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Mr Jeffrey Hales
Sustainability Accounting Standards Board
1045 Sansome Street, Suite 450
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Your ref

Our ref RD/288

By email to: comments@sasb.org

18 December 2020

Dear Jeff

Proposed changes to the SASB Conceptual Framework & Rules of Procedure

We appreciate the opportunity to comment on the *Proposed changes to the SASB Conceptual Framework & Rules of Procedures* (the Proposals). We have consulted with, and this letter represents the views of, the KPMG network.

We support SASB's work and the overall direction of the Proposals. In our view a strong, user-focused conceptual underpinning is essential if sustainability reporting is to deliver the high-quality information that the capital markets require.

The Proposals are timely given recent developments towards greater consolidation of sustainability standard setting, most notably the IFRS Foundation's *Sustainability Standards Board* consultation, and SASB's recently announced intent to merge with the IIRC. We believe SASB has a key role to play as this consolidation continues.

In our view, the proposals are an important step towards greater alignment and consolidation of sustainability reporting. However, considering the above, it is natural to expect that further revisions of SASB's conceptual framework and due process procedures would be required as consolidation continues. For example, the proposed merger with the IIRC raises the question of whether the scope of SASB standards should be extended to cover information on intangible resources and relationships. Therefore, our comments are focused on the overall direction of the Proposals.

The Proposals enhance the strength and independence of SASB's governance

In our view, the global acceptance of sustainability reporting standards will depend on effective governance structures that are politically independent and representative of a clearly defined set of user needs. We think the transparency provided by the proposed *Rules of Procedure*, including their emphasis on evidence-based standard setting is important for achieving this.

We support the industry-focused approach in the Proposals, complemented by some additional considerations

SASB's industry-focused approach provides a good basis from which to identify the entity-specific content needed by the capital markets. This approach complements the more broadly-specified reporting requirements for an Integrated Report or Management Commentary. We therefore agree that industry-focused research should be an important part of SASB's standard-setting process.

In our view, to ensure that the information specified by standards both meets users' needs and does not result in the reporting of immaterial information, industry-focused research could be combined with:

- conceptual analysis, reflecting the reporting need that the information is intended to meet
- cross-cutting consideration of topics
- technical considerations relating to the measurement of metrics where applicable

We note the previous work done, amongst others by the Corporate Reporting Dialogue, has highlighted that descriptions and terminology often vary between the frameworks. This, together with the measurement of metrics are areas where inter-operability with other standard-setters' work may be particularly important. It may be desirable to address the question of how this should be achieved in the *Rules of Procedure*

The Proposals would strengthen SASB's conceptual framework. We encourage further alignment with financial reporting where possible

We emphasise the value of a sound conceptual framework as a basis for standard-setting, and would welcome SASB's continued consideration of opportunities for further alignment with the IASB's framework, both in relation to the concepts and terminology used.

In our view, the IASB's discussion of *Objectives of General Purpose Financial Reporting* and *Qualitative Characteristics of Useful Financial Information* may be of particular relevance to SASB. The characteristics defined by the IASB are applicable to both quantitative and qualitative information. Further, in light of the IFRS Foundation's consultation, we encourage alignment of both substance and terminology wherever it is appropriate to do so.

We highlight below a small number of areas in the draft *Conceptual Framework* to which specific consideration might be given:

- The draft identifies a wide range of participants in the investment chain as potential users of SASB-defined information. In our view further clarity over whose needs should be prioritised could provide a stronger basis for setting standards, applying them, and assuring reports based on them.
- Consideration could be given to a hierarchy of qualitative characteristics to enable the Board to resolve tensions between different characteristics. This might address, for example, how the provision of relevant, entity-specific information should be balanced with the characteristic of comparability.
- Some terminology may benefit from clarification. For example, the distinction between information that is ‘financially impactful’ and information that is ‘of interest to users’ might be described in the context of users’ stewardship decisions if that is what is intended.
- Where different terminology has been used to explain apparently similar concepts it would be beneficial to clarify how the different terms are related. For example, the proposed mission statement refers to environmental, social and governance matters but elsewhere five sustainability dimensions are described. As noted above, we suggest that this consideration should extend to terminology used by other bodies – for example, by explaining how the five sustainability dimensions align with the Integrated Reporting Framework.

We support the proposed approach to materiality

We support the proposed approach of aligning materiality with enterprise value. As we interpret it, this approach is broadly aligned with the IASB’s emphasis on consideration of the amount, timing, and uncertainty of the future net cash inflows to an entity. This approach is inherently long-term, requiring consideration of longer-term matters to the extent that they would affect users’ assessments of the entity’s future cash flows.

We suggest some clarifying explanations may be needed, though as *enterprise value* can sometimes be used with different meanings (for example to indicate the exclusion of debt or a market-based valuation).

We support a stronger role for the *Conceptual Framework* in the application of SASB standards

We note that the IASB’s conceptual framework has a role in both the setting and application of IFRS standards. We suggest a similar role for SASB’s conceptual framework, and highlight the essential principles discussed by the IASB for Management Commentary as an illustration of how this might be achieved.



Assurance over SASB-defined information

In our view, SASB standards already provide a good basis from which to provide assurance. The Proposals, together with some of the clarifications suggested above would further support this and provide a stronger basis from which broader-scope assurance could be provided as market demand develops.

Please contact Reinhard Dotzlaw reinhard.dotzlaw@kpmgifrg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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