

Organizational and Political Issues Concerning the Establishment of the Sustainability Standards Board

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Great progress is being made in establishing the IFRS Foundation's Sustainability Standards Board (SSB) and events are moving quickly. Here I would like to give my personal views on what I think some of the key issues are that will determine the ultimate success of the SSB. Because solid work is proceeding on the technical issues, I will focus on the organization and political dynamics that must be addressed.

Organizationally, the critical issues are raising the necessary funds to support the work of the SSB, selecting a Chair and other board members, and hiring the staff. Richard Barker and I addressed the funding issue in our [comment letter](#). Assuming a budget about the same as the IASB, a conservative assumption, we do not believe that funding will prove to be a major obstacle. While not in our letter, we also personally discussed some more creative ways of funding, such as a small fee from investors, like 0.01 basis points (0.0001 percent) of assets under management. Run the numbers on global equity AUM (around \$80 trillion) and you get \$80 million or around £57 million compared to the IASB budget of around £31 million, of which about one-third comes from publications.

More strategically important is the initial staffing, starting with the Chair. While this person should certainly be knowledgeable about sustainability reporting, deep technical expertise should not be the main criterion. This can come from other board members, such as someone with a deep academic background in the topic. What is needed for the first Chair is someone who has the stature that Paul Volcker brought as the inaugural Chair of the IFRS Foundation. There are three potential profiles for the first Chair: (1) someone from the public sector who has strong credibility in the markets, such as a former chair of a securities commission or central bank, (2) an investor who worked to integrate sustainability into the investment decision making process, such as the CEO of CIO of a major asset owner or asset manager, and (3) someone from the stewardship team of a major asset owner or asset manager who understands how standards can contribute to dialogue and engagement between companies and their investors.

More generally, at both the board and staff level, there is a need for the appropriate degree of diversity. One obvious dimension will be citizenship since the SSB is intended to set global standards. Which introduces the political dynamics. Here there is a bit of a chicken-and-egg problem since one factor is the extent to which the EU and U.S., especially, are supportive of the SSB. Each jurisdiction may require for its support a certain representation of its citizens, along with what it considers to be an appropriate role in governance. While the EU has kept its cards pretty close to its vest regarding the SSB vis a vis the NFRD, it is likely that it will eventually accept the SSB as at least the baseline for sustainability reporting. In which case, it will be well-placed to press for proper EU representation at the board and staff level.

The situation with the UK is harder to read. It does not have a bargaining chip like the NFRD to play in return for representation. While it is not a foregone conclusion that the SSB will be based in London along with the IASB, with location being a potential bargaining chip for support from the EU, a London location potentially makes it easier to recruit qualified UK vs. EU citizens. There is also the practical issue that there is a great deal of human capital in the UK for potential staff since, for example, the CDSB and the IIRC are both based in London.

The situation in the U.S. is even harder to read. For starters there's the fact that it has U.S. GAAP rather than IFRS. It is only thanks to the Biden administration that sustainability reporting is something that can even be discussed in government circles. There's always the chance that U.S. exceptionalism will prevail. For example, the deal that's cut to support standards for sustainability reporting with those opposed to this idea is that "Well, at least it's American sustainability reporting and not something from international cabal we don't control."

The optimistic scenario that the U.S. ends up being highly supportive of the SSB raises a similar human capital issue as in the UK. Unpalatable though it may be to many, the fact of the matter is that the U.S. has the deepest pool of talent of any country in the world for staffing the SSB. SASB is playing a key role in the technical work for setting up the SSB and it has a large number of highly qualified staff. Add to that the fact that most of the world's largest asset managers, the main ESG rating agencies, and the two main proxy advisors are based in the U.S. As a practical matter, the SSB could largely be staffed with U.S. citizens. This obviously shouldn't and won't happen.

I have no inside knowledge about where the IFRS Foundation stands in doing its technical, organizational, and political work. To date its focus has been a technical one. But to meet its ambitious agenda of being up and running by COP 26 means that it will soon need to turn to the organizational and political issues. Difficult as the technical issues are, these will be harder—as is always the case.

I often say that standards are a social construct for which there is no single right answer. Standards are the result of a process to reach a social consensus. Organizational and political dynamics will determine the nature of this process. These dynamics involve their own social construction and a much more complicated, ill-defined, and emergent one.