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One Draft at a Time*

* Can the ISSB Establish a Global Baseline in Sustainability Reporting?

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Introduction

In an increasingly complex reporting landscape, firms are faced with an overabundance of frameworks and standards against which they can report their sustainability credentials. As stakeholders progressively highlight the need for consistent and comparable data[1], standard-setting bodies are taking note. Public consultations for the International Sustainability Standards Board (ISSB) General Sustainability and Climate exposure drafts (IFRS S1 and S2), and the European Financial Advisory Group (EFRAG) Draft European Sustainability Reporting Standards (ESRS) were both live in Q2, 2022. The introduction of two draft standards with a potentially wide reach signals a trend towards the standardization of ESG reporting across jurisdictions.

	ISSB	EFRAG
Intended Scope	Global	European Union
Materiality Definition	Financial materiality	Double materiality
Applicability	Voluntary	Required for applicable firms
Standards Release	IFRS S1: General Sustainability IFRS S2: Climate	Cross-cutting standards (ESRS 1 & 2) Environment: ESRS E1 – E5 Social: ESRS S1 – S4 Governance: ESRS G1 & G2
Consultation Period	March 31, 2022 – July 29, 2022	April 29, 2022 – August 8, 2022

Figure 1: Comparison between the ISSB and EFRAG reporting standards

In this article, we aim to provide an overview of the ISSB consultation process and outline our main response to the ISSB S1 and S2 Exposure Drafts.

The launch of the ISSB is a welcome initiative to further industry convergence. The ISSB's mission to establish a comprehensive global baseline for sustainability disclosure has the potential to ease the corporate reporting burden by simplifying the process by which firms can report their non-financial performance.

The ISSB Standards utilize a financial materiality approach[2]. The launch of the ISSB has the potential to reduce confusion in the reporting landscape. Instead of parsing through multiple frameworks and standards, the ISSB standards are designed to be a one-stop shop for firms across regions and industries to report to a common set of metrics, augmenting them as required with additional disclosures to satisfy local regulatory requirements or additional materiality perspectives[3]. As a global leader in sustainability data and technology, ESG Book supports the development of a global baseline of sustainability standards to simplify the corporate disclosure process. In our formal comment letter, we offer recommendations on ways in which the ISSB can strengthen its standards to mitigate the potential for greenwashing, as well as on areas where firms could benefit from additional guidance, including materiality assessments, and defining time horizons.

> **The ISSB's mission to establish a comprehensive global baseline for sustainability disclosure has the potential to ease the corporate reporting burden by simplifying the process by which firms can report their non-financial performance.**

Overview of the Exposure Drafts

The launch of the International Sustainability Standards Board (ISSB) was officially announced by the IFRS Foundation at COP26 in Glasgow, on November 3, 2021[4]. The aim of the ISSB proposed standards is to develop a global baseline for sustainability reporting. On March 31, 2022, the ISSB published its first two exposure drafts:

- Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, which outlines requirements for how entities should disclose their sustainability-related risks and opportunities.

- Exposure Draft IFRS S2 Climate-related Disclosures, which provides recommended cross-industry metrics based on the TCFD framework, and industry-specific metrics, drawn from the SASB standards for entities to disclose their significant climate-related risks.

The ISSB exposure drafts define the scope of materiality to include to encompass the information that is needed for users of general-purpose financial reporting documents to evaluate the entity's enterprise value. [5]

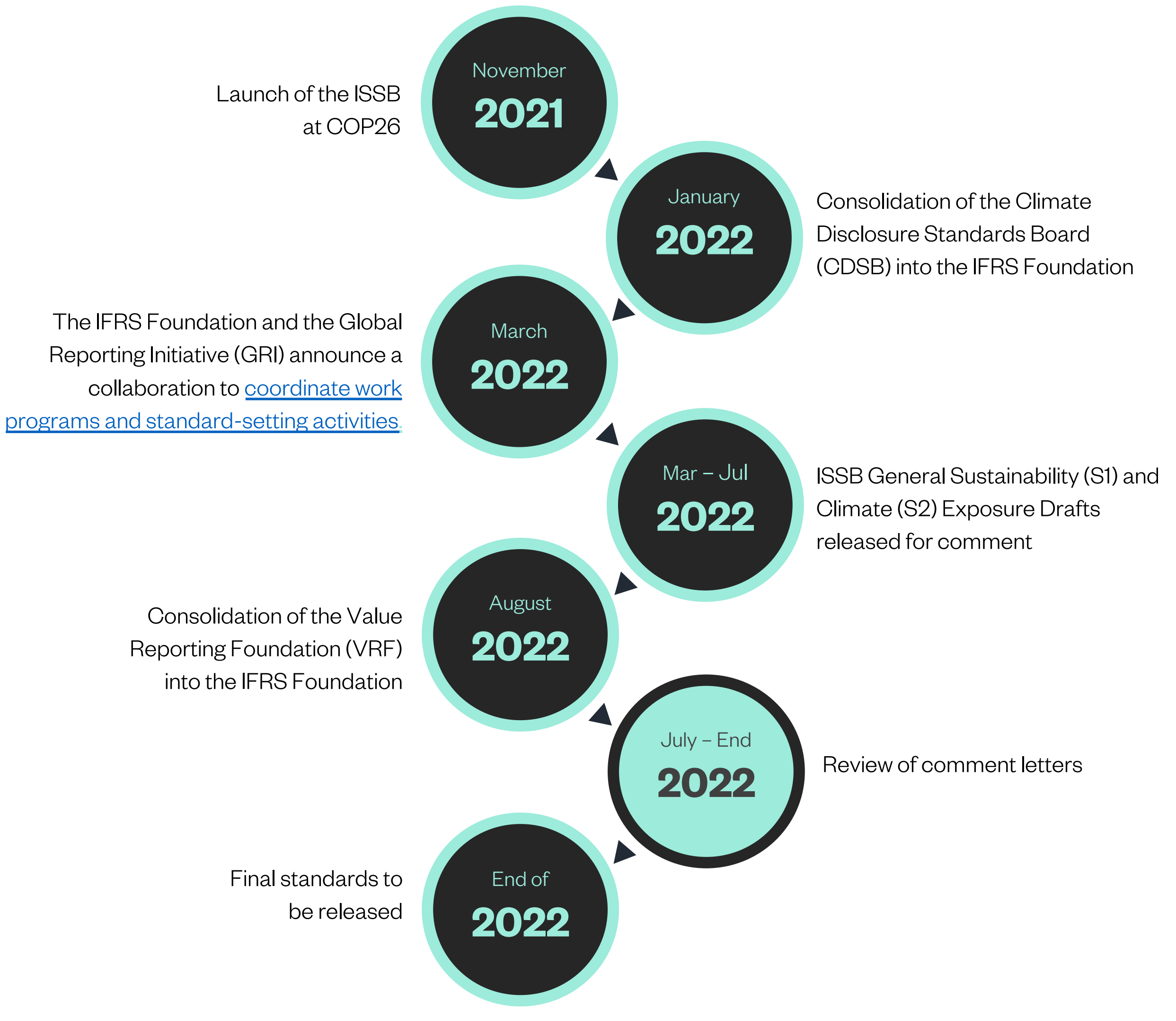

Figure 2: ISSB Establishment and Process Timeline

ESG Book's Response

ESG Book welcomes and supports the ISSB's efforts to reduce the reporting burden for corporate entities and increase the availability of comparable and consistent sustainability-related data. To further facilitate the adoption of the proposed ISSB General Sustainability standards, we recommend providing enhanced guidelines on how firms should define their material topics, to avoid the potential for firms to withhold information they do not believe will affect their sustainability-related risks and opportunities.

Similarly, we suggest further clarity in the definition of time horizons, considering how sustainability-related risks and opportunities can often impact firms' enterprise value well beyond their financial reporting period.

While we support the TCFD-based disclosure requirements outlined in Exposure Draft 2, we caution against the provision specified in paragraph 28, which stipulates that "Metrics shall include those defined in any other applicable IFRS Sustainability Disclosure Standard, metrics identified from the other sources identified in paragraph 54 and metrics developed by an entity itself."[6] Allowing entities the option to self-define metrics might lead to cherry-picking, a lack of transparency, and non-comparability across firms. This also creates an opportunity for greenwashing, where entities self-define metrics for areas in which they are better performing while obscuring information that is more relevant to investors, contradicting the guidance provided in S1 on fair presentation (paragraph 49).

The proposed cross-industry metrics presented within the Climate Exposure Draft, drawn from the TCFD Framework have significant potential to facilitate greater comparability of climate-related disclosures. To facilitate the comparability of data disclosed, we recommend requiring firms to disclose all the TCFD-aligned cross-industry metrics provided, regardless of a company's self-defined materiality. Similarly, while we support the recommendation for firms to make TCFD-aligned disclosures, it is worth considering the varying degrees of familiarity firms around the world, and in different industries have with sustainability reporting. The ISSB may consider offering additional training and support to first-time reporters and potentially even conduct workshops to facilitate the adoption of the Standards.

Conclusion

The IFRS S1 and S2 draft reporting standards have the potential to bring about much-needed industry convergence and simplify the disclosure process for sustainability and climate-related financial data. We welcome the efforts to establish a common global baseline for sustainability reporting and to increase the availability of consistent and comparable data that contributes to more resilient and sustainable financial markets.

Our full response letter can be found here.

IFRS 1

IFRS 2

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