

# New standard setter for sustainability reporting?



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**The importance of sustainability reporting demands the same clarity and global consistency that the IFRS Foundation has brought to financial reporting. We welcome their interest in this field.**

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## IFRS Foundation proposes approach to achieve consistency and global comparability

### Highlights

- Investors are calling for a global standard on sustainability reporting
- Would a new standard setter be within the remit of the IFRS Foundation
- What next – Respond to the consultation paper by 31 December

The demand for sustainability information continues to grow as business models are increasingly exposed to social and environmental issues, including climate-change related regulation. Investors need high-quality information that allows them to assess how companies are managing these issues and the impact they have on a company's long-term prospects. Although a variety of sustainability frameworks and standards already exist, investors are now calling for convergence and a single framework that will bring consistency and comparability.

The IFRS Foundation has responded and is **seeking input** on the need for a global set of internationally recognised sustainability standards, and gauging support for its role in developing such standards. With its legitimacy, governance structure and global reach, and the clarity it has brought to financial reporting standards, the IFRS Foundation is arguably well set to drive the future for sustainability reporting.

### The need for global sustainability standards

The current COVID-19 pandemic has highlighted the need for companies to be transparent when reporting on the uncertainties they face. And it is not just this information that investors want; they are also calling for metrics and disclosures on the effects of sustainability issues (or environmental, social and governance (ESG) issues) on a company's present and future results.

As companies become more aware of the need to address ESG issues, and stakeholder demand for it, there now seems to be a need for accountability and a global set of internationally recognised standards to match.

Momentum for sustainability reporting has been growing in many jurisdictions and many frameworks, standards and benchmarks have been developed to address this emerging demand. However, this has also led to a patchwork of reporting requirements that needs rationalising.

This need is widely acknowledged and in a recent [joint statement](#), five global organisations involved in setting reporting standards called for further cooperation and expressed a willingness to work with the IFRS Foundation and others to establish a comprehensive reporting system.

Other market-led initiatives are already seeking to bring more structure – e.g. a task force, led by the International Business Council of the World Economic Forum, has already published a [paper](#) with a proposed set of ESG metrics and reporting disclosures. In addition to proposing metrics, this report calls for a systemic solution – i.e. ‘a generally accepted set of international accounting standards for material ESG and longer-term value considerations.’

However, the IFRS Foundation’s response is broader, starting a path towards global convergence, which promises greater consistency, relevance and transparency for sustainability reporting.

## New sustainability standard setter within the IFRS Foundation’s remit?

Some may believe that financial reporting shares little in common with ESG or sustainability reporting, but Nick Anderson’s 2019 article [IFRS Standards and climate-related disclosures](#) demonstrates otherwise. It points out that IFRS® Standards already require companies to consider climate and other ESG risks and make judgements about providing disclosures on these issues in their financial statements. The investor-focused approach to materiality in IFRS Standards means that these judgements need to take account of the long-term implications of these issues. The IFRS Foundation already recognises that investors need other, non-financial information to interconnect with the financial statements. Sustainability information seems a natural fit with its mission.

Therefore, the IFRS Foundation is seeking to create a new Sustainability Standards Board (SSB) with an institutional and governance structure similar to that of its financial reporting standard setter, the International Accounting Standards Board (the Board). Similar to the Board, the new SSB could seek to establish a conceptual framework for sustainability reporting and provide clarity in key areas – e.g. reporting materiality. In turn, this could better support assurance on sustainability information.

## What next?

Read the IFRS Foundation’s [consultation paper](#) and make your views known by 31 December 2020.

Refer to our [Better Business Reporting](#) page for more insight on these issues. Look out for our new page dedicated to keeping abreast of the latest developments in the IFRS Foundation’s project on sustainability reporting issues.

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