SUSTAINABILITY REPORTING STANDARDS GLOBAL CONVERGENCE

SUE LLOYD

Vice-Chair - International Sustainability Standards Board (ISSB)

High-quality disclosure must not be the exception, but the rule

Fundamental to our work at the International Sustainability Standards Board (ISSB) is the belief that better information creates better decision making. In building ISSB Standards we are focused on providing transparency and efficiency in company disclosures to investors.

As we all know, sustainability factors have swiftly become a mainstream part of investment decision-making: at the ISSB we are building a common language for sustainability disclosures, to be used globally. The information provided by our Standards will empower economic decisions by requiring information that helps investors assess sustainability-related risks and opportunities.

In February, we finalised decisions on the technical content of our first two Standards (S1 and S2). S1 and S2 are now going through a thorough drafting and formal 'balloting' approval process ahead of their issuance towards the end of Q2 2023, and will be immediately available for use, although, jurisdictions will opine on when they require companies to apply these Standards. In building these Standards we focused on providing companies an efficient and effective reporting system that meets investors needs on a globally comparable basis. It is critical that our requirements can be applied in developing and developed economies and by both large and smaller companies. This is why we have embedded proportionality into our Standards, alongside the launch of separate initiatives focused on capacity building.

We are aware that many companies will need to meet multiple jurisdictional requirements for reporting. This is why we have taken a "building blocks" approach to our Standards. We have designed our Standards to be used in conjunction with the requirements of jurisdictions, or in conjunction with requirements of the Global Reporting Initiative (GRI).

In December, alongside the European Commission and EFRAG, we announced that we are working toward a shared objective to maximise interoperability of our respective standards and aligning on key climate disclosures when possible. This joint work focuses on detailed terminology within the standards, and as such will be completed with the finalisation of both sets of standards.

Companies will have what they need to begin applying ISSB Standards very soon. We have chosen this timeline to address the urgent need for these standards, consistently communicated to us through market engagement. Meeting this need has been a core priority for the ISSB from the outset.

S1 and S2 build on existing materials. Those that already apply the TCFD Recommendations and the SASB Standards, will already be in a strong position to apply the ISSB Standards. Having said this, we know that sustainability disclosures are new for many companies around the world, which is why we are introducing programmes to support companies that are just beginning to report on this information.

At COP27 we launched an initial Partnership Framework with support from around 30 partner organisations. This framework is designed to support preparers, investors and other capital market stakeholders as they prepare to use our Standards. As part of our next phase of work, we will also be working directly on capacity building around the world. We know that there is a lot of education and training required for companies, for regulators, for audit firms, and also for investors, on how to prepare this information and how to use the information that will result from the ISSB Standards.

While many of our capacity building efforts will happen outside of S1 and S2 through our Partnership Framework and ongoing outreach and education, the Standards themselves have built in measures to ensure companies are given room to scale up their capabilities.

We use a proportionate approach in S1 and S2 that considers a company's skills, capabilities, and resources. The Standards will also provide reliefs on the provision of some disclosures, allowing companies additional time to provide Scope 3 GHG emissions disclosures, for example. To enable companies to provide disclosures on sustainability-related risks and opportunities beyond climate, the ISSB points to sources of guidance in the absence of a specific ISSB Standard – primarily the SASB Standards, but also the CDSB Framework application guidance, investor-focused standards, industry practice, and to the extent they meet investor information needs, metrics set out in the GRI and European Sustainability Reporting Standards (ESRS).

To conclude, we are embarking on a shared journey towards a common language on sustainability disclosures for investors. Companies will likely rely more on estimation in the early years, and approaches will become more sophisticated over time.

Over the coming years, the ISSB is committed to supporting capacity building efforts, and providing requirements that enhance global comparability, and produce high quality disclosures for investors, enabling more informed decision making and more resilient global markets.

DANIELA STOFFEL

State Secretary - Ministry of Finance, Switzerland

Switzerland, one of the leading countries in financial transparency on climate

In order for the financial center to optimally support the achievement of sustainability goals and adequately consider sustainability risks, it is dependent on high-quality sustainability data from the real economy: The more comparable, more accurate and meaningful this data is, the better it can be taken into account in advisory processes, their balance sheets and in the financial system as a whole, and the lower the transaction costs for international and national investors are.

Data providers, such as stock exchanges that collect and refine the data, play an important role. Sustainability reporting also leads to a better reputation in general. Companies that actively contribute to sustainability goals can create a competitive advantage.

Credible climate transparency is closely aligned with international standards. This leads to a level playing field, making it easier for international investors to assess risks and opportunities. At the same time, international standards also avoid duplication of efforts, as companies do not have to implement different requirements in parallel. For this reason, Switzerland relies on the internationally widely recognized recommendations of the Taskforce on Climate-disclosures (short TCFD recommendations). These recommendations have met with broad approval from companies both from the financial sector and the real economy.

With that intention in mind, in November 2023 the Federal Council adopted an Ordinance on mandatory climate disclosures for large Swiss companies: public companies, as well as banks and insurance companies with 500 employees or more and at least 20 million francs in total assets or more than 40 million francs in turnover, will be required to publicly report on climate issues based on the TCFD recommendations. This public reporting is based on a concept of double materiality. It includes, on the one hand, the financial risk that a company incurs through climate-relevant activities.

On the other hand, companies must disclose what impact their business activities have on greenhouse gas emission. These minimum requirements are intended to ensure that disclosures are meaningful, comparable, and, where possible, forward-looking and scenario-based.

Companies that actively contribute to sustainability goals can create a competitive advantage.

To give companies sufficient time to implement these requirements, the entry into force of this regulation has been set to 1 January 2024. By making the TCFD recommendations mandatory for large companies from all sectors of the economy, Switzerland becomes one of the leading nations in terms of climate transparency.

What challenges does Switzerland face with corporate disclosure?

Corporate disclosures are an area that evolves very dynamically. The Ordinance is not in force yet, but it is already clear that it needs to be reviewed by 2027. As a complement to the national implementation of the TCFD recommendations, international standards on sustainability disclosures are being drawn up. This task has been taken on by the newly formed International Sustainability Standards Board (ISSB). In order to ensure coherence with national disclosure obligations, Switzerland is following the ISSB's work closely.

A particular challenge we face is the different materiality. ISSB standards are focusing on a financial materiality, whereas the Swiss Ordinance and the Code of Obligations require a double materiality (financial AND impact materiality).

The second challenge is the extraterritoriality of EU disclosure regulation and the current developments in the EU regulation. The EU is by far Switzerland's most important trading partner, which is why regulatory innovations for the EU internal market undoubtedly also have an impact on Swiss companies.

Last year, the Corporate Sustainability Reporting Directive, CSRD, was approved in the EU. This directive also applies to Swiss companies that generate a net turnover of 150 million euros in the EU and have at least one branch or subsidiary in the EU (third country regulation). In the area of sustainability reporting, the CSRD brings in particular an extension of the scope of application to companies with an average of 250 employees or more. This would also affect some small and medium-sized enterprises. For these in particular, the question arises to what extent and in what form the publication of sustainability information makes sense.

The preparation of a sustainability report entails additional work and thus higher costs. Currently it is being examined if Swiss law needs to be adapted.

LAURENCE RIVAT

EU Corporate Reporting Policy Leader - Deloitte

Using sustainability reporting to drive behavioural change

Deloitte supports corporations issuing high-quality, transparent, relevant and comparable sustainability information that is connected to financial reporting.

The standards for this information should be global and leverage efforts currently underway for consistent reporting.

This will help direct capital to long-term sustainable business, by showing how corporations are creating long-term value and by providing insights into their business models, the broader risks and opportunities they face, and the impact they have on people, profit and the planet.

Worldwide adoption of the ISSB standards as the baseline will facilitate globally consistent and comparable information, and help address global sustainability priorities such as climate change. Pathways to adoption will vary around the world and we recognize the need for flexibility according to market and regulatory circumstances. In some regions a mandatory approach may be appropriate. This is the path chosen by the EU, where policy on the green economy is well advanced, and with the CSRD mandating sustainability reporting and limited external assurance.

In August 2022, Deloitte commented on the draft European Sustainability Reporting Standards (ESRS) developed by EFRAG[1]. We acknowledge the significant efforts made, and work carried out, by EFRAG in a limited time frame. We noted that EFRAG has incorporated many comments raised by stakeholders during the consultation period into the draft ESRS submitted to the European Commission.

The [draft] ESRS set a high bar for sustainability reporting, which we expect will incentivise companies to think about their sustainability practices, hence having the potential to promote changes in behaviours. Still, the [draft] disclosure requirements remain extensive, and in parts very granular. They will lead to major challenges for all undertakings in scope of the CSRD when implementing them, even more so the current non-NFRD undertakings. Further guidance in areas such as implementing the double materiality principle, and, with respect to the financial sector, how to report value chain information, would be helpful.

Benefits from sustainability reporting standards will arise depending on implementation support.

We appreciate the efforts made by EFRAG, the ISSB and the GRI to work together, so as to promote the interoperability of their standards. We look forward to the outcome of such efforts when the final standards are issued, as this is critical for international players. We continue to support continuing such initiatives going forward.

As the [draft] ESRS will be "new" and have been developed in a very short timeframe, implementation and interpretations questions will inevitably arise. It is paramount for the success of the sustainability reporting to put in place robust mechanisms enabling stakeholders to raise their issues and obtain swift answers.

We are aware of the continued time pressure on EFRAG to achieve its work plan, due to the CSRD requirements. There are urgent priorities beyond standard-setting, for example the desire for further guidance to support the ESRS implementation. It is important that EFRAG should have means available, proportionate to the tasks and ambition set for the organisation by the EU co-legislators.

Finally, it may be easy to fixate on the mechanics of sustainability reporting – getting lost in the weeds of detailed narrative disclosures and metrics. But sustainability reporting is not, and never should be, viewed as an end in itself. Rather, it is a means to encourage behaviour change, bringing transparency as to whether and how companies are putting sustainable development at the heart of their business.

Deloitte conducted interviews with leaders from around the world, gathering perspectives on the challenges in delivering ESG information and the actions required to catalyse behavioural and systemic change. Conversations identified six recurring themes or conditions that need to be in place to drive from the current position of incomparable and unreliable data to one where ESG reporting really does catalyse demonstrable actions at pace:

1. A globally consistent baseline
2. Relevant and reliable data
3. Integrating sustainability into company business models
4. Incentives and penalties
5. Stakeholder engagement
6. Industry and global coordination

Further information on what Deloitte heard can be found at https://www.deloitte.com/global/en/about/people/social-responsibility/sustainability-reporting-conditions-for-change.html.

[1] The August 2022 Deloitte Comment letter on the draft European Sustainability Reporting Standards (ESRS) can be found at https://www.iasplus.com/en/publications/global/comment-letters/other/efrag-eds

HIROTAKA HIDESHIMA

TNFD Taskforce Member, Counsellor on Global Strategy to President and the Board of Directors - The Norinchukin Bank

ISSB and other relevant standards: further developments scheduled ahead

Beyond Climate

The G20 Chair's Summary and Outcome Document for the G20 Finance Ministers and Central Bank Governors Meeting in February 2023 stated: "Sustainable finance is critical in achieving sustainable, resilient, inclusive and equitable economic growth which meets the needs of the present without compromising the ability of future generations to meet their own needs. Towards achieving this goal and also in promoting orderly, just, and affordable transitions, we will take action to enable enhanced financing for SDGs, including and beyond climate, in line with the G20 Sustainable Finance Roadmap.

Building on public and private initiatives, we ask the Sustainable Finance Working Group to develop an analytical framework for enabling finance for SDGs, with initial focus on nature-related data and reporting and social impact investing, taking country circumstances into consideration". The G20 Sustainability Finance Working Group (SFWG) has reported to the Ministers and Governors that they "will work on developing an Analytical Framework for SDG-aligned Finance to complement the SFWG Roadmap by:

- Conducting a stocktaking analysis of the measures taken so far to identify and report nature- and biodiversity-related risks and opportunities, including how the issue has been approached in practice, and the initiatives presently underway (e.g., by TNFD). Based on the stocktaking analysis, the SFWG will make recommendations to the stakeholders on how to improve data and reporting on nature-related information in the future, keeping in mind country-specific circumstances.
- Conducting a stocktaking analysis of social impact investing with a focus on investment instruments (e.g., impact investment bonds) and, as appropriate, make recommendations to governments and international organizations/networks on how to scale up the adoption of social impact investment instruments."

The G20 Chair's Summary and Outcome Document also stated that they "look forward to the early finalization of standards by the International Sustainability Standards Board (ISSB) for climate-related financial disclosures, and its work beyond climate".

Nature-related TNFD framework is to be released in September. Any implications for EFRAG via ISSB?

The ISSB announced on 14 December 2022 that "consistent with its approach of building upon the work of market-led initiatives grounded in current-best practice and thinking, the ISSB will consider the work of the Taskforce for Nature-related Financial Disclosure (TNFD) and other existing nature-related standards and disclosures where they relate to the information needs of investors. This will include considering the TNFD's recent work on the intersection of climate and biodiversity disclosures in scoping the ISSB's research on complementing its climate-related disclosures to address disclosures related to natural ecosystems."

The work of the TNFD

The Taskforce on Nature-related Financial Disclosures (TNFD) was formally launched in June 2021, to widespread support from financial institutions, corporates, governments and civil society. The G7 Finance Ministers and G20 Sustainable Finance Roadmap have endorsed the TNFD. The G20 and G7 Environment and Climate Ministers have also recognised the establishment of the TNFD. Other individual leaders have also endorsed TNFD, including Mark Carney, UN Special Envoy on Climate Action and Finance; UN Secretary General Antonio Guterres, President of France, Emmanuel Macron, and then Prime Minister of the UK, Boris Johnson. In November 2022, the TNFD released the third version of its beta framework for market consultation, building on v0.1 released in March 2022 and v0.2 released in June 2022. The next version of the beta framework will be released in March 2023 (v0.4), before the release of version v1.0 of the full framework for market adoption in September 2023.

A market-led approach, combined with input from leading science and data bodies, means the TNFD framework is scientifically rigorous and easy to adopt for both businesses and financial institutions. TNFD is creating an integrated framework that builds on existing standards, metrics and data. The TNFD Co-Chairs, David Craig, former founder and CEO of Refinitiv, and Elizabeth Mrema, Assistant Secretary-General of the United Nations and Deputy Executive Director of the UN Environment Programme (UNEP) and former Executive Secretary of the United Nations Convention on Biological Diversity (CBD), lead the Taskforce.

The TNFD consists of 40 individual Taskforce Members representing financial institutions, corporates and market service providers. The members come from AP7, AXA, Bank of America, BlackRock, BNP Paribas, FirstRand, Grupo Financiero Banorte, HSBC, Macquarie Group, MS&AD, Mirova, Norges Bank Investment Management, Norinchukin Bank, Rabobank, Swiss Re, UBS, AB inBev, Acciona, Anglo American, Bayer AG, Bunge Ltd, Dow INC, Ecopetrol, GSK, Grieg Seafood, Holcim, LVMH, Natura & Co, Nestlé, Reckitt, Suzano, Swire Properties Ltd, Tata Steel, Deloitte, EY, KPMG, Moody's Corporation, PwC, S&P Global, and Singapore Exchange.