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24th December 2020

Erkki Liikanen

Chair of Trustees
International Financial Reporting Standards (IFRS) Foundation
Columbus Building
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Canary Wharf
London
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United Kingdom

Dear Mr. Liikanen,

**CIBAFI Response to the International Financial Reporting Standards (IFRS)
Foundation Trustees' Consultation Paper on "Sustainability Reporting"**

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments and appreciation to the International Financial Reporting Standards (IFRS) Foundation.

CIBAFI is an international body representing Islamic financial institutions globally, who offer financial services and products complying with Islamic rules and principles (Shariah). CIBAFI acts as the voice of the Islamic finance industry, and our members comprise more than 130 Islamic banks and non-bank financial institutions, both large and small, from over 34 jurisdictions.

We welcome this opportunity to offer our responses to the 11 questions raised by IFRS Foundation in its consultation paper on “Sustainability Reporting”.

We would like to present the below responses with the aim of providing feedback and clarity on to what the IFRS Foundation could do to address the demand on global sustainability reporting. As the official representative of Islamic financial institutions, our mission is to support the value proposition of Islamic finance and ensure that the needs of the industry, our members and other stakeholders are taken into account in the development of relevant regulatory regimes.

Q1: 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?

ANSWER: Sustainability and ethical values are embedded at the core foundations of Islamic finance. The alignment between the values of sustainability and the principles and modalities of Islamic finance is evident from the engagement of some Islamic financial institutions in sustainable activities through incorporating sustainability practices within their core business strategies and operations. Therefore, to bring transparency, accountability, efficiency and consistency in the information shared about sustainability by the financial institutions, a global set of internationally recognised sustainability reporting standards is needed. These standards need to be set which will have effects beyond the financial world, and the IFRS Foundation appears best equipped to do this in an authoritative and appropriately governed way.

Q2: 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?

ANSWER: Yes, subject to sufficiently wide acceptance of that role.

Q3: 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)?

ANSWER: The identified preconditions are sufficient. However, the first requirement should cover a global range of stakeholders. In addition, it would be appropriate for the governance and operational structures to include people with some experience of Islamic finance to ensure that the particularities of Islamic finance are taken into consideration while developing the standards for wider implementation.

Q4: 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?

ANSWER: IFRS network and relationship with different stakeholders can be a great asset to aid the global adoption and implementation of the SSB standards. However, this will have to be somewhat more tentative than for accounting standards, not only because there is no well-developed profession associated with sustainability reporting, but also because the IFRS would be entering the field at an earlier stage of its development. It may therefore have to allow more flexibility in adoption than has been the case for accounting standards.

Q5 and Q6: How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency? How could the

IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?

ANSWER: It would be appropriate for the governance structures to include people from the organisations that issued reporting standards and work to identify the common elements among the most important existing standards and address their limitations in order to develop harmonised and global standards.

Q7: 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?

ANSWER: As a starting point, SSB could start with preparing and issuing a framework that will guide and support its work in general. Once the guiding framework is established and adopted, SSB could start developing climate-related financial disclosures taking into consideration the convergence that exists particularly with that of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD), which may reinforce and encourage the acceptance and the adoption of the disclosures. However, SSB should, in parallel, begin the longer-term process of broadening its scope into other areas of sustainability reporting.

Q8: Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

ANSWER: The first “round” standards to be developed by SSB should be climate-focused, but for the second round it needs to deal with broader environmental issues. Still broader aspects of sustainability, as expressed in the Sustainable Development Goals (SDGs), are likely to follow later.

Q9: Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?

ANSWER: Yes, certainly, a gradualist approach is more appropriate. Moreover, reporting that focused only on the effects of climate change on the organisation would not respond to the needs of investors, who are increasingly interested in the impact of the organisation on the outside world. Thus, the proposed approach to materiality in paragraph 50 should be taken by the SSB.

Q10: 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?

ANSWER: “Greenwashing” is a significant issue for the whole field of responsible investment at present. While a standardised reporting format will be helpful in reducing this, it is unlikely to be sufficient. Hence some form of external assurance will be needed, even if it cannot be in place at the beginning. Indeed, one reason for favouring IFRS Foundation involvement in this area is its experience of producing standards that are sufficiently objective to be the subject of assurance.

Q11: Stakeholders are welcome to raise any other comment or relevant matters for our consideration.

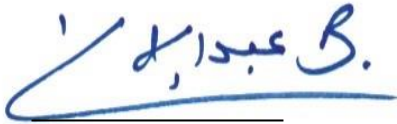
ANSWER: Trustees are right to focus on sustainability rather than the overlapping “ESG” approach to social responsibility. ESG involves a still wider range of factors and, in addition, governance factors are quite hard to evaluate once one moves from those applicable to publicly held companies.

We remain at your disposal should you need any further clarifications on the above.

The General Council for Islamic Banks and Financial Institutions takes this opportunity to renew to the International Financial Reporting Standards (IFRS) Foundation the assurances of its highest respect and consideration.

With kind regards and best wishes.

Yours sincerely,



Dr. Abdelilah Belatik
Secretary General