



17 December 2020

Hans Hoogervorst, Chair of the International Accounting Standards Board
Sue Lloyd, Vice-Chair of the International Accounting Standards Board
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Hans and Sue,

The Global Public Policy Committee¹ (GPPC) recognizes the increased demand for the development of interconnected sustainability and financial reporting standards focused on the needs of investors and the capital markets. These standards would allow investors and other stakeholders to better understand the potential impacts that sustainability and climate-related matters may have on the resilience and long-term sustainability of businesses and their impacts on people and the planet. Further, the GPPC networks acknowledge that many investors have demanded that companies make transparent disclosures of assumptions around climate change where it is material to their financial statements.

The GPPC networks therefore welcome the recent educational material issued and produced by the IFRS Foundation following due process in response to our and other stakeholder requests. These materials state that *“companies must consider climate-related matters in applying IFRS Standards when the effect of those matters is material in the context of the financial statements taken as a whole. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (hereafter, investors) make on the basis of those financial statements, which provide financial information about a specific company.”*² While management and those charged with governance have the primary responsibility for the judgements, estimates and disclosures in the annual report and financial statements, the GPPC networks are committed to playing our part.

The GPPC networks also welcome the recent IAASB staff audit practice alert on climate-related risks³. *“If climate change impacts the entity, the auditor needs to consider whether the financial statements appropriately reflect this in accordance with the applicable financial reporting framework ... Auditors also need to understand how climate-related risks relate to their responsibilities under professional standards, and applicable law and regulation.”* Under the IAASB auditing standards, auditors are required to identify and assess the risks of material misstatement in the financial statements and design and perform audit procedures responsive to those risks. Depending on the facts and circumstances of an entity, climate-related events or conditions may contribute to the susceptibility of certain accounts and disclosures in an entity’s financial statements to be misstated.

Each network within the GPPC has its own strategy, initiatives, and actions to comply with the existing professional standards. All GPPC networks will provide technical communications to audit partners and professionals on the recent IASB and IAASB developments and engage with companies and other stakeholders

¹ The Global Public Policy Committee (GPPC) is the global forum of representatives from the six largest accounting networks: BDO, Deloitte, EY, Grant Thornton, KPMG, and PwC, which has as its public interest objective the enhancement of quality in auditing and financial reporting.

² <https://www.ifrs.org/news-and-events/2020/11/educational-material-on-the-effects-of-climate-related-matters/>

³ <https://www.iaasb.org/publications/consideration-climate-related-risks-audit-financial-statement>

to encourage greater transparency on the impact of climate-related matters on companies' financial statements. Individual GPPC networks and/or their member firms may also be taking additional actions.

The GPPC networks also appreciate the IFRS Foundation's focus on environmental and related social sustainability, which is essential for a healthy, functioning society, and therefore for the long-term success of the corporate sector and its investors. The environment and climate change in particular can have a potentially significant impact on companies' business models, cash flows, financial position, financial performance, and financial disclosures.

The GPPC network firms either individually or collectively are fully engaged with the sustainability agenda. We have held a number of constructive and proactive interactions with key stakeholders calling for changes to both non-financial and financial reporting. These include conversations and actions with the leading sustainability standard and framework setters (CDP, CDSB, GRI, IIRC and SASB), WEF/IBC, IOSCO, ICGN, the EU Commission, and IAASB. The GPPC networks, in many instances, actively support and sponsor these efforts. We also support the development of a principles-based, globally consistent framework for "non-financial" reporting standards. Each GPPC network is planning to respond individually to the IFRS Foundation's consultation paper on sustainability reporting.

Yours sincerely,

A handwritten signature in cursive script that reads "David Barnes".

David Barnes

GPPC Chair

CC: Marc Carney, United Nations Secretary-General Special Envoy on Climate Action and Climate Finance

CC: Tom Seidenstein, IAASB