



NAVIGATING THE REPORTING LANDSCAPE

SECOND EDITION, REPUBLISHED JUNE 2022

AN INTRODUCTION TO SUSTAINABILITY-RELATED REPORTING FOR FINANCE PROFESSIONALS



ABOUT THIS GUIDE

This guide summarizes recent key developments in corporate reporting, in particular focused on trends in sustainability reporting and sustainability-related financial reporting. This guide will be useful to finance professionals responsible for corporate reporting on a variety of levels (such as preparation, data measurement or compliance), and in positions that cover areas including internal and external audit, risk management, governance, strategy and investor relations.

This guide shows how sustainability reporting and the growing demand from investors and other stakeholders for information on environmental, social and governance (ESG) matters are impacting the role of the accountant and shaping the future of corporate reporting. It also highlights how this area is likely to evolve going forward, offering signposting to further sources of information.

This guide was first published in July 2021. The content has been updated to reflect the latest developments in this second edition.

INTRODUCTION	2
① MANDATORY REPORTING REQUIREMENTS	4
Overview	4
The European Union	6
International Organization of Securities Commissions	7
The Securities and Exchange Commission (SEC)	8
② REPORTING STANDARDS, FRAMEWORKS AND RECOMMENDATIONS	9
Overview	9
The International Financial Reporting Standards Foundation	12
The Global Reporting Initiative	13
Task Force on Climate-Related Financial Disclosures	14
Other reporting frameworks and standards	16
The need for convergence	17
③ KEY REPORTING COMPONENTS	18
Assurance	18
Materiality	19
④ THE ACCOUNTING PROFESSION: RECENT REPORTING DEVELOPMENTS	21
The International Accounting Standards Board	22
The International Audit and Assurance Board	23
The International Public Sector Standards Board	24
The International Federation of Accountants	25
GLOSSARY	26
APPENDIX: VOLUNTARY STANDARD SETTERS NOW INCORPORATED INTO THE ISSB	29
THE A4S ACCOUNTING BODIES NETWORK	35

INTRODUCTION

Historically, business performance has been measured and reported in financial terms to gauge performance and help business management. Over the past two decades, however, there has been compelling evidence that a broader information set is required to give a comprehensive and complete picture of a business's ability to survive and prosper in today's dynamic environment. A particular area of focus is the relevance of natural, social and human capital to performance. This broad set of environmental and social risks and opportunities are frequently referred to as sustainability or sustainable business factors.

STAKEHOLDERS ARE DEMANDING A MUCH WIDER RANGE OF INFORMATION

Societal awareness of environmental issues, in particular, has now reached unprecedented levels, with increasing focus being placed on businesses' impacts and dependencies on planetary systems. Consequently, stakeholders are demanding a much wider range of information, including institutional investors¹, for example, seeking climate disclosures about a company's approach to governance, risk management and strategic planning. Pursuing short-term profitability at the expense of creating sustainable, long-term value is no longer an option.

A GROWING BODY OF REGULATIONS, STANDARDS AND GUIDANCE HAS DEVELOPED THAT PROVIDES A STRUCTURE FOR THE MEASUREMENT AND REPORTING OF SUSTAINABILITY INFORMATION

A growing body of regulations, standards and guidance has developed that provides a structure for the measurement and reporting of sustainability information relevant to companies' governance, future planning and use of resources. 96% of the world's largest 250 companies now prepare sustainability reports.² With governments, regulators and standard-setting bodies across the world now addressing sustainability reporting, there are significant opportunities for professional accountants working in a variety of leadership, management and operational roles, as well as in public practice, to integrate these factors into their roles.

These developments are placing broader demands on companies, such as:

- Boards of directors and audit committees reassessing their approach to risk, reporting and investment strategies.
- Chief Financial Officers, finance and investor relations teams addressing the expanding information demands of investors and market regulators.
- Report preparers compiling and presenting a wider range of information in company reports.
- Compliance officers and internal auditors ensuring that the expanding range of expectations is being met.

HOW DOES REPORTING ON SUSTAINABILITY ISSUES FIT INTO THE REPORTING LANDSCAPE?

Typically, non-financial reporting is all the information outside of the general purpose financial statements that are prepared in accordance with generally accepted accounting practice. A key element of this broader reporting is the reporting on sustainability issues. This brings together a range of ESG factors considered essential for the comprehensive understanding of business performance to a wide group of stakeholders.

A number of different terms are relevant when considering reporting on sustainability issues including integrated reporting, climate-related reporting, sustainability reporting and ESG reporting. These are defined in the glossary.



Financial accounting and reporting have long been the language of business and the capital markets. They are critical, but on their own they are not sufficient for boards to fulfil their duty of accountability for long-term value creation. We need to improve business reporting and sustainability disclosures in order to meet our current and future challenges.

JESSICA FRIES, EXECUTIVE CHAIRMAN, A4S

1. For example: Ceres, [Investors, companies, organizations call on U.S. Securities and Exchange Commission to mandate corporate climate disclosure](#), PRI, [Investor groups call on companies to reflect climate-related risks in financial reporting](#), BlackRock, Larry Fink's 2022 letter to CEOs

2. KPMG, [The KPMG Survey of Sustainability Reporting 2020](#), The survey looks at global trends in sustainability reporting and aims to support those who have a responsibility for assessing and preparing their own organization's sustainability reporting.

This guide offers a brief introduction to the changing corporate reporting landscape and is divided into the following sections:

Section 1: How the growing list of mandatory sustainability reporting requirements introduced by governments, securities regulators and stock exchanges across the world are changing corporate reporting disclosures.

Section 2: How reporting frameworks, standards and recommendations have developed to help accountants collect, collate and disclose relevant and complete sustainability-related information.

Section 3: How the two key financial reporting components of assurance and materiality are evolving as they are applied to sustainability-related reporting.

Section 4: Actions taken by accounting standard setters and regulators on reporting on sustainability matters that affect the role of the accountant.

THE A4S ACCOUNTING BODIES NETWORK

This guide has been written and published by the A4S Accounting Bodies Network (ABN). The ABN is a collaboration between A4S and professional bodies across the globe. Together the ABN represents over 2.5 million professional accountants and students across 179 countries, representing two thirds of the world's accountants. Accounting bodies are vital in equipping their members with the knowledge and skills they need to implement sustainable and accounting finance practices. The Network provides an open, cross-border platform. Members share knowledge, collaborate to overcome common barriers and champion the need for change within the accounting community.

Further information about the ABN members and access to their extensive resources can be found on [page 35](#).



As professional accountants, the chief stewards of business information, we have both an important responsibility and a transformative opportunity to engage in and lead on upcoming changes in corporate reporting, and improving the quality of sustainability information.

KEVIN DANCEY, CHIEF EXECUTIVE OFFICER,
INTERNATIONAL FEDERATION OF
ACCOUNTANTS (IFAC)



MANDATORY REPORTING REQUIREMENTS

OVERVIEW

The increasing interest in the disclosure of sustainability information has led to new mandatory disclosure requirements being introduced in various jurisdictions. A recent assessment of the regulatory landscape identified 614 sustainability reporting requirements from over 80 countries.³

614

sustainability reporting requirements across

84

countries

3. [Carrots and Sticks](#)



In the European Union (EU), for example, all large listed companies with over 500 employees are now obliged by law to publish information required by the [EU's Non-Financial Reporting Directive](#). This is currently under review and expected to get more demanding under a new [Directive on Corporate Sustainability Reporting](#), which would replace the 2014 Directive. Several countries around the world, such as [Australia](#), have introduced requirements for companies to publish a statement setting out what they are doing to combat modern slavery in their business and in their supply chains. There is also growing emphasis on the mandatory disclosure by companies of their strategic planning and risk management in relation to climate risk and other environmental and social issues.

Individual securities exchanges impose their own disclosure requirements on their registered companies. An increasing number of exchanges, such as those in [Hong Kong](#), [Singapore](#) and [South Africa](#), and securities regulators, such as the Securities and Exchange Commission (SEC), have expanded their requirements to include ESG disclosures. The expectation across market regulators is that these disclosure requirements will expand and extend further. At the global level, a move towards greater coordination of sustainability disclosure requirements has been prioritized by the [International Organization of Securities Commissions](#) (IOSCO). The [Sustainable Stock Exchange Initiative](#) (SSEI)⁴ has identified 25 exchanges (covering 16,456 companies) requiring ESG reporting as a listing rule.

In some jurisdictions, such as the [UK](#), the framework of legal responsibilities for company directors has been amended (or clarified) to oblige directors to consider their company's impacts on the environment and people. Where this applies, boards are required to take these additional issues into account in all their management and decision-making processes. This additional measurement, governance and disclosure of ESG information becomes not only helpful to a wider group of stakeholders but is a key element of corporate accountability.

A full list of mandatory and voluntary instruments that either require or encourage organizations to report sustainability-related information can be found on the [Carrots and Sticks website](#), a collaboration between GRI, the United Nations Environment Programme and the University of Stellenbosch Business School. This website contains information on non-financial or sustainability reporting provisions including policy, regulation, guidance, frameworks and standards. The website contains a database of mandatory and voluntary instruments that either require or encourage organizations to report sustainability-related information.



We all know that what gets measured gets managed. Climate change is not yet consistently measured, although the private sector has moved in this direction since Paris. We now need to make measurement and disclosure mandatory.

Mark Carney, UN Special Envoy on Climate Action and Finance, Vice Chairman and Head of Impact Investing, Brookfield Asset Management, and former Governor, Bank of England



Full, timely and comprehensive corporate level reporting, including of sustainability-related information, is absolutely foundational for the proper functioning of markets and for investor protection.

Ashley Alder, IOSCO Chair and Chief Executive Officer of the Securities and Futures Commission (SFC) of Hong Kong

4. The SSEI aims to build the capacity of stock exchanges and securities market regulators to promote responsible investment in sustainable development and to advance corporate performance on ESG issues.



THE EUROPEAN UNION (EU)



In the spirit of co-construction and convergence we promote, we want to benefit from long-standing precursors and avoid reinventing the wheel, while contributing at the same time to further substantial progress globally. For 'season 2' of our Project Task Force, we have therefore chosen to cooperate closely with the best practitioners in the field in order to help us build robust sustainable reporting standards that will meet both the EU ambition and our commitment to contribute to global progress. GRI was an obvious first choice and we hope to find other valuable partners, soon.

Patrick de Cambourg, Chair, PTF-ESRS

The European Union (EU) introduced a [Non-Financial Reporting Directive](#) (NFRD) in 2014 which applies to 6,000 large companies across the EU. It requires them to publish specified information on sustainability matters (environment, social and employee matters, human rights, anti-corruption and bribery issues) 'to the extent necessary for an understanding of the development, performance, position and impact of the company's activities.' In April 2021, the Commission published a proposal for a new [Directive on Corporate Sustainability Reporting](#), which would replace the 2014 Directive.

A CLOSER LOOK: HOW BUSINESS REPORTING IS SET TO CHANGE SIGNIFICANTLY ACROSS EUROPE

The EU introduced its Non-Financial Reporting Directive (NFRD) in 2014 and underwent a comprehensive review of the effectiveness of the legislation in 2020, including addressing the two factors of standardization and assurance. The newly proposed Directive on Corporate Sustainability Reporting (CSRD) falls under the wider EU Sustainable Finance package, which aims to improve the flow of money towards sustainable activities across the EU.

The European Financial Reporting Advisory Group (EFRAG) has published [14 exposure drafts for The European Sustainability Reporting Standards \(ESRS\)](#), a key component of the EU Corporate Sustainability Reporting Directive (CSRD). The Exposure Drafts present the first iteration of the proposed standards, which are out for public consultation until August 2022. These Exposure Drafts cover the full

range of sustainability matters: environment, social, governance and cross-cutting standards.

The new Directive will result in nearly 50,000 companies reporting sustainability matters, with companies that meet two of the following three criteria in scope: 1) 250+ employees; 2) €40 million+ turnover; and/or 3) €20 million+ total assets. New requirements include providing information about strategy, targets, the role of the board and senior management, the principle adverse impacts connected to the company and its value chain, and intangibles (which includes social, human and intellectual capital). The proposal requires all future reporting to include the percentage of turnover, capital expenditure and operational expenditure that is considered green under the EU Taxonomy. The CSRD proposal clarifies the principle of double materiality, and requires qualitative, quantitative and forward-looking information to be disclosed.

The Council and European Parliament have reached a [provisional political agreement on the CSRD](#) in June 2022. For non-European companies, the requirement to provide a sustainability report applies to all companies generating a net turnover of EUR 150 million in the EU and which have at least one subsidiary or branch in the EU.

The application of the regulation will take place in three stages:

- 1 January 2024 for companies already subject to the non-financial reporting directive;
- 1 January 2025 for companies that are not presently subject to the non-financial reporting directive;
- 1 January 2026 for listed SMEs, small and non-complex credit institutions and captive insurance undertakings.



INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)

The International Organization of Securities Commissions (IOSCO) brings together the world's securities regulators, and is a key and influential player in the regulation of companies and global capital markets. IOSCO's support for sustainable finance and the movement towards global sustainability standards is pivotal – it acts as the high-level link between new sustainability-related reporting standards and their translation into binding requirements by securities regulators around the world. In 2020, it published [‘Sustainable Finance and the role of Securities Regulators and IOSCO’](#), in which it identified a number of information-based challenges that currently face markets in their efforts to protect investors. Following this, IOSCO appointed a board-level Sustainable Finance Task Force to take on the work of helping its members to meet these challenges, including to improve sustainability-related disclosures made by issuers and asset managers.



The International Organization of Securities Commissions (IOSCO), as a body of market regulators, is committed to act as the bridge for the implementation of global standards for sustainable reporting across our large membership of market regulators.⁵

Erik Thedéen, Chair, IOSCO's Board-level Task Force on Sustainable Finance and Director General, Finansinspektionen

5. Erik Thedéen, [‘How global standards can unlock a sustainable market economy’](#)

A CLOSER LOOK: HOW CAN IOSCO INFLUENCE STOCK EXCHANGE LISTING REQUIREMENTS AND IMPACT COMPANY DISCLOSURES?

IOSCO is recognized as the global standard setter for the securities sector. Members of IOSCO regulate more than 95% of the world's securities markets, in more than 130 jurisdictions. Its core objectives of investor protection, market efficiency and mitigation of systemic risks make sustainability and climate change relevant issues from a regulatory perspective.

In 2020, the IFRS Foundation published a consultation on the concept of a global framework of sustainability reporting standards. In early 2021, IOSCO made representations to the Foundation and stressed its strong support for the initiative, which is likely only to accelerate the delivery of a global sustainability reporting framework. IOSCO has stated it will work with the IFRS Foundation Trustees in relation to the establishment of the International Sustainability Standards Board (ISSB).

As part of IOSCO's [Sustainable Finance workplan update](#) announced early in 2022, IOSCO stated that if they consider the IFRS Sustainability Standards “fit for purpose” it would provide all members with the basis “to decide how they might adopt, apply or be informed by the ISSB standards.” In addition, IOSCO will “push forward work to develop assurance standards” as it has “identified independent assurance of the quality of corporate reporting of sustainability information as a key element of building trust in sustainability reporting.”



SECURITIES AND EXCHANGE COMMISSION (SEC)

The [Securities and Exchange Commission](#) (SEC) is the federal agency responsible for regulating securities markets in the United States.

In 2010, the Commission released interpretative guidance on [climate change disclosure](#), which clarified that existing SEC disclosure rules may require public companies to describe key climate change-related information. In November 2020, it amended its rules on [human capital management](#) to require disclosure of material information relating to those human capital measures and objectives that are considered key to the reporter's business.

A CLOSER LOOK: HOW HAS THE SEC HASTENED ITS PROGRESS ON ESG DISCLOSURES?

The SEC's movement towards a greater focus on the importance of sustainability disclosures has accelerated since 2019, including the appointment of a new Senior Policy Advisor for Climate and ESG to advise the agency on ESG matters. It has also recently announced the creation of a Climate and ESG Task Force, whose remit is to develop initiatives proactively to identify ESG-related misconduct, and to advise generally on the relevance of ESG issues to market regulation. In addition, calls for new disclosure requirements on ESG matters have emerged from the SEC's corporate finance division.

The SEC's [proposed rules](#) require climate disclosures beginning in 2024, including Scope 1 and 2 emissions (with reasonable assurance by 2026/27), Scope 3 emissions with safe harbour (if material or part of a GHG emissions target), reporting in the aggregate (not including offsets) and details on the governance of climate-related risks. The comment period for the proposed rule closed on 17 June 2022.

On the launch of these proposed rules, Gary Gensler, Chair, SEC, stated, "Companies and investors alike would benefit from the clear rules of the road proposed in this release. I believe the SEC has a role to play when there's this level of demand for consistent and comparable information that may affect financial performance. Today's proposal thus is driven by the needs of investors and issuers."

REPORTING STANDARDS, FRAMEWORKS AND RECOMMENDATIONS

OVERVIEW

In response to the significant growth in investor and broader stakeholder interest in sustainability information as a means of understanding company performance, several standards, frameworks and recommendations have been developed to help companies measure, compile and report on these issues. As with financial reporting standards, sustainability reporting frameworks require the measurement and reporting of information in standardized ways, often following fundamental accounting concepts such as consistency, materiality and comparability. The technical skills that professional accountants possess, therefore, make them well equipped to help prepare these disclosures.

AS WITH FINANCIAL REPORTING STANDARDS, SUSTAINABILITY REPORTING FRAMEWORKS REQUIRE THE MEASUREMENT AND REPORTING OF INFORMATION IN STANDARDIZED WAYS, OFTEN FOLLOWING FUNDAMENTAL ACCOUNTING CONCEPTS.

Each reporting standard or framework can be adopted by companies either on a voluntary basis or, in some jurisdictions, as a model for making mandatory disclosures. While each differs in certain respects, they all provide a benchmark for corporate reporting that can be used to track, assess and compare business performance, and share the overall aim of helping companies communicate information in a coherent and meaningful way.

Two or more of these reporting standards or frameworks can be, and often are, used in tandem. Different frameworks and standards provide a breadth of metrics, perspectives, guidance and approaches. Companies disclose information for different audiences or stakeholders, and for different purposes. Several frameworks and standards are often used in parallel by individual companies to satisfy these various needs. As such, the different

standards and frameworks can be complementary and compatible with one another.

The [Statement of Intent to Work Together Towards Comprehensive Corporate Reporting](#) states that “Together, disclosure standards and frameworks help create a foundational layer of high-quality, company-reported information, which the rest of the ecosystem can rely on to support more efficient markets and more effective decision-making,” summarized in Figure 1 on the next page.

The frameworks have not been adapted specifically for small and medium sized enterprise (SME) use, but many of the guiding principles and metrics from them could be applied to an organization of any size.

Three standard setters and framework providers are summarized in this guide:

- The IFRS Foundation’s International Sustainability Standards Board (ISSB)
- The Global Reporting Initiative (GRI)
- The Task Force on Climate-related Financial Disclosures (TCFD)

In addition, two other frameworks are covered in brief: the SDG Disclosure Recommendations framework and the WEF/IBC recommendations.

One key trend in reporting is the increasing focus on the interrelation between sustainability factors and the financial position of the organization, in the interests of providing investors with a more useful assessment of organization health. In this context, the TCFD’s recommendations provide an overarching framework for disclosure of sustainability-related financial information, including information relating to governance, strategy and risk as well as performance.

The GRI, on the other hand, responds to an equally important trend towards stakeholder capitalism, a growing focus among the corporate community on purpose and growing recognition of the importance for companies to understand and report on their impacts on and contribution to the environment, society and the economy. Its framework and standards, overseen by its Global Sustainability Standards Board (GSSB), are focused on reporting sustainable development impacts to all stakeholders, including investors.

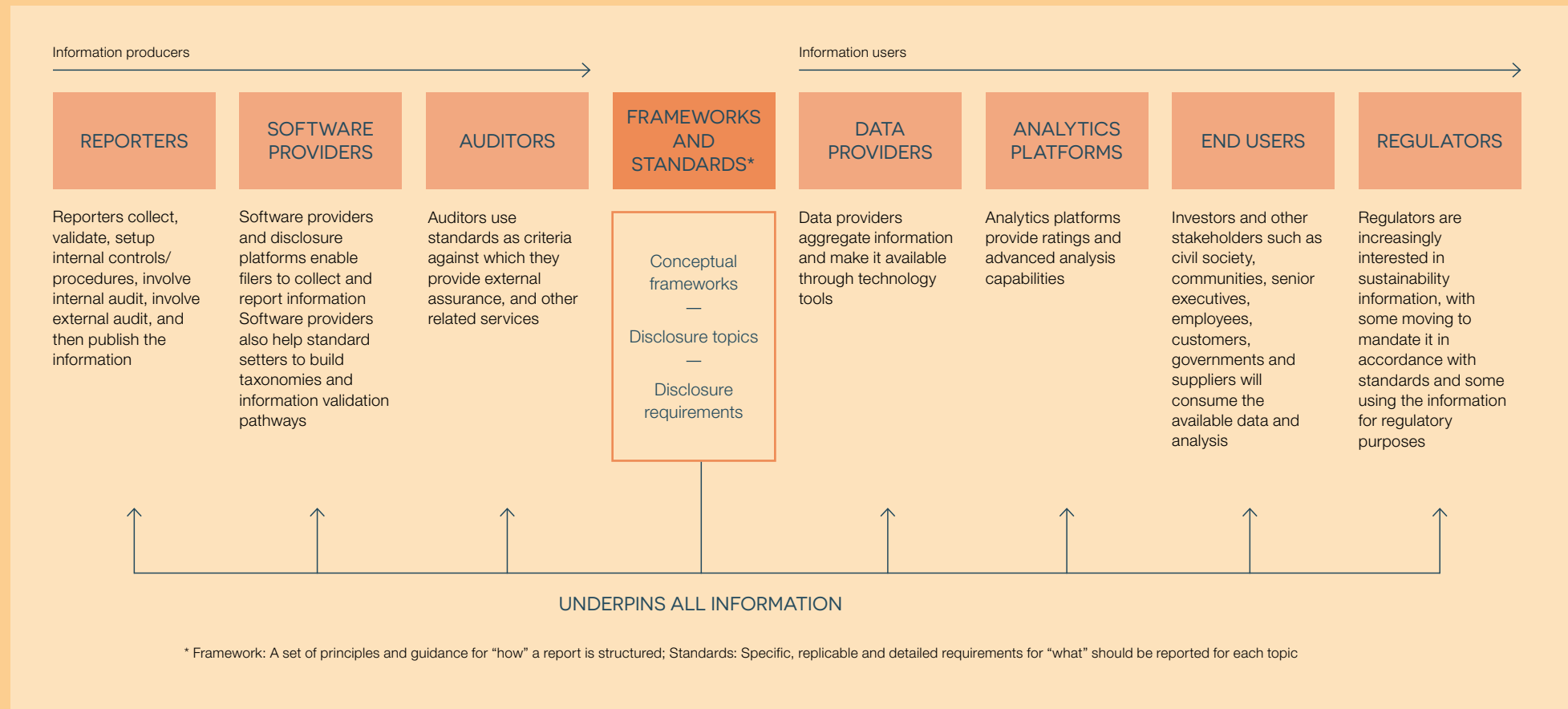
The Value Reporting Foundation (VRF), formed in June 2021 following the merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB), has now merged into the ISSB together with the CDSB. The ISSB will bring together these three already existing standards, which are summarised in the appendix ([page 29](#)).

Standards have an important role to play in making sure that information is presented in a comparable and consistent way by different organizations, reducing the risk of greenwashing or a failure to report performance in a transparent way. Further, companies are part of global supply chains and investors are part

of global capital markets. Consistency across jurisdictions is therefore key. It improves both the understandability of the information reported and the efficiency of disclosures. [The Statement of Intent to Work Together Towards Comprehensive Corporate Reporting](#) states that

“Together, disclosure standards and frameworks help create a foundational layer of high-quality, company-reported information, which the rest of the ecosystem can rely on to support more efficient markets and more effective decision-making.” This is summarized below.

FIGURE 1





INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOUNDATION

Following calls for the International Financial Reporting Standards (IFRS) Foundation to play a role to help improve the consistency, comparability and availability of sustainability information, in particular that provided to investors and other capital markets participants, the IFRS Foundation Trustees published a consultation paper in 2020 on a possible approach to develop an international standard for the preparation of sustainability reports. A set of comparable and consistent standards would allow businesses to build public trust through greater transparency of their sustainability initiatives, helping investors and others.

In November 2021, during COP26, the IFRS Foundation announced the establishment of the International Sustainability Standards Board (ISSB). The ISSB aims to develop and maintain a global set of sustainability-related reporting standards. Importantly this will bring together already existing standards by merging with the Value Reporting Foundation (VRF) and the Climate Disclosure Standards Board (CDSB). In addition, the IFRS Foundation and Global Reporting Initiative (GRI) have announced a **collaboration agreement**. Under this agreement their respective standard setting boards, the ISSB and the Global Sustainability Standards Board (GSSB), will seek to coordinate their work programmes and standard-setting activities.

The IFRS Foundation proposal could achieve the objectives of developing a framework for sustainability reporting that was coherent with and connected to financial reporting and with the IASB's own mission to serve investors and other primary users of financial statements.

A CLOSER LOOK: WHAT IS THE FOUNDATION NOW PROPOSING FOR THE FUTURE OF SUSTAINABILITY REPORTING?

The ISSB have launched their Exposure Drafts on climate and general sustainability-related financial disclosures. These drafts present the first iteration of the proposed standards, open for **public consultation** until 29th July 2022. They are based on the prototypes released last November, building on the TCFD recommendations and SASB industry-based disclosure requirements.

The proposals aim to help companies report on all sustainability-related topics relevant to enterprise value, with additional detail provided on climate-related disclosures. The Exposure Drafts underline the need for organizations to consider impacts along the value chain and reinforce the fact that the impact an organization has on the world can often be enterprise-value relevant.

Key points emphasized within the Exposure Drafts include the need to consider impacts along the value chain, the application of the standards to sustainability-related topics beyond climate change, and more on transition plans and carbon offsets. It also includes specific metrics on financed emissions, relevant for companies in the financial services sector.



GLOBAL REPORTING INITIATIVE (GRI)

The GRI produces the Global Reporting Initiative (GRI) Standards, which are designed to be used by organizations to report on their impacts on the economy, the environment, and/or society, and communicate both their positive and negative impacts on sustainable development. They help organizations prepare a sustainability report based on the GRI Reporting Principles and focus on material topics and are intended for a multistakeholder audience. The GRI Standards are relevant to companies, accountants, investors, capital markets and policymakers.

A CLOSER LOOK

The Global Reporting Initiative (GRI) is an independent, international organization that provides the world's most widely used standards for sustainability reporting. It enables organizations to be transparent and accountable, and enhances global comparability in disclosures. The GRI Standards create the global common language for organizations to report their impacts in a consistent and credible way, enabling informed dialogue and decision making. By better understanding, managing and disclosing their impacts, companies can enhance strategic decision making, reduce risks, identify business opportunities and strengthen stakeholder relationships.

The GRI Standards have been developed to provide a coherent basis for the preparation by companies of information on ESG matters. Adoption is voluntary, however, the GRI has established itself as a global reference point for high quality sustainability reporting. Their Standards help companies to comply with mandatory reporting requirements where these apply. The GRI provides support to governments and market regulators in the development of sustainability reporting policies and regulations to stimulate corporate transparency and accountability. Around the world, more than 160 policies in over 60 countries and regions reference or require GRI for reporting.⁵ The Standards allow companies to report in a consistent way and thus allows investors and other stakeholders to compare and contrast companies' ESG performance regardless of location.

5. GRI, [Policies and regulation](#)

THE GLOBAL REPORTING INITIATIVE (GRI) CONTINUED

KEY MILESTONES	<p>1997 – year created</p> <p>2000 – first GRI Guidelines framework published</p> <p>2016 – GRI Standards published</p>
STAKEHOLDER AUDIENCE	All stakeholders.
EXTENT OF TAKE UP	More than 10,000 GRI reporters in over 100 countries. 73% of the world's largest 250 companies / 67% of the N100 (5,200 companies comprising the largest 100 firms in 52 countries). ⁶
WHAT DOES THE FRAMEWORK LOOK LIKE?	The Standards are developed through a multistakeholder process and are designed as a modular set, starting with the Universal Standards. Sector and Topic Standards are then selected, based on the organization's material topics.
DEFINITION OF MATERIALITY	Material topics are topics that reflect the organization's most significant impacts on the economy, environment, and people, including impacts on human rights.



It is wonderful to see the ever increasing amount of organizations that take their responsibilities seriously when it comes to environmental, social and governance topics in addition to reporting on financial topics. The fact that we see a consolidation in the reporting landscape taking place will benefit both investors and other stakeholders. We must remain vigilant and make sure that global and regional initiatives in this field are aligned as much as possible.

EELCO VAN DER ENDEN, CEO, GRI



The GRI Standards really serve to shape your reporting for all stakeholders.

SHARON BASEL, SENIOR MANAGER,
SUSTAINABILITY, GM



Things do not get done unless they are measured. Setting targets and reporting on them are proof of our progress. Making targets public also creates pressure to reach these targets, to stay on track – or to publicly explain why they were not reached.

SEPPO PARVI, CFO, STORA ENSO – A GRI
REPORTING COMPANY

6. GRI, [Sustainability reporting is growing, with GRI the global common language](#)



TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The [Task Force on Climate-Related Financial Disclosures](#) (TCFD) recommendations are widely adoptable and applicable to organizations across sectors and jurisdictions. They are designed to solicit information that can be included in mainstream financial filings. They are designed to help companies provide better information to support informed capital allocation and can assist investors in determining if climate risk is appropriately priced into the valuation of the entity.

A CLOSER LOOK

The TCFD was established by the Financial Stability Board to address the challenges that climate change presents to the global business community and to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

The TCFD was set up in 2015 to develop recommendations for organizations across the world to disclose information about their exposure to climate-related risks. The disclosures recommended by the TCFD have received significant support through a market-led approach to development and adoption.

Increasingly, they are being mandated by regulators and governments in different countries. They are also informing the development of climate-related standards by the IFRS Foundation as part of their ISSB. TCFD's [Metrics, Targets, and Transition Plans guidance](#) was launched at the end of 2021. It describes recent developments around climate-related metrics and users' increasing focus on information describing organizations' plans for transitioning to a low-carbon economy.

THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

KEY MILESTONES	2015 – year created 2017 – Recommendations published
STAKEHOLDER AUDIENCE	Investors, credit providers and insurers.
EXTENT OF TAKE UP	2,300+ supporters in 86 countries. ⁷
WHAT DOES THE FRAMEWORK LOOK LIKE?	The framework covers the topics of governance, strategy, risk management and metrics and targets. Each topic includes supporting recommended disclosures. An annex sets out supplemental disclosures for different sectors and a technical supplement advises on conducting climate-related scenario analysis.
DEFINITION OF MATERIALITY	The TCFD believes that organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings. It adds that disclosures related to governance and risk management should always be provided.



The Task Force's recommendations are intended to help build consideration of the effects of climate change into routine business and financial decisions, and their adoption can help companies demonstrate responsibility and foresight. Better disclosure will lead to more informed and more efficient allocation of capital, and help facilitate the transition to a more sustainable, lower-carbon economy.

MICHAEL R. BLOOMBERG, CHAIRMAN, TCFD



It's fundamental for every good business to manage and communicate risks and opportunities. We are already obliged to disclose material risk – climate change is no different. It's a risk that is already affecting companies today – both through the impacts of steadily rising global temperatures and through the policies that governments around the world adopt in response.

As part of the Task Force, we have put together a standardized framework for companies to disclose climate-related risks and opportunities, focusing on making them as practical as possible to adopt. Why? Because markets need information to operate efficiently. We have to be transparent to help investors make better decisions for the long term. And beyond the markets, we know that transparency is increasingly important to our consumers too. They want to know the values of the companies they are buying from, particularly millennials. The same goes for the young talented future leaders we all wish to recruit.

GRAEME PITKETHLY, CHIEF FINANCIAL OFFICER, UNILEVER, VICE CHAIR, TCFD AND MEMBER, A4S CFO LEADERSHIP NETWORK

7. TCFD, [TCFD supporters around the world](#) (as at 30.06.21)



SDG DISCLOSURE RECOMMENDATIONS

OTHER REPORTING FRAMEWORKS

In addition to the three reporting frameworks and standards highlighted above, there are two further ones summarized below.

The [Sustainable Development Goals Disclosure \(SDGD\) Recommendations](#) attempt to establish a best practice for corporate reporting on the SDGs and enable more effective and standardized reporting and transparency on climate change, social and other environmental impacts. The SDGD Recommendations offer a new approach for businesses and other organizations to address sustainable development issues aligned to the three most influential and popular reporting frameworks (GRI, IIRC and TCFD).⁸ They attempt to establish a best practice for corporate reporting on the SDGs and enable more effective and standardized reporting and transparency on climate change, social and other environmental impacts.

The SDGD Recommendations call on organizations to consider sustainable development risks and opportunities relevant to their long-term value creation strategy and communicate the actual or potential impacts on achievement of the SDGs. This will require relevant and material disclosures about the factors that influence long term value creation (or destruction) for the organization and society or that have an impact (positive or negative) on the achievement of the SDGs in the annual report.



WORLD ECONOMIC FORUM

The World Economic Forum (WEF) has published a set of common metrics and disclosures developed by the Big 4 accounting firms with support from members of WEF's International Business Council (IBC). [Measuring Stakeholder Capitalism](#) was developed to help companies begin reporting in a consistent and more comparable way on key dimensions of sustainable value. As a key way of achieving these goals, the recommendations promote the use of existing standards, in particular the GRI, TCFD and SASB, rather than creating a new set of metrics. Taking these standards as a starting point, the recommendations propose the adoption of a common core set for companies to adopt. They consist of:

- A set of 21 core metrics, primarily quantitative, reflecting information which is being reported on by many companies already.
- A set of 34 metrics and disclosures that tend to be less well-established in existing practice but represent a more advanced way of measuring and communicating sustainable value creation.⁹

This project, developed within the IBC, a community of over 120 global CEOs, seeks to improve the ways that companies measure and demonstrate their contributions towards creating more prosperous, fulfilled societies and a more sustainable relationship with our planet.¹⁰

8. As described by [IFAC](#)

9. World Economic Forum, [Measuring Stakeholder Capitalism](#)

10. Ibid.

THE NEED FOR CONVERGENCE

The increase in non-financial, sustainability and ESG reporting requirements and variety of reporting frameworks and standards reflects the level of interest on the topic. The proliferation of such measures has, however, created difficulties, particularly for those businesses that operate internationally and are affected by legal, regulatory and stakeholder expectations in more than one jurisdiction.

CONCERNS ABOUT CONFUSION AND FRAGMENTATION, AND LACK OF COMPARABILITY AND RELIABILITY OF THE REPORTED INFORMATION, CONTINUE TO BE EXPRESSED BY COMPANIES, INVESTOR GROUPS AND OTHER STAKEHOLDERS.

Many of these stakeholders have led calls for greater coherence, consistency and comparability in content and, overall, for more convergence between the different standards and frameworks.

A CLOSER LOOK

The leading standard setters and framework providers have been working together in increasingly close cooperation towards the aim of global sustainability reporting standards that meet the needs of investors and providers of capital, and the needs of wider stakeholder groups.

The merger of the VRF and CDSB into the ISSB, summarized on [page 11](#), is a key step towards the ambition of global standards. Further, GRI and the ISSB have agreed a [Memorandum of Understanding](#), signaling the clear intent of both organizations to work closely together to achieve alignment. GRI also signed a Statement of Cooperation with EFRAG, helping to co-construct the draft EU sustainability reporting standards with the aim of greater global convergence. Additionally, the ISSB has established a [working group](#) to enhance compatibility between its own standards, which it hopes will form the global baseline, and jurisdictional initiatives, such as those of the EU and SEC. The key test of these various initiatives will be whether they can achieve alignment and consistency around matters such as definitions and terminology – areas where the consultation drafts show a significant lack of alignment.

From a practitioners' perspective, GRI and SASB's joint research is a useful reference, exploring the experiences of companies that use both sets of standards and summarizing the similarities and distinctions between them.



There is strong public interest in seeking to align where possible the international and jurisdictional requirements for sustainability disclosures. We have a window of opportunity to do just that, given that the ISSB's proposals are out for comment at the same time as several major jurisdictions are also seeking public input on their proposals. I look forward to a fruitful exchange of ideas.

EMMANUEL FABER, CHAIR, ISSB



We created a blended reporting framework that combines GRI, IIRC, SDG and SASB standards. In an ever-changing business landscape, companies need to remain limber and anticipate the changing expectations of their stakeholders.

ESTHER AN, CHIEF SUSTAINABILITY OFFICER, CDL



It's valuable to use both GRI and SASB and it doesn't need to be difficult... These frameworks are a really good acid test for you as a business, to make sure that you are tackling issues which you should be thinking about.

HARRIET HOWEY, GLOBAL NON-FINANCIAL REPORTING AND ESG LEAD, DIAGEO

KEY REPORTING COMPONENTS

In the course of developing (and now converging) the different reporting frameworks and standards, there has been increasing focus placed on specific reporting components considered to be pivotal in making information understandable and useful to users: assurance and materiality.

ASSURANCE

As is the case with financial statements, users of sustainability-related disclosures are likely to see them as having more credibility if they have been reviewed by an independent assurance expert and meet the required standard of preparation. The well-established technical and professional procedures for auditing financial statements, in addition to the auditing profession's ethical code and quality management requirements, offer a robust template for developing assurance arrangements for sustainability and other non-financial information. The skills and procedures of the external audit function are, therefore, transferable to sustainability information and reports. As assurance of sustainability-related reporting continues to develop, providers will need specialized guidance on applying assurance procedures to this different set of information.

With 71% of the world's largest 250 companies already obtaining third-party assurance on their sustainability reports, how is this area developing and impacting the profession?¹¹

11. KPMG, [The KPMG Survey of Sustainability Reporting 2020](#)

A CLOSER LOOK

There are a number of initiatives that are helping to shape the future of sustainability assurance and respond to calls from various parties, including investors, for reliable ESG information. These include:

- The European Commission's 2021 proposal for a new Corporate Sustainability Reporting Directive (to replace the Non-Financial Reporting Directive) foresees mandatory assurance of sustainability reports in line with a new EU regime of assurance standards.
- The IAASB issued new [guidance](#) in April 2021 on Extended External Reporting (EER) Assurance Engagements, which deal with how its existing ISAE 3000 (Revised) Standard on assurance engagements may be applied to sustainability information.
- In June 2022, the IAASB announced plans to develop new "sustainability bespoke" assurance standards, with a target to release for public comment during the second half of 2023.
- IFAC and the IIRC launched a joint initiative, [Accelerating Integrated Reporting Assurance in the Public Interest](#), which focuses on the assurance of integrated reporting, with its forward-looking focus on value creation.

The IFRS Foundation, in its consultation on Sustainability Reporting, said that "to achieve globally consistent sustainability reporting practices, sustainability information reported by companies will ultimately need to be subject to external assurance". It is likely, therefore, that assurance on sustainability information will continue to develop significantly in the short to medium term.



We also believe sustainability-related financial information should be subject to external assurance given the growing reliance on this information by stakeholders in capital markets.

MAARIKA PAUL, EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL AND OPERATIONS OFFICER AND KIM THOMASSIN, EXECUTIVE VICE-PRESIDENT AND HEAD OF INVESTMENTS IN QUÉBEC AND STEWARDSHIP INVESTING, CDPQ



Auditing requirements play an important role in the enforcement of IFRS and we expect that the same would be the case for sustainability reporting standards. Such assurance requirements may, for example, cover consistency with other disclosures, compliance with applicable law or voluntary disclosure frameworks or standards, completeness of disclosures and a statement as to whether the auditor has identified any material misstatements or gaps. Through this process, external assurance would improve the quality as well as completeness and availability of disclosures and also provide us, as users, with greater confidence in their reliability.

NEIL ACRES, MANAGING DIRECTOR GOVERNMENT AND PUBLIC AFFAIRS, MOODY'S INVESTORS SERVICE

MATERIALITY

When the term ‘materiality’ is used in financial reporting, it generally means information, and a level of detail, that is likely to make a difference to the users’ economic decision making in relation to a set of accounts. Several different definitions of materiality have been published by accounting and auditing standard setters, and these are used by professional accountants globally. Although what will be material will differ depending on individual preparers, the general rule is that information will be material if omitting, misstating or obscuring it is likely to affect the economic decision making of primary users. In the case of financial reporting, these users are typically defined as investors, lenders and other creditors – current or potential – who must rely on general purpose financial statements for much of their information needs.

In the case of sustainability reporting, the question of what is material is complicated by the fact that there are likely to be a wider range of users, each with their own reasons for being interested. Materiality judgements, therefore, are likely to differ for sustainability reporting in three ways:

- The scope of issues broadening to include consideration of the organization’s impacts on the environment and society.
- The inclusion of multiple and wide-ranging stakeholder groups.
- The lengthening of the time frame over which business impacts are considered material.

How is the concept of materiality being applied to sustainability reporting, and how does this differ to, and affect, financial reporting?

A CLOSER LOOK

Organizations often find it challenging to determine what sustainability information should be included in their reporting. Materiality determinations are highly subjective and require significant professional judgment, assessment of qualitative and quantitative considerations and consultation with a variety of stakeholders. In the context of determining the materiality of sustainability issues for financial reporting, considering the organization’s business model and unique circumstances, relevant ESG factors identified should be assessed for their likelihood of occurrence and potential impact on company value over the short, medium, and long terms. To the extent possible, the approach for assessing ESG risks and opportunities should be consistent with how other financially material business risks and opportunities are identified and assessed by the organization. When looking at sustainability reporting, the impact of issues on the environment, people and the economy also need to be factored in.

Recent [work](#) carried out jointly by five organizations active in the field of integrated and sustainability reporting (CDP, CDSB, GRI, IIRC and SASB), discuss ‘dynamic materiality’, a concept discussed in the World Economic Forum’s “[Embracing the New Age of Materiality](#)” paper. The five organizations argue that materiality in this wider context needs to be seen as a dynamic concept. This concept highlights that different groups of stakeholders will have different views on which information is material that can change over time, with issues that might at first be material through the lens of impact on the economy, environment and people rapidly changing to be material for enterprise value creation. The image overleaf sets out this concept, underlining that what is deemed material information can move between three ‘lenses’.



There is no doubt that standardizing sustainability reporting throws up real technical challenges, for preparers and assurance providers alike. Materiality is possibly the most difficult of them. The word ‘material’ refers to something that is relevant or significant, but, for sustainability reporting, that poses the question of what is ‘relevant’ and ‘significant’ to whom and for what purpose?

PAUL DRUCKMAN, CHAIRMAN,
WORLD BENCHMARKING ALLIANCE



In order for a company’s risk profile to be fully understood, it is essential that it addresses all material issues – not just those driven by the context of financial reporting standards. Investors need to be able to analyse where a company stands now and how resilient it will be going forward, in the light of all foreseeable challenges

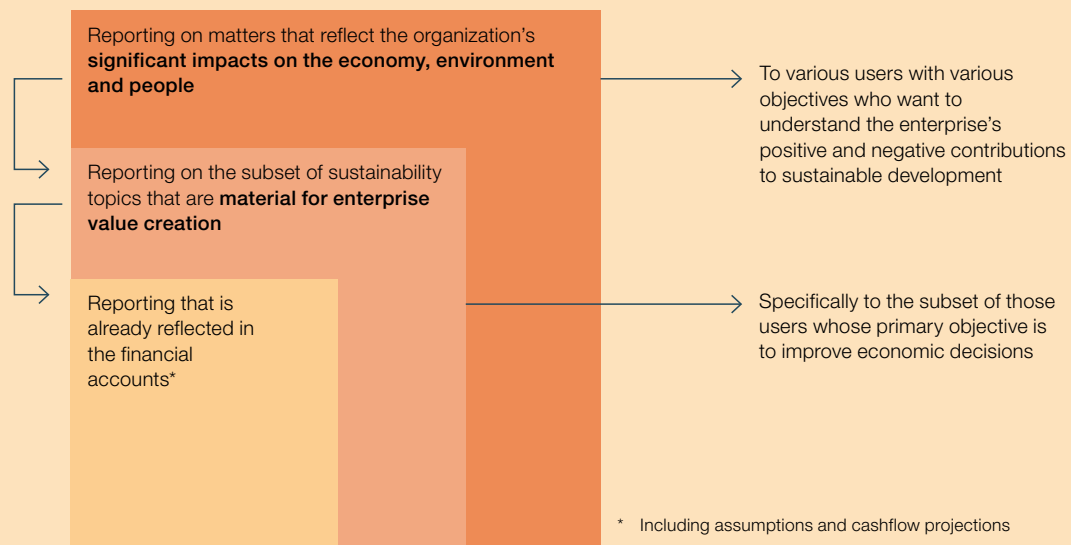
RUSSELL PICOT, CHAIR, HSBC BANK (UK)
PENSION SCHEME

MATERIALITY CONTINUED

FIGURE 2: DYNAMIC MATERIALITY

DYNAMIC MATERIALITY:

sustainability topics can move – either gradually or very quickly



Some reporting frameworks, as well as the EU's legislation on sustainability disclosure, specifically call for materiality to be applied both to the reporting company itself and to external stakeholders (the so called 'double materiality' principle), which would include the company's impacts on the economy, environment and society. Potentially, with changes to the NFRD currently underway, thousands of companies across Europe and beyond may need to disclose both types of material information to their stakeholders.

THE ACCOUNTING PROFESSION: RECENT REPORTING DEVELOPMENTS

There is a growing expectation that professional accountants will have a more prominent role in sustainability accounting, reporting, assurance and other related functions to help organizations and investors make informed decisions.

The accounting profession can provide leadership in supporting the further development of high quality global sustainability-related reporting standards that can be applied consistently. Work to develop such internationally-supported frameworks and standards on sustainability reporting has intensified recently, led by regional and global professional organizations. These key developments and others are summarized in this section.



INTERNATIONAL ACCOUNTING STANDARDS BOARD

The International Accounting Standards Board (IASB) has issued [guidance](#) for investors and analysts on what already exists in the current requirements and guidance on the application of materiality, and how it relates to climate and other emerging risks. In addition, the IASB has recently consulted on its [Practice Statement on Management Commentary Exposure Draft](#) – a new framework which could impact management commentary content regarding intangible resources and sustainability matters affecting the company.

A CLOSER LOOK: ALTHOUGH CLIMATE CHANGE RISKS AND OTHER EMERGING RISKS ARE NOT COVERED EXPLICITLY BY IFRS STANDARDS, HOW DO THE STANDARDS ADDRESS ISSUES THAT RELATE TO THEM?

The International Accounting Standards Board (IASB) briefing on IFRS Standards suggests how potential financial implications arising from climate-related and other emerging risks may include asset impairment, changes in the useful life of assets, and effects on impairment calculations among other examples which are also given. The article provides some helpful tips for how existing requirements in IFRS Standards may cover climate-related and other emerging risks when making materiality judgements about what to recognise in financial statements.

More details are set out in the [ABN's Statement of Support](#), which reflects on developments in addressing climate and other emerging risks.



INTERNATIONAL AUDIT AND ASSURANCE BOARD (IAASB)

The International Audit And Assurance Board (IAASB) has agreed new [guidance](#), issued in April 2021, on Extended External Reporting Assurance, which is intended to assist practitioners in performing assurance engagements in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised). Further, it has plans to develop new “sustainability bespoke” assurance standards, responding to market demand, with a target to release for public comment in 2023. In addition, the IAASB has issued guidance on how auditors should consider climate-related risks in their audit of financial statements. In October 2020, IAASB published a Staff Practice Note – [The Consideration of Climate-Related Risks in an Audit of Financial Statement](#) – which assists auditors in understanding what already exists in the International Standards on Auditing today and how it relates to auditors’ considerations of climate-related risks in an audit of financial statements.

A CLOSER LOOK: WHAT SHOULD AUDITORS BEAR IN MIND WHEN PLANNING THEIR AUDITS?

The International Audit and Assurance Board (IAASB) guidance explains how climate-related events or conditions may contribute to the possibility of financial statements containing misstatement of certain amounts and disclosures, and thereby have implications for the auditor’s opinion. The guidance discusses how climate-related information may impact on the auditor’s specific responsibilities under the IAASB standards, including those dealing with the assessment and identification of risks of material misstatement, materiality and going concern.



INTERNATIONAL PUBLIC SECTOR STANDARDS BOARD (IPSASB)

Following a strategic review in 2018, the International Public Sector Standards Board (IPSASB) embarked on its Natural Resources project as a response to concerns that current guidance failed to address these issues satisfactorily, despite natural resources being considered to account for a significant proportion of government resources in many countries. The IPSASB has published a paper which discusses the relevance of International Public Sector Accounting Standards (IPSAS) and related Recommended Practice Guidelines to reporting on both climate change and the United Nations' Sustainable Development Goals in the general purpose financial reports of public sector entities.

A CLOSER LOOK: HOW SHOULD A PUBLIC SECTOR ENTITY DISCLOSE ITS ASSESSMENT OF CLIMATE CHANGE-RELATED RISKS?

The International Public Sector Standards Board (IPSASB) has addressed the question of how climate-related issues impact on its body of standards and guidance in its [Climate Change: Relevant IPSASB Guidance](#), which helps public sector auditors identify how these issues may affect their work. This guidance identifies three of IPSASB's Recommended Practice Guidelines that have particular relevance to climate change reporting, namely the guidance on reporting on the sustainability of an entity's finances, discussion and analysis, and the reporting on service performance indicators.



INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC)

The International Federation of Accountants (IFAC) actively supports and promotes the accountancy profession to lead in the [sustainability agenda](#). For example, IFAC's response to the IFRS Foundation Trustees' initiative on sustainability reporting, [Enhancing Corporate Reporting: The Way Forward](#), calls for the creation of a coherent global system of interconnected corporate reporting, involving specialist standard-setting bodies on financial and non-financial reporting and clear roles for corporate governance and audit/assurance.

A CLOSER LOOK: WHAT IS THE PERSPECTIVE OF THE GLOBAL ACCOUNTANCY PROFESSION?

The International Federation of Accountants strongly supports the IFRS Foundation as being the ideal home for global sustainability-related reporting standards, with the intention that a new board:

- Focuses on investors and the needs of capital markets
- Makes use of existing standards and frameworks
- Works collaboratively – including with regional initiatives like in the EU
- Connects with the work of IASB
- Leverages the success of IFRS governance and processes

GLOSSARY

GLOBAL PROFESSIONAL ORGANIZATIONS AND WHAT THEY DO

<u>IAASB</u>	The International Audit and Assurance Board (IAASB) is the recognised global standard setter for audit and assurance. It acts as an independent body under the auspices of the International Federation of Accountants (IFAC) and its standards have traditionally focused solely on the technical elements of auditing. Now, however, with the increasingly apparent implications of climate change for corporate reporting, and conceivably for business viability too, the process of audit is no longer immune to these historically external issues.
<u>IASB</u>	The International Accounting Standards Board is an independent, international group of experts with a mix of recent practical experience in setting accounting standards, in preparing, auditing or using financial reports, and in accounting education. The Board is responsible for the development and publication of IFRS Standards, including the IFRS for SMEs Standard. The Board is also responsible for approving interpretations of IFRS Standards, as developed by the IFRS Interpretations Committee.
<u>IFAC</u>	The International Federation of Accountants (IFAC) is the representative body for the global accountancy profession. Although it does not set technical standards itself and so is not directly involved in the various processes of devising accounting, audit or sustainability standards, it has assumed a leading role in ensuring that corporate reporting continues to provide valuable and reliable information for stakeholders. For example, it has encouraged and supported the initiatives of IASB, IAASB and IPSASB to develop solutions which reflect the market and wider stakeholder need for more and better information on entities' interface with climate change and other sustainability risks.
<u>IFRS FOUNDATION</u>	The International Financial Reporting Standards Foundation (IFRS) is a public interest organization established to develop a single set of high-quality, understandable, enforceable and globally accepted accounting standards – IFRS Standards – and to promote and facilitate adoption of the standards. IFRS Standards are set by the IFRS Foundation's standard-setting body, the International Accounting Standards Board (IASB). The IFRS Foundation Trustees are responsible for the governance and oversight of the IFRS Foundation and the IASB Board.
<u>IPSASB</u>	The International Public Sector Standards Board (IPSASB) operates as part of the IFAC structure and specializes in the development of accounting standards (IPSAS) and supplementary guidance for use by public sector entities. Although its focus has historically been on the financial reporting of target entities, there is an increasing recognition of the implications of wider environmental issues for the integrity of financial reporting.

GLOSSARY

ACRONYMS

<u>CDSB:</u>	Climate Disclosure Standards Board
<u>CRD:</u>	Corporate Reporting Dialogue
<u>CSRD:</u>	Corporate Sustainability Reporting Directive, as proposed by the European Union
<u>EFRAG:</u>	The European Financial Reporting Advisory Group. EFRAG's mission is to serve the European public interest by developing and promoting European views in the field of financial reporting and ensuring these views are properly considered in the IASB standard-setting process and in related international debates. EFRAG ultimately provides advice to the European Commission on whether newly issued or revised IFRS Standards meet the criteria in the IAS Regulation for endorsement for use in the EU, including whether endorsement would be conducive to the European public good.
<u>GRI:</u>	Global Reporting Initiative
<u>IIRC:</u>	International Integrated Reporting Council
<u>IOSCO</u>	The International Organization of Securities Commissions
<u>ISSB:</u>	International Sustainability Standards Board
<u>NFRD:</u>	Non-Financial Reporting Directive, required by the European Union.
<u>SASB:</u>	Sustainability Accounting Standards Board
<u>SDG:</u>	Sustainable Development Goals
<u>SEC:</u>	US Securities and Exchange Commission
<u>SSEI:</u>	Sustainable Stock Exchange Initiative
<u>TCFD:</u>	Task Force on Climate-Related Financial Disclosures
<u>WEF:</u>	World Economic Forum

GLOSSARY

DEFINITIONS

<u>CLIMATE-RELATED REPORTING:</u>	With the increasing focus on climate change and the expectations of a wide range of stakeholders to see relevant disclosures in the accounts, financial markets need clear, comprehensive, high-quality information on the impacts of climate change. This includes the risks presented by rising temperatures, climate-related policy, and emerging technologies in our changing world, as well as the opportunities from providing solutions. These expectations are only set to increase for all companies.
<u>DEPENDENCIES:</u>	Where an organization relies upon natural, social or human capital as an input, eg water.
<u>ESG:</u>	Environmental, Social and Governance. Investors are increasingly applying these factors as part of their analysis process to identify material risks and growth opportunities. ESG metrics are not commonly part of mandatory financial reporting, though companies are increasingly making disclosures in their annual report or in a standalone sustainability report (as defined by the CFA Institute).
<u>EXTENDED EXTERNAL REPORTING (EER):</u>	Extended external reporting encapsulates many different forms of reporting, including, but not limited to, sustainability or environmental, social and governance (ESG) reporting, integrated reporting, reporting on corporate social responsibility, greenhouse gas statements, and service performance reporting in the public sector. These kinds of extended reporting are growing in frequency and importance, and address matters that are becoming increasingly critical to decision making by investors and other users (as defined by IAASB).
<u>EU TAXONOMY:</u>	The action plan on financing sustainable growth called for the creation of a common classification system for sustainable economic activities, or an “EU taxonomy”. The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities.
<u>FRAMEWORKS & STANDARDS:</u>	Frameworks provide principles-based guidance on how information is structured, how it is prepared, and what broad topics are covered. Standards provide specific, detailed, and replicable requirements for what should be reported for each topic, including metrics. Standards make frameworks actionable, ensuring comparable, consistent, and reliable disclosure. Frameworks and standards are complementary and are designed to be used together (as defined by SASB).
<u>IMPACTS:</u>	Any environmental, economic or social change, positive or negative, caused by an organization through their activities.
<u>INTEGRATED REPORTING:</u>	A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation. An integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.
<u>MODERN SLAVERY:</u>	A person commits an offence if (a) the person holds another person in slavery or servitude and the circumstances are such that the person knows or ought to know that the other person is held in slavery or servitude, or (b) the person requires another person to perform forced or compulsory labour and the circumstances are such that the person knows or ought to know that the other person is being required to perform forced or compulsory labour (as defined by the UK Government).
<u>MULTICAPITAL:</u>	Capitals are stocks of value on which an organization’s business model depends as inputs, and which are increased, decreased or transformed through its business activities and outputs. The capitals are categorized in the <IR> Framework as financial, manufactured, intellectual, human, social and relationship, and natural.
<u>NON-FINANCIAL REPORTING:</u>	Typically, non-financial reporting is all the information outside of the general-purpose financial statements that are prepared in accordance with generally accepted accounting practice. The key element of this broader reporting is the reporting on sustainability issues. This brings together a range of environmental, social and governance (ESG) factors considered essential for the comprehensive understanding of business performance to a wide group of stakeholders.
<u>STAKEHOLDER:</u>	A party that can either affect or be affected by an organization. Stakeholders can be internal or external. Internal stakeholders are those who have a direct relationship with an organization, such as employment; external stakeholders are those who relate to the actions and outcomes of the organization, such as customers, suppliers, investors or governments.

APPENDIX: VOLUNTARY STANDARD SETTERS NOW INCORPORATED INTO THE ISSB

The Value Reporting Foundation (VRF) was formed from a merger between two pre-existing organizations: the International Integrated Reporting Council (IIRC), an overarching framework provider, and the Sustainability Accounting Standards Board (SASB), focused on standards relating to key metrics. The VRF provided a toolset to support business and investor decision making. This included the Integrated Reporting (<IR>) Framework, the Integrated Thinking Principles, and the SASB Standards.

The VRF, together with the CDSB, have now merged into the ISSB. Their three frameworks are summarized in this appendix.

Although these reporting frameworks and standards are now being absorbed into the work of the ISSB and the International Accounting Standards Board (IASB), they remain useful sources of guidance. They are likely to remain relevant at least over the coming few years while the ISSB develops its standards to cover matters beyond climate change and to cover sector-specific requirements, and the ISSB and IASB undertaken reviews or revisions to the Integrated Reporting Framework.



INTEGRATED REPORTING FRAMEWORK

The **Integrated Reporting Framework** (<IR> Framework) provides a holistic view of the value creation process through '**multicapital**' governance and business model disclosure. It provides principles-based guidance for organizations to prepare an integrated report. By taking into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time, it helps to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital, and provides a way for accountants to focus on the information and decisions that matter to the organization.

A CLOSER LOOK

The aim of integrated reporting and thinking is to align capital allocation and corporate behaviour to the wider goals of financial stability and sustainable development. The <IR> Framework sets out the broad principles which underpin the concept of integrated reporting and the essential elements of an integrated report.

Central to <IR> is the idea that the transparent reporting of business performance requires the integrated analysis of a wide range of factors and drivers, which include the impacts and dependencies of an organization on the six 'capitals': natural, social, human, intellectual, manufactured and financial. Another key element of integrated reporting is its focus on explaining how a reporting company creates value, and how it plans to do this over the short, medium and long terms. <IR> aims to give investors a comprehensive account of a company's governance, business model, risks and opportunities, strategy, performance and outlook.

THE INTEGRATED REPORTING FRAMEWORK CONTINUED

KEY MILESTONES	2010 – year created
	2013 – first <IR> Framework published
STAKEHOLDER AUDIENCE	Primary users – providers of financial capital.
	Other beneficiaries – employees, customers, suppliers and regulators.
EXTENT OF TAKE UP	Over 2,500 businesses in more than 75 countries are implementing integrated reporting. ¹²
WHAT DOES THE FRAMEWORK LOOK LIKE?	The <IR> Framework is a single, integrated document that sets out fundamental principles of IR and minimum report content.
DEFINITION OF MATERIALITY	An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long terms.

12. Value Reporting Foundation, [Integrated Reporting Framework](#) (as of 30.06.21)



The push must be towards a single comprehensive system of reporting with integrated thinking at the heart and an integrated report being the lifeblood of accountability. There must be a facilitation of the connectivity between the financial and the non-financial in the public interest.

PROFESSOR MERVYN KING,
CHAIR EMERITUS, IIRC



Integrated reporting enables investors to make better investment decisions, based on comprehensive information about how a company creates value in the long term.

ERIK BREEN, HEAD OF SRI FUNDS, TRIODOS
AND CHAIR OF THE BOARD OF
GOVERNORS, ICGN (INTERNATIONAL
CORPORATE GOVERNANCE NETWORK)



The Value Reporting Foundation will operate as one global organization with a unified strategy. We aim to help businesses and investors develop a shared understanding of drivers of enterprise value and how value is created, preserved or eroded over time.

JANINE GUILLOT, CEO, VALUE REPORTING
FOUNDATION



At ABN AMRO we started our Integrated Reporting journey in 2015 and have aimed to develop and improve on it each year. The IIRC framework was very helpful as guidance to develop our Integrated Report and ask for assurance from our external auditor. Our Integrated Report covers our business, strategy and performance and its primary purpose is to explain how, over time, we create value for our stakeholders. The IIRC framework guided us to communicate on our value creation for our stakeholders in a structured way.

NICK ROOSEDAAL,
DIRECTOR REPORTING AND RISK, ABN AMRO





SASB STANDARDS

The SASB Standards enable businesses around the world to identify, manage and communicate financially-material sustainability information to their investors. They provide investors with consistent, comparable and reliable ESG data. The 77 Industry Standards identify the minimal set of financially material sustainability topics and their associated metrics for the typical company in an industry, and can be used in core communications with investors, including annual reports to shareholders and financial filings.

A CLOSER LOOK

The SASB Standards aim to improve industry-specific disclosure standards across financially material ESG topics that facilitate communication between companies and investors about decision-useful information. They hope to create a shared understanding of sustainability performance that enables companies and investors to make informed decisions that drive long-term value creation and better outcomes for businesses and their shareholders, the global economy and society at large. SASB has received strong backing from large institutional investors who are calling on their investee companies to adopt the standards.



THE SASB STANDARDS CONTINUED

KEY MILESTONES	2011 – year created
	2018 – launch of Standards
STAKEHOLDER AUDIENCE	Investors.
EXTENT OF TAKE UP	1,033 unique SASB reporters since 2019 (50% domiciled outside the US).
	611 unique SASB reporters YTD in 2021 (58% domiciled outside the US).
WHAT DOES THE FRAMEWORK LOOK LIKE?	There are a total of 77 industry - and sector-specific Standards across 11 sectors and a Technical Protocol for compiling the data.
DEFINITION OF MATERIALITY	A topic is financially material if omitting, misstating, or obscuring it could reasonably be expected to influence investment or lending decisions that users make on the basis of their assessments of short-, medium-, and long-term financial performance and enterprise value.



BlackRock has been engaging with companies for several years on their progress towards TCFD- and SASB-aligned reporting. . .

We will use these disclosures and our engagements to ascertain whether companies are properly managing and overseeing these risks within their business and adequately planning for the future. In the absence of robust disclosures, investors, including BlackRock, will increasingly conclude that companies are not adequately managing risk.

LARRY FINK, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BLACK ROCK



We report ESG information under several frameworks and regularly assess how our reporting suite can be improved. In evaluating the SASB framework, we found the focus on investors and decision-useful data to be compelling. We also appreciate how the SASB Standards' format and structure provides a direct and straightforward way of presenting sustainability information that is powerful and helps us explain our progress to investors.

RUDI BLESS, CHIEF ACCOUNTING OFFICER, BANK OF AMERICA; MEMBER, SASB FOUNDATION BOARD OF DIRECTORS





CLIMATE DISCLOSURE STANDARDS BOARD (CDSB)

The Climate Disclosures Standards Board (CDSB) is an international consortium of business and environmental NGOs which are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.¹³ They offer companies a **framework** for reporting environmental and climate change information in mainstream reports with the same rigour as financial information. In turn this helps companies to provide investors with environmental information that is useful when making decisions via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

CDSB provides companies and policymakers with the practical tools and technical expertise they need to implement the recommendations of the Task Force on Climate-related Financial Disclosures. With 10 years of experience in driving the integration of climate change and environmental information in mainstream corporate reports, they support the mission of the TCFD to make climate disclosure mainstream.

13. As described on www.cdsb.net

ABOUT THE A4S ACCOUNTING BODIES NETWORK

The A4S Accounting Bodies Network (ABN) is a collaboration between A4S and professional bodies across the globe. Together the ABN represents over 2.5 million professional accountants and students across 179 countries, representing two thirds of the world's accountants. Click on the logos to access a wide range of research, reports and surveys published by each ABN member.

Accounting bodies are vital in equipping their members with the knowledge and skills they need to implement sustainable finance practices. The Network provides an open, cross-border platform. Members share knowledge, collaborate to overcome common barriers and champion the need for change within the accounting community.



THE ACCOUNTING BODIES NETWORK (ABN)



ASSOCIATION OF ACCOUNTING TECHNICIANS (AAT)



Think Ahead

ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS (ACCA)



AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)



CHARTERED ACCOUNTANTS™ AUSTRALIA • NEW ZEALAND

CHARTERED ACCOUNTANTS AUSTRALIA AND NEW ZEALAND (CA ANZ)



CHARTERED ACCOUNTANTS IRELAND



CHARTERED INSTITUTE OF MANAGEMENT ACCOUNTANTS (CIMA)



CONSIGLIO NAZIONALE DEI DOTTORI COMMERCIALISTI E DEGLI ESPERTI CONTABILI (CNDCEC)



CPA AUSTRALIA



CHARTERED PROFESSIONAL ACCOUNTANTS OF CANADA



GLOBAL ACCOUNTING ALLIANCE (GAA)



Hong Kong Institute of Certified Public Accountants 香港會計師公會

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (HKICPA)



INSTITUT DER WIRTSCHAFTSPRÜFER (IDW)



INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES (ICAEW)



INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND (ICAS)



JAPANESE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (JICPA)



REGNSKAP NORGE/ ACCOUNTING NORWAY



SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS (SAICA)