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Technical articles and topic explainers

Sustainability reporting

Sustainability reporting

In April 2021, the IFRS Foundation published two documents in relation to their project on sustainability reporting. The first summarises the significant matters raised by respondents to their Consultation Paper on Sustainability Reporting. The second document was an Exposure Draft with proposed targeted amendments to the IFRS Foundation Constitution to accommodate an International Sustainability Standards Board (ISSB). This would allow the ISSB to set IFRS sustainability standards.

The IFRS Foundation reviewed the feedback on their Consultation Paper on Sustainability Reporting and set out a strategy that proposed the creation of a new board, the ISSB, under the Foundation's current governance structure. The IFRS Foundation reached the following conclusions:

the new board would focus on information that is material to the decisions of investors and other participants in the world's capital markets

the new board would initially focus on climate-related reporting while also moving quickly to work towards meeting the information needs of investors on other environmental, social and governance (ESG) matters the new board would build on the wellestablished work of the Financial Stability Board's Task Force on Climaterelated Financial Disclosures (TCFD), as well as work by the alliance of leading standard-setters in sustainability and integrated reporting focused on enterprise value by working with standard-setters from key jurisdictions, standards issued by the new board would provide a globally consistent and comparable sustainability reporting framework.

There is broad stakeholder support for globally recognised sustainability reporting standards. Currently it can be argued that there are diverse approaches to and objectives for sustainability standard-setting which could result in increasing global fragmentation. This demonstrates the need to promote comparable reporting and reduce the complexity in approaches and objectives.

Because of the International Accounting Standards Board's (IASB®) relationships with global governance bodies and industries, and its expertise in international standard-setting ,it could play an important role in global sustainability reporting by creating a new board that would operate under its existing governance structure.

A set of comparable and consistent standards would allow companies to create public trust through greater transparency of their sustainability initiatives, which would be helpful to investors. Investors require better disclosure of such information as climate risks and sustainability indicators.

The objective of the ISSB would be to develop and maintain a global set of sustainability reporting standards. Such standard setting could make use of existing sustainability frameworks and standards. The development of a framework for sustainability reporting could be coherent with IFRS standards and the IASB's mission to serve investors and primary users of financial statements. The ISSB could adapt the existing standard setting process and use the experience of the IASB in promoting the consistent use and application of sustainability standards. The IFRS Foundation has established expertise in standard-setting which would benefit both the new ISSB and investors. This would help investors to use sustainability reporting to inform their decisions by giving them comparable and verifiable information.

The standards would benefit from the interconnectedness between financial reporting and sustainability reporting. In addition, investors would benefit if a single organisation developed requirements in financial reporting and sustainability reporting.

The IFRS Foundation is well positioned to develop an appropriate institutional and governance framework. However, there is a risk of reducing the current momentum created by other frameworks and standard setting bodies. As an alternative, the IFRS Foundation could encourage regulators to mandate the use of sustainability reporting standards globally. In addition, it could be

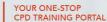
argued that the GRI standards already have created global sustainability reporting standards that regulatory authorities could mandate. Also, as the EU is already taking the lead in developing sustainability standards and has a very ambitious timescale to develop and issue them, the IASB could contribute its expertise in financial reporting to find consistency between financial and sustainability reporting.

There is demand from investors for international coordination of an agreed set of sustainability reporting standards. Currently, investors are often struggling with incomplete and inconsistent data on companies. The ISSB would assist in providing a level playing field for companies that prepare reports and also international comparability for investors.

SBR candidates need to be aware of progress in this area of business reporting as it is a dynamic, fast-paced and developing subject area.

Written by a member of the Strategic Business Reporting examining team

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