given its domain expertise and the relationships it has with public policy makers and market regulators, which are essential to establishing a credible reporting system that achieves global recognition and adoption.³ While the IFRS Foundation’s role would be global, it should coordinate with those developing jurisdiction-specific sustainability reporting requirements, such as in the European Union. Similarly, the jurisdiction-specific efforts should seek to be harmonious with the IFRS Foundation’s global set of sustainability reporting standards.

Given the considerable progress made by the private sector sustainability reporting frameworks and standards, we believe IFRS Foundation should build on those efforts to accelerate the development of global standards. As discussed in more detail in our response to question 5, BlackRock strongly supports the framework developed by the [Task Force on Climate-related Financial Disclosure](#) (TCFD) and the metrics identified by the [Sustainability Accounting Standards Board](#) (SASB). In January, we asked companies to publish SASB- and TCFD-aligned disclosures, an ask we reiterated in Our 2021 Stewardship Expectations⁴.

² <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

³ <https://www.blackrock.com/corporate/literature/publication/blk-commentary-sustainability-reporting-convergence.pdf>

⁴ <https://www.blackrock.com/corporate/literature/publication/our-2021-stewardship-expectations.pdf>

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?

BlackRock supports the IFRS Foundation's proposal to create a sustainability standards board (SSB) under the governance structure of the IFRS Foundation, subject to it realizing the success factors discussed in the consultation paper and in our response to question 3.

We believe that, as practitioners develop their understanding of the materiality of sustainability factors, over time the interconnectedness between financial and sustainability reporting will become more apparent. As discussed in response to question 7, in the past twelve months climate risk has moved from a material business risk to one that ought to be reflected in financial statements. Thus, it makes sense to establish the SSB as a parallel entity to the International Accounting Standards Board (IASB). We believe there could be synergies in working together on certain issues and would encourage a mechanism to ensure collaboration where appropriate. This would reinforce the focus of SSB on material sustainability factors to meet the needs of investors and other primary users of corporate reporting, and support economic decision making.

In terms of governance, the IFRS Foundation's three-tier governance structure would provide the technical expertise, oversight rigor and accountability that are important to ensuring that the reporting standards meet user needs. That said, the SSB would need to bring in specific expertise, at both governance and staff levels, and should draw on the capabilities of the existing private sector initiatives such as the TCFD and SASB. We believe that the independent standard-setting board of experts should have a commitment to serve the needs of investors as its mission. Accordingly, it should have an appropriate level of investor representation to ensure the investor voice is adequately represented in the development of the sustainability reporting standards. Further, the IFRS Foundation should consider as a model the SASB Investor Advisory Group which has enabled extensive engagement with the investor community and between investors and companies.

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)?

One of the critical factors for success will be for the SSB to clearly define its scope and objectives in sustainability reporting. This will help ensure that IFRS Foundation stakeholders have reasonable expectations of the SSB in terms of the eventual standards and the time frame in which they will be delivered.

We believe that, to meet stakeholders' expectations, the SSB ought to bring a sense of urgency to the convergence project, balanced with the need to follow robust and independent processes to ensure quality standards. In our view, the SSB would be able to move quickly and effectively if it built on the work done to date by TCFD, SASB and the other key private sector framework and standard setters. These groups indicated in their September statement of intent their willingness to work with the IFRS Foundation to develop a comprehensive

corporate reporting system.⁵ By taking this approach we expect the SSB would, within a relatively short time frame, be able to establish a core set of globally recognized standards for sustainability reporting for financial markets participants.

Considerable technical expertise has been built up over recent years by the private sector initiatives that have established standing in researching, consulting on and establishing sustainability reporting standards. The SSB should consider integrating those entities most aligned with its mission to benefit from existing specialist sustainability expertise. In addition, investors in their endorsement of SASB have expressed clear support for sector-based sustainability reporting against defined metrics. This is a different approach to that the IFRS Foundation has traditionally taken to standard setting. Even if integration isn't wholly possible, gaining the support of the private sector initiatives will be essential to the SSB's success; otherwise it will be adding to the complexity and duplicative efforts it is trying to address.

A factor in the success of the existing sustainability framework and standards setters is the community that they have built of reporters and users of sustainability information. It will be critical to the success of the SSB to maintain and expand that community so that it benefits from their insights and experience as proponents of comprehensive corporate reporting. The SSB would, through the IFRS Foundation, bring to that community the supranational and national regulators and public policy bodies that will play a central role in supporting the global adoption of sustainability reporting standards. This will also be important to gain the support of all corporate reporters, not just those already reporting under IFRS, to achieve globally adopted standards.

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?

The IFRS Foundation's global relationships with public authorities, regulators and market stakeholders, including investors, corporates and the accountancy and audit professions, are an important advantage that the IFRS Foundation brings to the convergence effort. This extensive global network will be instrumental in ensuring a thorough consultation process as reporting standards are developed and building support for adoption and consistent application once such standards are finalized. In our view, the IFRS Foundation has the relationships with the relevant market-level authorities that put it in perhaps a stronger position than other entities to garner the required support for mandating the application of the SSB standards in their jurisdiction and ensuring any local market requirements are complementary to the global standards. Recent public statements indicate that regulatory momentum is building in support of the IFRS Foundation taking a leading role in converging the frameworks and standards developed to date by the key private sector initiatives.⁶

⁵ <https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>

⁶ See the [open letter](#) by Erik Thedéen, Chair of the International Organization of Securities Commissions (IOSCO) Sustainable Finance Task Force, published October 28, 2020, and the [announcement](#) from the UK government, made in November 2020. In Asia, support has come from, amongst others, the IFRS Council of Japan, a group of nine organizations including regulators and the Tokyo Stock Exchange: <https://www.fsa.go.jp/en/news/2020/20201130/01.pdf> and a cross-agency steering group in Hong Kong: <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/12/20201217-4/>

Another important consideration for the SSB is whether private companies would be in scope for reporting under its standards. Regulators with responsibilities for the success of their economies should be interested to understand the sustainability characteristics of all companies given their contribution to economic growth in their domestic market and globally. We believe reporting by companies across the public and private markets would support appropriate capital allocation and enhanced understanding of the sustainability characteristics of an economy. If the SSB did consider private companies to be in scope, it would be worth developing a proportionate set of sustainability reporting requirements for small and medium sized enterprises once the initial standards are finalized.⁷

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

The IFRS Foundation, through the SSB, could build upon and advance the work of the existing key initiatives by mapping and synthesizing the best ideas for meeting investors' informational needs in the respective frameworks and standards. Doing so at the outset should ensure that SSB doesn't duplicate efforts to date but can also determine an intellectually robust foundation for the standard setting process it will need to undertake. This would support the Foundation's aim to reduce complexity and help achieve harmonization of the sustainability reporting systems.

BlackRock has advocated for several years that companies publish enhanced sustainability reporting, which we consider to be reporting aligned with the recommendations of the TCFD and the metrics identified by the SASB. While TCFD is focused on climate-risk reporting, in our view, the framework is conceptually equally applicable to all corporate reporting relating to environmental and social risks and opportunities. Its four pillars – governance, strategy, risk management, and metrics and targets – align very closely in our view with how companies plan, operate and report on their businesses. We consider SASB a globally relevant standard for reporting to investors because it is focused on achieving disclosure that is financially material, decision-useful, cost-effective, industry-specific, evidence-based and informed by market practitioners. On our assessment, the approach taken by SASB is consistent with that of the IFRS Foundation. We believe it is particularly important that a converged set of standards retain the sector focus of SASB, while building in the factors that apply to companies across the market.

BlackRock welcomed the joint statement⁸ on September 9, 2020 by a group of five sustainability reporting organizations – SASB, the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the CDP (formerly the Carbon Disclosure Project) and the Carbon Disclosure Standards Board – that they plan to work together to develop “a comprehensive global corporate reporting system.”

The group of five organizations introduced the concept of nested materiality⁹ to explain the gradation between core financial information already reported in

⁷ https://www.esma.europa.eu/sites/default/files/library/esma32-67-765_speech_steven_maijoor_-_the_three_paradoxes_of_sustainability_reporting_and_how_to_address_them.pdf

⁸ <https://29kjob3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>

⁹ See p5 of the joint statement: <https://29kjob3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>

financial statements, to ESG information relevant to enterprise value creation, to information on the impact on society of a company's operations, products and services. Also captured within the concept map produced by the partnering organizations is the concept of dynamic materiality, whereby the factors recognized as material change over time based on facts and circumstances as well as increased understanding of the drivers of risk and value in a company's business model. Dynamic materiality resonates with BlackRock, particularly in terms of the sector-specific factors and information necessary for the different audiences that companies are trying to address in their reporting, as well as the changing nature of the sustainability-related issues which a company faces. That said, we believe that the SSB should focus on the sustainability topics that are material for enterprise value creation, rather than those that address a company's impact on society, as this is consistent with the IASB's focus. It could collaborate as relevant with the IASB on those issues on the margin between financial and sustainability reporting. The SSB could coordinate with GRI and others with expertise in reporting company impacts on society, reflected in the outer layer of the nested materiality map. They are well positioned to monitor which impacts are likely to become material for investors and thus help SSB prioritize its work.

The Value Reporting Foundation, to be formed through the merger of IIRC and SASB (see November [announcement](#)), will work to further advance sustainability reporting centered on sustainability factors that are integrated into how companies create value and manage risk and sector-specific metrics that help investors understand long-term financial performance. Reportedly, a merger with CDSB is imminent, which would make the Foundation the consolidating body for private sector sustainability standards focused on materiality for investors. Either as currently proposed or in an expanded form, it would be an ideal partner for the SSB as it established itself as a sustainability reporting standards setter serving an investor audience.

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?

As noted above, there is increasing support from regulatory bodies for enhanced sustainability reporting, either through adoption of existing frameworks and standards such as TCFD and SASB or market-specific reporting such as that being developed in the European Union. Should the IFRS Foundation establish the SSB, it would make sense to map the existing and proposed public policy measures (at the jurisdiction and sector levels). In doing so, it would identify what is broadly a common approach and thus could be considered for a global standard. Similarly, the jurisdictions already looking into enhanced sustainability reporting should engage with the SSB. The key is to avoid duplication and, more importantly, contradiction so that reporters and users of sustainability information benefit from having global sustainability reporting standards.

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?

BlackRock recognizes the urgent need to address the information gap in relation to the impact of climate change and the transition to a low carbon economy on

the global economy and individual companies. Global convergence towards the TCFD framework for reporting climate risks and opportunities, demonstrated through the growth in voluntary and regulatory initiatives, provides a solid foundation for developing reporting standards. We also note that the IASB has issued guidance¹⁰ to highlight how existing requirements in IFRS standards require companies to consider climate-related matters, including the impact of a transition to a low carbon economy, when their effect is material to the financial statements. The recent [prototype](#) climate-related financial disclosures standard, proposed by the group of five mentioned above using the existing guidance, frameworks and sustainability reporting standards provides a sound starting point from which to undertake a formal standard setting process.

We believe that the SSB's ambition should be to establish global sustainability reporting standards which retain the sector focus of SASB, while building in the factors that apply to companies across the market.

We suggest that the SSB should prioritize establishing an overarching conceptual framework for sustainability reporting, based on TCFD and IIRC, and initially develop standards addressing a small number of market-wide factors such as climate change. In that interim period, the SSB could recommend companies report sector-specific material sustainability factors using SASB. Within a defined time period, the SSB could review, develop and consult on sector-specific reporting building on the SASB standards. Both the market-wide and sector-specific standards should define the relevant metrics and narrative that should be reported by companies to help their investors make better informed economic decisions. Climate will be a component in each standard, but this approach delivers more comprehensive sustainability reporting¹¹. The SSB should build on the work of SASB to ensure standards are based on robust research and practitioner input such that they continually improve to serve the needs of investors.

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

As set out in our response to question 7, we believe that as much as climate-related risks impact the whole economy it is important for the users of sustainability reporting to have a comprehensive understanding of the material sustainability risks and opportunities in a company's business model. Thus, the SSB should develop reporting standards that cover all relevant governance, social and environmental factors.

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

We agree that the SSB should focus its efforts on the sustainability information most relevant to investors and other market participants. As noted in paragraph 50, such information grounded in financial materiality is more closely connected with the current focus of the IASB. We believe that the concept of dynamic materiality discussed in our response to question 5 is helpful here. The priority for

¹⁰ <https://cdn.ifrs.org/-/media/feature/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf?la=en>

¹¹ Recent research by the BlackRock Investment Institute highlighted the importance of comprehensive reporting of material sustainability metrics: <https://www.blackrock.com/corporate/literature/investor-education/sustainable-investing-resilience.pdf>

the IFRS in the near term should be to establish a comprehensive reporting framework that improves the quality of information available to allocators of capital.

Double materiality, or the impact of a company on the economy, environment and people, is an important concept and the GRI provides a useful standard for companies to report such information. The SSB should focus on financially material and business relevant risks and opportunities. Its aim should be to develop, implement and fine-tune reporting standards that result in reporting that explains for investors how a company has created enterprise value. As noted above, the GRI could provide useful information to the SSB as to company sustainability impacts likely to emerge as material for investors, as recognized in the concept of dynamic materiality.

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?

BlackRock believes it is important for the SSB to establish its reporting standard and metrics before requiring assurance that would be commensurate with what report users expect. In our view, investors would initially accept limited assurance of sustainability reporting. Once the standards are globally adopted and consistently implemented, users are likely to expect a higher standard of assurance. Phasing in assurance expectations would also allow time for an auditing standard to be developed and the professional services firms to develop expertise in assuring sustainability reporting.

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

BlackRock observes considerable and growing support for SASB amongst investors and companies because of its focus on financially material, business relevant and sector-specific factors in its standards. As noted above, BlackRock also strongly advocates for TCFD-aligned reporting and considers its conceptual framework – governance, strategy, risk management, and metrics and targets – applicable to all sustainability reporting. We understand that the mandate at the Financial Stability Board (FSB) ends in 2022. We believe that it could make sense for the IFRS Foundation to work with the FSB to transition the TCFD to the SSB, which would further accelerate convergence towards global, comprehensive sustainability reporting standards. We believe that it could make sense for the IFRS Foundation to work with the FSB to transition the TCFD to the SSB, which would further accelerate convergence towards global, comprehensive sustainability reporting standards. We consider a combination of the Value Reporting Foundation and TCFD the best way to accelerate progress towards a comprehensive, globally adopted sustainability reporting system under the auspices of the IFRS Foundation.