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The International Sustainability Standards Board's (ISSB) Sustainability Disclosure Standards

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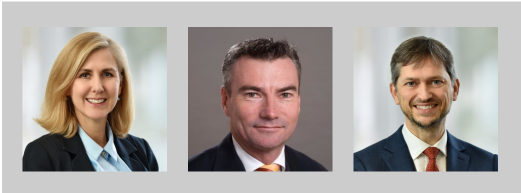
With Sue Lloyd, Vice-Chair of the International Sustainability Standards Board; Lee White, Executive Director of the IFRS Foundation; and Richard Barker, ISSB Board Member



Introduction

Participants thanked the guest speakers from the ISSB for setting a universal standard in global capital markets, facilitating more widespread disclosures of accurate and comparable ESG data to aid investment decisions. Headline topics included capacity building, sustainability's "journey" towards financial reporting, UK leadership, SMEs, and emerging markets.

Key takeaways

The new standards

- The new standards are purposefully consolidated from existing frameworks (TCFD, SASB) – "couldn't afford to add to the alphabet soup".
- With an eye on material information, the new standards focus on what matters. The ISSB has selected those metrics that are "key to investment decision-making".
- The new disclosure standards are divided into two, S1 and S2.
  - S1: A general framework for sustainability reporting. S1 standards "set the scene" through the disclosure of "focused, robust" information so that investors can understand how sustainability risks and opportunities are going to affect a company's future prospects. This information is intended to be understood as part of a "package" alongside financial statements. S1 "does the heavy lifting" as it provides general requirements for sustainability reporting.
  - S2 specifies the climate-related disclosure standards that need to be met. At the heart of S2 is TCFD.

- Setting a global baseline of common standards provides companies with the opportunity to showcase to investors the viability of their transition plans and receive funding – “this is not a compliance exercise but a real way to understand value creation and attract capital”.
- The ISSB’s baseline requirements can be supplemented to meet the information requirements of governmental and non-governmental stakeholders.

Building capacity – from sustainability to financial reporting

- There is a “massive disconnect between finance and sustainability” necessitating a “shift of mindset and collective thinking”. Financial teams have not traditionally seen sustainability reporting as their responsibility.
- Part of the solution lies in recognising the “enormous change in financial reporting” needed. “This is a journey”, sustainability reporting will not meet the standards of financial reporting from day one.
- The standards are designed to be transitional – “get going, but get better”.
    - Climate is the only sustainability risk to report in year one so that businesses can “warm up” to the “language and concepts”.
    - However, climate reporting is not exhaustive. Scope 3 emissions do not have to be reported in the first year.
    - The standards have been drafted in a way to encourage businesses to “make a start” by reporting what they do, improving over time. They must not “stay there forever”, however.

The UK is in an excellent position to lead – “the opportunities are enormous”

- TCFD is “the doorway to S2”. As the first jurisdiction to make the Taskforce’s climate-related financial disclosures mandatory for larger companies and financial institutions, the UK is already leading.
- Other important factors that put the UK in a strong position:
    - The 2008 Climate Change Act.
    - Higher standards of reporting.
    - The focus on green innovation in major policies – e.g. the Green Finance Strategy.
    - The extent to which pivotal non-governmental stakeholders are prioritising sustainability – e.g. the London Stock Exchange.
    - A compliance-based approach, as the EU’s model is perceived to be, can be heavy-handed, particularly for emerging markets.
- Transition plans are a critical component of S2, which “dovetails” with the UK Transition Plan Taskforce’s work.
- There is a strong possibility the UK will formally adopt the standards pending review.

Difference from TCFD

- The language is precise so that the standards can be more easily enforced and subject to assurance.
- Specificity has been added in some instances – e.g. resilience analysis.
- S1 and S2 include requirements for industry-specific disclosures.

Issues raised

Social and natural are incoming

- The nature and social dimensions are already being explored (the 'S' and remainder of the 'E' in ESG). On 4 May, the Board launched its 'Consultation on Agenda Priorities' to feed into its next two-year plan. Human capital – e.g. training of staff – and human rights – e.g. access rights to land – make up two of the three possible research projects on sustainability-related risks and opportunities; the third is biodiversity.
- When the ISSB comes around to selecting social metrics to support capital investment, it will build on best practice from other frameworks such as GRI, as it has with climate and TCFD.

Ensuring the disclosures can be fulfilled by SMEs

- Larger companies are being asked to do the heavier lifting.
- Businesses with fewer resources have proportionately lower disclosure expectations.
- The estimation of data is permitted, and inevitable at the current time, however, greater accuracy in reporting will develop as systems mature.
- The Board will publish additional guidance to facilitate the adoption of standards.

Getting emerging markets to adopt the standards

- There are encouraging signs that businesses in Africa will apply the standards, they want to access capital and be transparent.
- Ultimately, there needs to be capacity building throughout the value chain, including in emerging markets, businesses, consultants – e.g. auditors and accountants – and governments. Each has a role to play in coordination with one another.

Interoperability with the EU

- The ISSB has mapped the climate disclosure requirements it has in common with the EU, and how they can be provided to meet both sets of standards. The Board has also identified the EU disclosures that are not required under S2.

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