

The call for international sustainability standards

Gord Beal: Hello everyone, and welcome to CPA Canada's latest podcast. My name is Gord Beal and I'm the vice president of Research, Guidance and Support at CPA Canada, and I lead on our sustainability file.

Today I'm very pleased to be joined by two trustees of the IFRS Foundation: Larry Leva and Maria Theofilaktidis. The foundation promotes the adoption of IFRS accounting standards and is the governance and oversight body of the International Accounting Standards Board. Larry Leva is the vice chair of the IFRS board of trustees, the former global vice chair – quality, risk and regulatory for KPMG International and has served as an executive member of KPMG's senior leadership team. We are also pleased to have with us a fellow Canadian and IFRS Foundation trustee, Maria Theofilaktidis. Maria is the executive vice president, global finance with Scotiabank here in Canada, and joined the IFRS Foundation trustees in January of last year. Welcome to both of you and so wonderful to see you. Thank you very much for your time.

Let's set this up first: in September 2020 a consultation paper was published by the IFRS Foundation asking whether there is demand for global sustainability standards, and if so, whether there is support for the foundation to contribute to their development. Sustainability reporting, which we often also heard referred to as ESG or environmental and social and governance reporting, is clearly top of mind these days for investors, companies, regulators and, of course, for accountants. So, Maria, I'm going to start with you. Why do you think there is such demand for sustainability or ESG reporting?

Maria Theofilaktidis: Gordon, thank you. At a start to say thank you for having us on this podcast today. I would say that it's quite clear that climate change and sustainability matters are obviously a global challenge. And the reality is that disclosures and related reporting hold people accountable for actions to create change. So that's why there's been a focus on the topic, and it's been building over many years. And it's actually just reached an inflection point in recent years to the point that this momentum is now driving urgency. Investors have increasingly wanted to and in fact, are expected to consider sustainability or ESG matters in their investing program. But currently, they don't think they get the information they need. In a 2020 survey by Black Rock, fifty-three per cent of the respondents said poor data is a barrier to adopting sustainable investing. So, this really highlighted the need for standardized ESG measures. Today, I think there's a myriad of initiatives out there. We sometimes refer to it as an alphabet soup of requirements. And while individually these initiatives are all good and they're actually very impressive, together they're just creating this inconsistency, redundancies and a little bit of confusion for people. And in addition, there's a burden for preparers in the market. So, I think these individual groups of people working



on sustainability reporting for a long time, have even recognized the need for convergence and consolidation in order to ensure transparency and comparability for global adoption. So, I don't think it was a real surprise for us when we did our 2020 consultation and it confirmed that, yes, there is a demand and it is an urgent demand for global standards. So, I guess the time is ripe for this change on ESG issues and we're at the forefront.

Gord Beal: Yeah, so it's interesting really it's the IFRS Foundation's response to the market, the market demand for the challenges that are being presented by this myriad of reporting standards. All of which had quality and relevance, but that the whole process of launching the consultation obviously was well timed. But I guess on that timing side, Larry, why the push for this international sustainability reporting standards at this time? What are the benefits of the globally accepted sustainability standards for organizations, investors and the broader public?

Larry Leva: Well, thanks, Gord and again, really happy to be here I should note that our push into sustainability reporting is tied to our current strategic review, which trustees of the IFRS Foundation carry out every five years. And in our conversations with key stakeholders sustainability reporting was a very hot topic, and they strongly encouraged the trustees to get involved in the area. In September 2020 as, as you mentioned, we published a consultation and the three questions, again real quick: Is there a demand for global sustainability standards? Should the foundation play a role in developing the standards? And if so, what, what should that role be? And we received almost six hundred responses from preparers, investors, asset managers and others. And at a summary level the responses made very clear, that first, there would be significant benefit to having a global set of sustainability reporting standards. Second, was very strong demand to improve the global consistency and comparability of sustainability reporting, which would obviously greatly benefit the investment community, but also preparers that are being overloaded with requests for information, as Maria noted. Third, there was also broad demand for the IFRS Foundation to establish a new sustainability standards board within the foundation's governance structure to sit alongside the IASB. And lastly, there was broad agreement to prioritize climate-related risks.

In February, we set up a trustee sustainability standard steering committee to explore our options and move forward to consider how best to meet the needs of investors and the capital markets.

Gord Beal: That's excellent Larry, thanks very much for sharing that it's clear that this is largely market driven. There's a lot of interest right around the world for this and it's amazing really to see the progress that has been made in a relatively short span of time. Having been quite passionate about this area for some time, I'm very encouraged by the recent developments. Maria, Canada's economy and our environmental reality is unique – particularly when it comes to our resource sector and our vast northern climate. The Canadian voice was strong and supportive of the IFRS



Foundation in the initial consultation last fall, that Larry was just referring to. Why do you think this issue is so important to Canadian stakeholders?

Maria Theofilaktidis: Well, I think, as you said, Canada has been a very active and supportive player in the consultation process. We did actually have significant input into the consultation process from multiple sectors in Canada. And we really appreciate that engagement. I think it's the same reasons for Canadian companies and investors. They want to ensure there's comparability and consistency and remove redundancies and confusion in ESG disclosure. So that truly you can see what people are doing across the globe.

Gord Beal: It's excellent. I mean, do you think that these reporting standards could drive greater investment into Canada? Could it actually shift the way people look at Canada in that context?

Maria Theofilaktidis: Well, I think that there is absolutely an opportunity for Canada here. You know, Canada has an excellent reputation as a supporter of international institutions, as a nation. We bring very important perspectives to the table when it comes to the sustainability discussion. And, you know, as a as a country, as we move into the post-pandemic recovery, when we're determining these recovery measures, it's also an opportunity for us as a country to set financial policies and regulations that not only will promote long term economic growth, but actually help deliver on environmental and social objectives. So, when you have the government and Canadian business sectors so committed to sustainability, you have an opportunity there. Even our extractive and energy sectors, they play a critical role in the global solution to tackle global climate change. So, when you think about resource-intensive sectors, it's important for them to continuously demonstrate their strong governance, their leading management of environmental and social risks. So, large Canadian companies tend to be leaders in this space. So, if you have the standardized disclosure, you can really highlight your progressive social and environmental practices. You can demonstrate the quality of your management of these things relative to your global competitors. So, it will stimulate investment. I think the answer really is if we have consistent and transparent disclosures, we can disclose our sustainability actions and then we can increase the impact of Canadian economic competitiveness, which will give us the potential to drive investment into Canada. At least that's the way I see it.

Gord Beal: That's great. I think that you raise a really important point there. This really is an opportunity for companies to have the ability to communicate about what they're doing and to share transparently what they're what actually is happening. And the leadership that's actually taking place in this space is so important to be reflected that way. So, thanks for that.

You know, I referred, Larry, about the speed that we're getting out right now. And, you know, sometimes the standard-setting process can be criticized for taking a bit longer than the market



would like. But I know also, of course, that's offset by the due diligence process that's necessary in standard-setting. But how long do, you know, do you feel how long before a new sustainability standards board is actually up and running? I mean, we're going through the consultation process right now. And I'm curious if you can share with us how long that might be and if you can share some insights on what the next steps for the IFRS Foundation in this process.

Larry Leva: Sure, and, you know, I think we've been actually moving pretty quickly. In March, we set out our strategic direction for the new board. They will focus on investors needs. This is consistent with the DNA of the foundation and the mission of the IASB, with the first priority being a climate standard. But our remit will be broader with a focus on sustainability-related financial reporting that is material to investors. And our work is going to build on the existing frameworks. There has been a lot of really good feedback on the good work already done by the TCFD, the SASB and others for us to use, and not recreate the wheel. So, our goal is to create a global baseline of international sustainability-related standards. And hopefully our global baseline of standards will serve as the foundation for what we and others call our 'building block' approach. That is, having jurisdictions and regulators using our standards as a global baseline to drive consistency and comparability in the information of most interest to investors. And then allowing jurisdictions the ability to add additional requirements as they see fit based on local priorities. So, in April, we published the findings of our first consultation as well as proposing changes to the foundation's constitution to pave the way for the creation of a new board, essentially expanding the remit of the organization and setting out the institutional arrangements for the new board. And that consultation is open until the end of July. We've started several workstreams to take this work forward and created working groups to help us. And we've also announced that we are recruiting for a new chair and vice chair for the new board. And finally, our plan is to make a final determination, go or no go, by the United Nation's COP26 meeting in November.

Gord Beal: That's a that's a great update, and yeah, absolutely, I would say that's moving at a tremendous pace and appropriately so, based on the demand, I guess, that you've been hearing from the marketplace. It's terrific to hear that kind of process ahead for us. Now, you know, you referenced a few things there, Larry, and Maria, I'm going to come back to you. Climate change and the transition to net zero emissions was top of mind with the G7 finance leaders recently. And it's driving the transformation in many sectors, not just in Canada, but globally. The early focus for ESG reporting standards, if I understood correctly and based on what I've been reading, it will be on the 'E', the environmental side, the climate change side of things. I mean, why does this matter right now and where do you feel the 'S' issues are, such as diversity, equity and inclusion? Where do they fit in in this process?

Maria Theofilaktidis: Well, as you've seen from the public and the media, it's clear that there's a lot of urgency related to climate change. And our feedback, through the 2020 consultation, also



clearly said that the new board should prioritize climate because of this urgency. And when you look at that priority and then you also look at the area of climate disclosures, it's also the area that's the most developed. The TCFD recommendations are out there, and then there's the development of a prototype for climate-related disclosures that has been developed by the alliance of organizations in the sustainability reporting area, and now building on the TCFD's recommendations. The foundation has created a working group, the Technical Readiness Working Group, and they're looking to see how they can take this prototype and enhance it so it gives the board a running start. So, it's really a timing thing. We are further along on climate, we can prioritize. But feedback to our consultation was also very clear that the new board should cover the full ESG spectrum. So, discussions are already started about enabling the new board to work at pace on the disclosures relating to the 'S' and 'G' areas. They're not going to be forgotten. It's just a matter of time.

Gord Beal: Yeah, that's great. I'm certainly very happy to hear that. And I know many of our members would be happy to hear that, too. I think that's terrific. So, you know, we'll have many people listening to us to this and with various backgrounds. But, you know, I can say there's probably a fair amount of accountants out there.

I'm going to put you both, if you don't mind, a little bit on the spot here. And in two or three words, can you describe the roles that professional accountants can play in enhancing the value of sustainability reporting? And maybe, Larry, I'll come to you and then and then and bring it back to Maria if that's ok.

Larry Leva: Two or three words is pretty tough, but, you know, if you use a word or two more, that's OK. Yeah, I think I think, look, there's so much to do. Right. And we haven't really talked about assurance, but that's a big part of it. You know, having consistency and comparability of information is critical. But being able to rely on that information, you know, there's been so much written about greenwashing. So being able to provide assurance on that information is really important. And it's not so simple as simply taking, you know, your existing auditors. And, you know, they finish up on the financial statements and they move over to sustainability reporting. You need the appropriate subject matter experts to get involved. If you're at the company level, you know, you need to really understand everything that is involved in coming down the path because you need to be prepared. So, you know, and I just think, you know, the general public needs to really support in a significant way, I would hope, the global baseline approach that we are pushing so that, you know, there is consistency and comparability. And if in Canada, Europe, Japan, other jurisdictions want to add on local priorities, absolutely, by all means. And that's that building blocks approach I mentioned before. But let's have some basic, consistent and comparable information to move forward on. More than two or three words, sorry about that.



Gord Beal: That's OK. Thanks, Larry. So, Maria, please, if you have any final thoughts on that, that would be great.

Maria Theofilaktidis: Well, you know, I am a CPA, so I'm a little biased. But I think professional accountants can impact across the spectrum here. I think they can be champions, advisors, preparers, gatekeepers, innovators, investors in addition to assurance providers. So, we can have an impact in this field. It's a new field, it's a growing field so there's a big opportunity for us.

Gord Beal: Thank you both for those comments. You know, certainly there's a number of pieces in there, whether it's the assurance side or our role in risk and strategy that could be unpacked in a separate podcast altogether. I think there's a lot of things to be done in this space. And certainly, when it comes down to it so much of this ties to the public interest. You made the reference to greenwashing, Larry, and I think none of us want this to turn into something that's just a, you know, at the at the surface. We really want to understand what organizations are doing and how we're all contributing to this this area around sustainability – 'E', 'S' and 'G'. And so thank you for that.

Well, Maria Theofilaktidis, trustee of the IFRS Foundation, and Larry Leva, trustee and vice chair of the IFRS Foundation, I'd like to thank you both very much for your conversation with CPA Canada today. It's been insightful and helpful for many of the audience to hear what's happening right now. As Canada's accounting and governance leaders, CPA Canada has been a long-time supporter and partner of the IFRS Foundation. Our members play a significant role, as you say, in business, in capital markets and corporate reporting ecosystem. On behalf of CPA Canada, I wish the IFRS Foundation trustees all the best in their deliberations around the new International Sustainability Standards Board. It's an important time for us and there is important work ahead. So, thank you again, both of you, for your time today.

Larry Leva: Thank you.

Maria Theofilaktidis: Thank you for having us.

Gord Beal: Representing more than 220,000 members, CPA Canada is one of the largest national accounting bodies in the world, working with the provincial, territorial and Bermudian organizations as it represents the Canadian accounting profession, both nationally and internationally.

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