Report on Sustainability-related Issuer Disclosures

Final Report

The Board
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

FR04/21	**JUNE 2021**

Copies of publications are available from:
The International Organization of Securities Commissions website www.iosco.org

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Executive summary

The financial sector has a crucial role to play in helping to support the transition to a more sustainable future. Internationally, financial services firms and capital markets are deepening their consideration of sustainability-related risks, opportunities and impacts, for the benefit of investors and to help mobilise capital to support the transition.

Since 2018, IOSCO has sharpened its focus on the implications of these developments for securities regulators. Further to the publication of the report, *Sustainable Finance and the Role of Securities Regulators and IOSCO* in April 2020, IOSCO established a Board-level Sustainable Finance Taskforce (STF). The STF is carrying out work in three areas:

- corporate issuers' sustainability-related disclosures
- asset managers' disclosures and investor protection issues
- the role of Environmental, Social and Governance (ESG) data and ratings providers

The focus of this report is the STF's work on corporate issuers' sustainability-related disclosures. The aim of the STF's work in this area has been to identify decision-useful categories of disclosures for investors and other market participants.

Securities regulators and other capital market authorities are responsible for the oversight of capital markets. This oversight responsibility generally includes the development, application and enforcement of accounting standards, auditing standards, and disclosure regulations.

Principle 16 of IOSCO´s *Objectives and Principles of Securities Regulation* states that "there should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions." The regulatory framework should ensure that issuers deliver information material to investors' informed investment decisions on an ongoing basis. These principles support IOSCO's objectives of fostering investor protection, and the promotion of fair, efficient and transparent markets.

This requires consideration of the adequacy, accuracy and timeliness of both financial and sustainability-related disclosures, including disclosure of risks that are material to investors' decisions. These disclosures may pertain to specified transactions, periodic reports and ongoing disclosure and reporting of material developments.

In developing its work, IOSCO's STF has coordinated with several other disclosure-related initiatives across international organisations. These include workstreams at the Financial Stability Board (FSB), the Network for Greening the Financial System (NGFS), and the International Platform on Sustainable Finance (IPSF). IOSCO is also the lead knowledge partner on sustainability disclosures for the G20 Sustainable Finance Working Group (SFWG). This report will feed directly into that group's work.

Over the year since the STF was established, momentum has been building in both public and private sector initiatives to enhance the consistency, comparability and reliability of sustainability-related disclosures. This work toward enhanced disclosure aims to support investors' evolving informational needs and improve the functioning of markets by promoting the implementation of a global corporate sustainability reporting architecture. The UN Climate Summit (COP 26) in November 2021 has helped galvanize efforts in this area.

In several jurisdictions, work has continued to adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) into legal and regulatory frameworks. In 2017, the European Union (EU) embedded the TCFD framework in its corporate disclosure regulation on non-financial information, and the European Commission recently published a proposal for a Corporate Sustainability Reporting Directive (CSRD). Progress has also been made in several other jurisdictions, including Hong Kong, India, Japan, New Zealand and the UK.. It is also increasingly recognised that the TCFD's recommendations are an important milestone on the pathway towards international corporate reporting standards on climate change and wider sustainability related matters.

In this regard, the International Financial Reporting Standards (IFRS) Foundation is working to establish an International Sustainability Standards Board (ISSB) to sit alongside the International Accounting Standards Board (IASB). IOSCO has encouraged this initiative, and in order to guide the IFRS Foundation's work to best support securities regulators' objectives, IOSCO has deepened its collaboration with the IFRS Foundation as the work has progressed.

The G7 Finance Ministers and Central Bank Governors Communiqué of 5 June 2021 emphasized investors' need for "high quality, comparable and reliable information on climate risks". The Communiqué announced G7 support to move towards "mandatory climate-related financial disclosures that provide consistent and decision-useful information for market participants and that are based on the Task Force on Climate-related Financial Disclosures (TCFD) framework, in line with domestic regulatory frameworks". The G7 further agreed on the need for "a baseline global reporting standard for sustainability, which jurisdictions can further supplement" and welcomed the IFRS Foundation's programme of work to "develop this baseline standard under robust governance and public oversight, built from the TCFD framework and the work of sustainability standard-setters".

This report is a crucial part of IOSCO's engagement with the IFRS Foundation. It demonstrates: (i) investor demand for sustainability-related information and evidence that this demand is not being properly met; and (ii) the need for improvements in the current landscape of sustainability standard-setting.

Based on the STF's work, this report identifies core elements of standard-setting that could help meet investor needs and provides guidance to a Technical Readiness Working Group (TWG) established by the IFRS Foundation to develop recommendations for the ISSB as it develops an initial climate reporting standard, building on the TCFD's recommendations and other existing voluntary principles, frameworks and guidance. The report also provides input to the IFRS Foundation on governance features and mechanisms for stakeholder engagement that will be essential to making the ISSB initiative successful. This report sets a foundation for IOSCO's future engagement.

A vision for an ISSB under the IFRS Foundation

Following detailed factfinding work – focussing on investors' needs and the current status of corporate disclosures on sustainability – the STF has concluded that investor demand for sustainability-related information is currently not being properly met. The conclusion of the factfinding work is summarised in Section 3.

Accordingly, in February 2021, the IOSCO Board concluded that there is an urgent need to work towards improving the completeness, consistency, comparability, reliability and auditability of sustainability reporting – including greater emphasis on industry-specific quantitative metrics and standardisation of narrative information.

This conclusion was set out in an IOSCO Board press release on 24 February, along with three priorities for improvement in sustainability-related reporting:

- *Encouraging Globally Consistent Standards*. To encourage progress towards globally consistent application of a common set of international standards for sustainability-related disclosure across jurisdictions, covering the breadth of sustainability topics and leveraging existing principles, frameworks, and guidance.
- *Promoting Comparable Metrics and Narratives*. To promote greater emphasis on industry-specific, quantitative metrics in companies' sustainability-related disclosures and standardisation of narrative information.
- *Coordinating Across Approaches*. To drive international consistency of sustainability-related disclosures with a focus on enterprise value creation, including companies' dependence on stakeholders and the external environment, while also supporting mechanisms to coordinate investors' informational needs on wider sustainability impacts – and (i) to promote closer integration of those two aspects with reporting under current accounting standards frameworks and (ii) facilitate independent assurance of companies' disclosures.

The IOSCO Board also set out its vision for a global corporate reporting architecture to deliver on these priority improvements (elaborated in Section 5). This vision was well received in industry roundtables hosted by IOSCO (one of them in collaboration with the World Economic Forum (WEF)) in April and May 2021.

Roundtable participants expressed the view that globally aligned, baseline reporting standards would help to promote the comparability of sustainability-related disclosures across jurisdictions and help to reduce market fragmentation. Many participants stressed that voluntary disclosure would not be enough and hence supported clear pathways toward mandatory reporting requirements aligned across jurisdictions, along with robust frameworks for audit and assurance.

IOSCO's vision, which is also shared by the IFRS Foundation Trustees, has the following key elements:

(i) Establishing an ISSB with a strong governance foundation

IOSCO considers that the IFRS Foundation potentially could deliver a global baseline for investor-oriented sustainability-related disclosure standards focussed on enterprise value creation, which jurisdictions could consider incorporating or building upon as part of their mandatory reporting requirements as appropriate and consistent with their domestic legal frameworks. This could promote international consistency and comparability in sustainability-related information, and also form the basis for the development of an audit and assurance framework.

This work is well progressed. The IFRS Foundation Trustees are working toward potentially establishing an ISSB ahead of COP 26. In April 2021, alongside feedback to their 2020 consultation, the IFRS Foundation Trustees issued an Exposure Draft on targeted amendments to the IFRS Foundation Constitution to give effect to an ISSB.

IOSCO is collaborating with the IFRS Foundation Trustees as they make the technical preparations for the establishment of the ISSB – including through the IOSCO-chaired Monitoring Board.

Similar to the role it currently plays in respect of the IASB's financial reporting standards, IOSCO plans to consider potential endorsement of future standards issued by the ISSB to use for cross-border – and potentially also domestic – purposes to guide issuers' sustainability-related reporting requirements across member jurisdictions. IOSCO has established a Technical Expert Group (TEG) to engage with the IFRS Foundation as it works to establish the ISSB and a potential framework for initial standards over the coming months, and to evaluate its future standards.

IOSCO recognises that individual jurisdictions have different domestic arrangements for adopting, applying, or otherwise availing of international standards. It will be important for individual jurisdictions to consider how the common global baseline of standards might be adopted, applied, or otherwise utilized within the context of these arrangements and wider legal and regulatory frameworks, in a way that promotes consistent and comparable sustainability disclosures across jurisdictions.

It will also be important for international standards to be applied in a flexible and scalable way that recognises the different needs, profiles and resources of different jurisdictions and issuer communities.

(ii) Building on Existing Efforts

IOSCO has strongly encouraged the ISSB to leverage the content of existing sustainability-related reporting principles, frameworks and guidance, including the TCFD's recommendations, as it develops investor-oriented standards focussed on enterprise value, beginning with climate change.

The alliance of leading sustainability reporting organisations ('the alliance') comprises CDP; the Climate Disclosure Standards Board (CDSB); the Global Reporting Initiative (GRI); the International Integrated Reporting Council (IIRC); and the Sustainability Accounting Standards Board (SASB). In December 2020, the alliance published a prototype for climate-related financial disclosures (the 'Prototype') that builds on existing content in their collective frameworks and the TCFD's recommendations. The Prototype is intended to serve as a model for what an eventual standard could look like and provide suggestions that could form a sound basis and a running start for standard setting under the ISSB.

Building on the efforts of existing sustainability reporting organisations will give the IFRS Foundation a running start in developing a common set of international standards for sustainability-related financial reporting to investors. In response, the IFRS Foundation Trustees have confirmed:

- an investor focus for enterprise value
- an initial focus on climate, while also working toward meeting the information needs of investors on other ESG matters
- an intention to build on existing frameworks

The IFRS Foundation Trustees have established a TWG of experts to develop technical recommendations for the new ISSB on the content of standards, further developing the Prototype. Further, the TWG will assess how the Prototype can accommodate expansion to other ESG matters and will make recommendations for potential inclusion in an ISSB Agenda consultation. IOSCO participates in the TWG as an observer.

An important task of IOSCO's TEG over the coming months will be to assess whether the refined Prototype could indeed be a sound basis for the ISSB's future standards development. As a starting point for the TEG's work, this report sets out (in Section 6) a set of recommended enhancements to the Prototype. These include a number of matters that were also identified as priority enhancements by participants at IOSCO's stakeholder roundtables.

Among these, the STF suggests: (i) further development of quantitative metrics, including at the industry/sectoral level; (ii) clarification of forward-looking metrics and scenario analysis methodologies; and (iii) enhancements to the conceptual framework that links sustainability reporting and financial statements.

In a second phase, the TEG's work will inform IOSCO´s views on its potential endorsement of the ISSB standards.

(iii) Encouraging a 'Building Blocks' Approach

IOSCO has encouraged a 'building blocks' approach to establishing a global sustainability reporting system. This could provide a consistent and comparable global baseline of sustainability-related information that is investor-focused and material to enterprise value creation, while also providing flexibility for interoperability on reporting requirements that capture wider sustainability impacts.

IOSCO has proposed that a multi-stakeholder expert consultative committee, within the IFRS Foundation structure, could be a promising mechanism to support the practical delivery of the building blocks approach (see Section 7). In parallel to the TWG, the IFRS Foundation Trustees are exploring the establishment of such a committee. The committee should complement and not replace or supersede existing advisory groups and outreach arrangements within the IFRS Foundation's architecture.

Next steps

IOSCO looks forward to further collaboration with the IFRS Foundation Trustees as they continue their technical preparations and assess possible constitutional changes towards establishing an ISSB by November 2021, as well as ongoing engagement with other stakeholders. This is a key consideration in the IOSCO STF's next steps on corporate issuers´ sustainability-related financial disclosures, which comprise the following key strands of work:

(i) Monitoring the IFRS Foundation Trustees' plans for the design and establishment of the ISSB, including playing a leading role in the Monitoring Board of the IFRS Foundation.

(ii) Provided IOSCO's expectations are satisfied, considering market acceptance of the ISSB's future standards and setting a pathway for the ISSB's sustainability reporting standards to serve as the baseline for consistent and comparable approaches to mandatory sustainability-related disclosures across jurisdictions, in light of domestic legal frameworks.

(iii) Supporting the practical implementation of the building blocks approach, including working with the IFRS Foundation on the design of a multi-stakeholder consultative committee as well as with key jurisdictions and other stakeholders across the official and private sectors.

(iv) Developing approaches to support securities regulators' supervision of sustainability-related disclosures once the ISSB's reporting standards are in place.

(v) Influencing the development of an audit and assurance framework and related standards for corporate sustainability-related disclosures.

(vi) Overseeing the transition to the 'steady state' for IFRS sustainability-related financial reporting standards, including expansion of the scope of the ISSB standards beyond climate change.

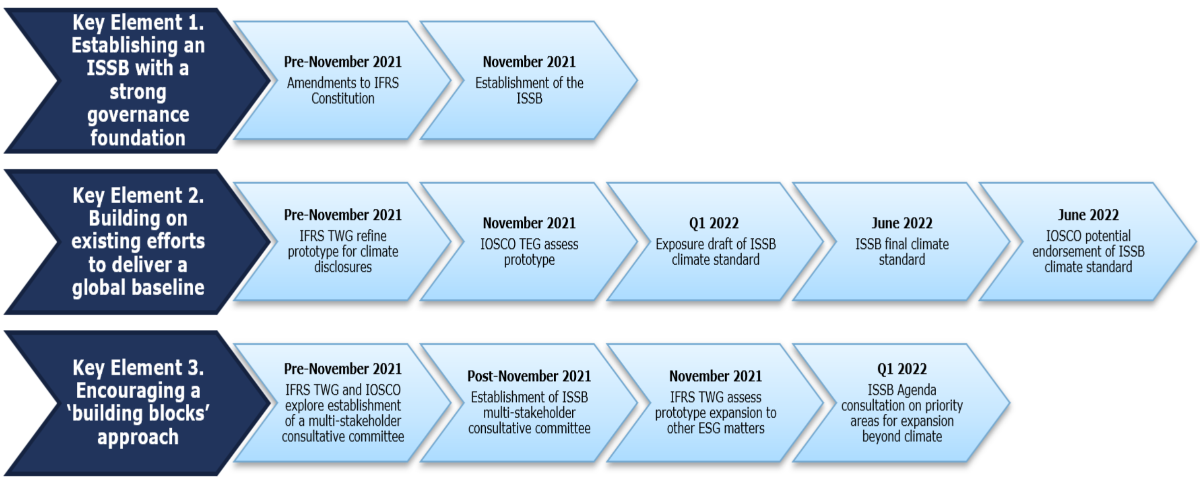
(vii) Contributing securities regulators' perspectives as part of the ongoing development of sustainability-related reporting standards, including input to post implementation reviews of the ISSB's governance structure and standards.

Indicative timelines and milestones

IOSCO anticipates significant progress in delivering the key elements of its vision over the coming months to help address the priorities for improvement identified by IOSCO.

Figure 1 provides an overview of the indicative timelines for the delivery of these priorities.

Figure 1. Delivering the priority improvements – indicative timelines



Given the urgent need to improve the consistency, comparability and reliability of sustainability reporting, IOSCO will closely monitor any developments and will encourage timely delivery and implementation of the key elements to support its vision. IOSCO recognizes that some jurisdictions' domestic efforts to adopt disclosure requirements may proceed on a more accelerated timeframe.

1. Introduction

One of the workstreams of IOSCO's Board-level STF has focussed on how to improve securities issuers' sustainability-related disclosures.

As part of this, the STF has:

- engaged actively with investors and other stakeholders to identify what sustainability information investors need, and to assess the adequacy of the information they are currently receiving
- considered how IOSCO can influence the direction of ongoing industry initiatives in this area

There is considerable momentum behind industry and official sector initiatives in this area, most notably the work of the IFRS Foundation to establish an ISSB. IOSCO is collaborating closely with the IFRS Foundation, as well as the alliance, who have been considering how to harmonise their existing voluntary principles, frameworks and guidance.

Through its factfinding work and industry engagement, IOSCO has identified significant gaps and shortcomings in corporates' existing sustainability-related disclosures. The IOSCO Board therefore sees an urgent need to improve the completeness, consistency, comparability and reliability of sustainability reporting.

IOSCO presented its interim conclusions on recommended mechanisms to improve sustainability-related reporting in a press release, published on 24 February 2021, along with its vision for an ISSB under the IFRS Foundation. This report elaborates on the work that IOSCO has carried out to develop its vision for the ISSB, and the key steps required to achieve it.

The key elements of IOSCO's vision were discussed with a wide range of stakeholders, including in two roundtable sessions held in late April and early May 2021 (one of them hosted jointly with the WEF). IOSCO issued a press release describing the feedback stakeholders shared and the support for IOSCO's proposed direction of travel.

This report is structured, as follows:

- Section 2 of the report provides background and context to IOSCO's work in the area of sustainability disclosures.
- Section 3 summarises the work that IOSCO has done to develop its vision for an ISSB under the IFRS Foundation. It presents the conclusions from engagement with asset managers across STF jurisdictions to better understand the sustainability information they need to inform their investment activities, comparing these needs with the information they are currently receiving from investee companies.
- Section 4 considers the materiality lens for sustainability-related reporting standards, which has been an important topic of discussion in the context of ongoing sustainability reporting initiatives.
- Section 5 draws together the conclusions n Section 3 into three priority areas for improvement in corporates' sustainability-related disclosures and goes on to present IOSCO's vision for how these priorities could be delivered by the ISSB.
- Section 6 assesses how well standards that build on the existing content of the TCFD, and the alliance of leading sustainability reporting organisations would meet investors' needs.

- Section 7 examines a potential coordination mechanism to ensure that the ISSB's standards keep pace with the dynamic evolution of the market's sustainability-related information needs, and that it can interoperate effectively with – and promote consistency in – sustainability-related reporting requirements that may be set at the regional or jurisdictional level.
- The report closes in Section 8 with the next steps for IOSCO as it works with the IFRS Foundation and other stakeholders to help shape the future reporting architecture.

2. Background and context

Companies began producing Sustainability and Corporate and Social Responsibility (CSR) reports several decades ago. The practice has become more widespread internationally since the 1990s, with further advances in recent years.

Securities regulators' objectives include protecting investors, maintaining fair, efficient and transparent markets and seeking to address systemic risks, as well as supporting market integrity by requiring transparency and disclosure of information that is material to investment decisions. However, frequently, sustainability reporting is not integrated into issuers' periodic reporting structure but is instead treated as a separate and often siloed reporting activity within companies.

Furthermore, it has been widely observed that sustainability-related disclosures remain incomplete and inconsistent across companies, and that the voluntary nature of sustainability-related disclosure frameworks together with the number and variety of sustainability reporting frameworks potentially leads to selective disclosures ('cherry picking'). As a result, investors may not yet receive the sustainability-related information that is material to their decisions. Further evidence on this gathered by the STF is presented in Section 3.

Research suggests that ESG factors can be important to companies' prospects. For example, Khan, Serafeim and Yoon (2015) presents evidence that companies with higher ESG performance, at least on material ESG factors, enjoy better subsequent returns. Similarly, a 'meta' study by NYU Stern Center for Sustainable Business and Rockefeller Asset Management, aggregating findings from more than 1,000 research papers published between 2015-2020, , finds a positive correlation between ESG and financial performance in the majority of both corporate studies focussed on returns on equity, return or assets, or stock prices (58%), and investor studies focussed on risk-adjusted attributes (59%).

With incomplete and inconsistent data on financially material ESG factors, the market may misprice companies' securities and misallocate capital. This could harm market integrity and undermine markets' ability to support the allocation of capital towards sustainable development and growth projects.

Reporting on financially material sustainability-related matters can also be "an enabler of change, since it creates a financial incentive for companies and their investors to improve performance on enterprise value-relevant sustainability matters as much and as quickly as they can" (Alliance, 2020).

This is a particularly important consideration in the context of managing the risks and opportunities of climate change, and the transition to a lower carbon economy. Indeed, the need to understand better how companies are managing these risks and opportunities has been a key driver of investors' and other market participants' demand for more consistent, comparable and reliable climate-related disclosures by corporate issuers.

Incompleteness and inconsistency in sustainability-related disclosures could also have flow-on implications for product design, delivery and disclosure, as well as ongoing reporting of performance. Without the requisite data, firms may be unable to verify that they are pursuing genuinely sustainable investment strategies. They may also be unable to demonstrate to consumers the sustainability-related characteristics of their products and performance against their stated objectives.

2.1. Background on previous IOSCO work

In October 2018, IOSCO established a Sustainable Finance Network (SFN) to provide a forum for members to exchange experiences and gain a better understanding of, and have structured discussions on, various sustainability issues.

The SFN analysed the context in which securities regulators are addressing sustainability efforts, the roles they can play and the challenges they are facing. A key focus area was on sustainability disclosures and their relevance for investor decision-making.

In April 2020, IOSCO published its report on *Sustainable Finance and the Role of Securities Regulators and IOSCO*. This provided an overview of existing sustainable finance initiatives, both by regulators and the industry, and a detailed analysis of the most relevant ESG-related international initiatives and third-party frameworks and standards. It highlighted three recurring themes: (i) multiple and diverse sustainability frameworks and standards, including on sustainability-related disclosure; (ii) a lack of common definitions of sustainable activities; and (iii) greenwashing and other challenges to investor protection.

In the area of sustainability-related disclosures, the report underscored that this was an evolving space. The report emphasised the need to improve the comparability of sustainability-related disclosures, noting that the lack of consistency and comparability across third party frameworks could create an obstacle to cross border financial activities and raise investor protection concerns.

IOSCO noted efforts that were then underway to improve disclosures and identified areas for increased focus by IOSCO, including:

- Further alignment of frameworks and requirements, and further exploration as to how ESG information can integrate with mainstream reporting. The wide variety of regulatory regimes and initiatives, often with inconsistent objectives and requirements, could prevent stakeholders from fully understanding the risks and opportunities that sustainable business activities entail.
- Identification of relevant components of disclosure and international coordination on standards, metrics and indicators.
- The need for increased public accountability and assurance. It noted that global adoption of the IFRS and International Standards on Auditing (ISA) standards and their

perception as high-quality international standards, as well as their international legitimacy, to a large extent, rests on their respective governance arrangements (see Box 2, Section 5). It also highlighted the relevance of assurance and its related standards.

- The need to better understand how asset managers integrate ESG factors into risk management and investment decision processes.

Further to the SFN's work, the IOSCO Board agreed in February 2020 to establish the STF, aimed at enabling IOSCO to play a driving role in global efforts to address sustainable finance issues.

2.2. Developments in the international sustainability reporting landscape

A number of frameworks already exist to help organisations assess and disclose on sustainability-related matters. These frameworks can support both companies' disclosures and firms' investment processes, by specifying a structure, definitions, metrics and methodologies.

However, these existing frameworks are typically applied only on a voluntary basis, and the market has not converged on a single framework. The international frameworks currently most commonly referenced in companies' reporting internationally, according to our factfinding work in Section 3, are summarised in Figure 2, below.

The various existing frameworks can be complementary and mutually supportive. The existing frameworks and guidance emphasise different attributes and serve different users (see Section 6.2). In Section 3, we discuss the current status of corporate reporting in more detail, including the current adoption of voluntary frameworks.

Figure 2. Most commonly referenced sustainability-related frameworks, principles and guidance

Global Reporting Initiative (GRI)	**Sustainability Accounting Standards Board (SASB)**	**Taskforce on Climate-related Financial Disclosures (TCFD)**	**Sustainable Development Goals (SDGs)**
• The GRI, established in 1997, was the first to promote a set of sustainability reporting standards. • The standards are directed at a broad scope of stakeholders. They comprise: o a set of universal standards, covering general disclosures and management approach o three sets of topic-specific standards, covering key metrics related respectively to economic, environmental and social matters.	• SASB was established in 2011. • The standards aim to serve the needs of the investor community. A key conceptual foundation for SASB's standards is the concept of financial materiality. • The standards cover 26 ESG topic areas and apply at the industry level. SASB identifies those metrics deemed to be financially material in each of 77 industries, across 11 sectors.	• The TCFD published its recommendations in 2017. • The recommendations provide a structure and framework for considering and reporting on climate-related risks and opportunities in four thematic areas: governance; strategy; risk management; and metrics and targets. • To allow for continued evolution in organisations' capabilities, the TCFD's recommended disclosures are largely principles-based.	• The SDGs form the core of the United Nations' 2030 Agenda for Sustainable Development, which was adopted in 2015. • They comprise 17 goals and a total of 169 targets, across five themes: people; planet; prosperity; peace; and partnership. Companies and financial services firms increasingly apply the SDGs to demonstrate that their decisions and actions are consistent with, or directed towards, helping to achieve particular goals or targets.

Recognising this, momentum is building towards a more structured approach to corporate reporting on sustainability-related matters. The following initiatives are the most prominent global initiatives considered in this paper:

- *The IFRS Foundation Trustees*. The Trustees published a consultation in September 2020 seeking industry feedback on the role the Foundation could play in relation to sustainability disclosures. The key proposal was the establishment of an ISSB to sit alongside the IASB. The consultation closed, receiving almost 600 responses from a variety of market participants around the world. The feedback received evidenced widespread support for the IFRS Foundation to play a key role in global sustainability reporting and for the establishment of the ISSB within the governance structure of the IFRS. The Trustees of the IFRS Foundation published a feedback statement to the consultation in April 2021. The Trustees have set out their strategic direction and are working towards finalising the design of the new ISSB ahead of COP 26 in November 2021. The Trustees have launched a consultation on proposed amendments to the IFRS Foundation Constitution to give effect to an ISSB. Work is underway on technical preparations, including via a Technical Working Group that is also leveraging expertise from existing sustainability reporting organisations and others. The IFRS Foundation's initiative is considered in more detail in Section 5 of this report.

- *Alliance of sustainability reporting organisations*. Facilitated by the Impact Management Project, the World Economic Forum and Deloitte, the members of the alliance have been working collaboratively to explore how their complementary frameworks could be brought together under a common reporting approach. In September 2020, the alliance published a 'Statement of Intent' – a vision for a "comprehensive, globally accepted, corporate reporting system" that integrates financial and non-financial information to meet the needs of different stakeholders. The alliance followed the statement of intent with the publication of the Prototype for climate-related financial disclosures in December 2020, building on existing content in their collective frameworks. The Prototype is intended to serve as a model for what an eventual standard could look like and provide suggestions that would give the ISSB a running start to submit to its standard-setting due process. In Section 6, we present the findings of IOSCO's initial assessment of whether a reporting standard building on the Prototype could meet investors' and capital market needs; and also whether it could address the key gaps and shortcomings in existing climate-related corporate reporting.

- *The recommendations of the TCFD*. Published in 2017, the TCFD's recommendations have raised the profile of climate-related corporate reporting. More than 2,000 organisations are public supporters. The recommendations span four pillars: governance, strategy, risk management and metrics and targets. 11 specific recommended disclosures sit beneath these four pillars. While originally introduced as a voluntary set of recommendations, the TCFD's recommendations are increasingly being embedded in legal and regulatory frameworks, increasing coverage and strengthening their compliance basis. For instance, in 2017, the EU embedded the TCFD framework in its corporate disclosure regulation on non-financial information. An increasing number of jurisdictions and their financial authorities are also implementing the TCFD's recommendations (eg, Hong Kong, India, Japan, New Zealand and the UK), while others are actively consulting or working on relevant proposals.

- *World Economic Forum*. A report by the WEF's International Business Council (IBC) – comprising some of the largest global companies – in January 2020 similarly notes that "the absence of a generally accepted international framework for the reporting of the material aspects of ESG and other relevant considerations for long-term value creation contrasts with the well-established standards that exist for reporting and verifying financial performance." The WEF IBC followed this work with an agreed common set of measures and metrics on principles of governance, planet, people and prosperity, on which its members have committed to reporting.

2.3. Sustainability reporting in the European Union

Individual jurisdictions are also making progress in deepening corporate reporting on sustainability-related matters.

The European Union is perhaps most advanced in its work on sustainability reporting. The Non-financial Reporting Directive (NFRD) came into effect in 2018. The NFRD requires large companies to disclose certain information on the way they operate and manage social and environmental challenges. The Directive does not currently establish a framework and standards for these disclosures, but the TCFD's recommendations are referenced in non-binding guidelines for climate-related disclosures.

Recognising the demand for enhanced non-financial disclosures, the European Commission recently reviewed the NFRD and on 21 April 2021, published a proposal for the CSRD. This proposal:

- *Extends the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises)*. To date, only certain large public interest companies have been subject to the NFRD. The legislative proposal considers the principle of proportionality for small and medium sized enterprises (SMEs). SMEs will be permitted to report according to less-demanding standards than larger companies.
- *Requires the audit (assurance) of reported information*. Although the objective is to have a similar level of assurance for financial and sustainability reporting, a progressive approach is needed. Therefore, the European Commission is proposing to start with a 'limited' assurance requirement, not imposing a 'reasonable' assurance requirement (a stronger, more demanding level) for the time being. A limited assurance requirement is less costly for companies and is better suited to the current capacity and technical ability of the market for audit (assurance) services. Reasonable assurance of sustainability reporting is difficult at this stage in the absence of sustainability assurance standards.
- *Introduces more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards*. These standards will be developed by the European Financial Reporting Advisory Group (EFRAG) in the form of technical advice. The first set of standards is expected to be adopted by October 2022, according to the mandate given to EFRAG in the proposal. In the accompanying materials to the CSRD proposal, the European Commission explains that EU standards should aim to incorporate the essential elements of globally accepted standards currently being developed and it will review those standards to make sure that they adapt to international developments. The text also clarifies that EU standards should go further where necessary to meet the EU's own ambitions and be consistent with the EU's legal framework. For instance, the European Commission considers the need to cover not just the risks to companies but also the impacts of companies on society and the environment (the 'double materiality' principle; see also Section 4).

- *Requires companies to digitally 'tag' the reported information*. This will ensure that it is machine-readable and feeds into the European Single Access Point (ESAP) envisaged in the Capital Markets Union Action Plan.
- *Aligns with other pieces of EU legislation on sustainability*. This includes the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation.

In the accompanying materials and the recitals of the proposal, the European Commission expresses its support for global initiatives by the G20, the G7, the FSB and others to develop a baseline of global sustainability reporting standards, and explicitly cites the IFRS Foundation's ISSB initiative and the proposals of the alliance of leading sustainability reporting organisations that build on the work of the TCFD. The proposed EU sustainability reporting standards would build on and contribute to standardisation initiatives at the global level. This will require constructive two-way cooperation between EFRAG and relevant international initiatives.

3. Investors' information demands and reporting gaps and shortcomings

The STF carried out two main pieces of factfinding work during the second half of 2020 in order to understand better:

- *What sustainability information investors seek to inform their investment decisions*. As a proxy for investors' information needs, the workstream engaged extensively with around 60 asset managers across 19 jurisdictions to determine how asset managers use sustainability information provided by corporate issuers and what information they consider to be decision useful.
- *Gaps and shortcomings in the information investors and other stakeholders are currently receiving*. The workstream carried out a detailed desktop analysis of corporate reports of a total of 90 companies, across 5 sectors[1] and 6 jurisdictions[2], to gain insight into the current sustainability-related information that investors were receiving from companies.

Both exercises were complemented with a review of recent industry and policy publications on how investors use sustainability information, the state of sustainability reporting and what the existing gaps are.

The observations from these factfinding exercises were complemented by the feedback received during two stakeholder roundtables held by the STF in late April and early May 2021 (one in collaboration with the WEF).

Given securities regulators' responsibilities, the primary focus of the STF's factfinding work has been the information investors need to inform their investment decisions. However, it is important to acknowledge that many other financial sector stakeholders (eg, lenders, insurance companies, ESG rating providers and proxy voting agencies) and other stakeholders

[1] Consumer discretionary; Real estate; Industrials; Energy; and Consumer staples.

[2] Australia; China; European Union; Singapore; United Kingdom; United States.

(companies' customers, suppliers and employees, as well as policymakers and civil society) are interested in sustainability information. Regulatory authorities also have a need for sustainability-related information, though some regulatory information needs can be met by regulatory reporting, rather than public disclosures.

The outcomes from these two exercises reveal that investor demand for sustainability-related information is currently not being properly met.

3.1. High-level overview of observations

Through its engagement with asset managers, the STF observed that:

- asset managers seek complete, consistent and comparable sustainability-related reporting to inform investment and risk analysis
- in the absence of a common international standard, asset managers see value in investee companies' reporting systematically against established frameworks and standards
- asset managers value investor-oriented, industry-specific information on all three 'ESG' categories
- asset managers value a mix of narrative information and quantitative metrics
- asset managers want to see the linkage between a company's sustainability risks and opportunities and its business, strategy and financials

Assessing the current status of corporate reporting, there are clear areas for improvement and focus:

- companies' sustainability-related disclosures are not complete, consistent and comparable
- companies report selectively against multiple different standards and frameworks
- companies' sustainability-related disclosures aim to meet multiple stakeholder needs (eg, shareholders, government, suppliers, employees and customers)
- companies do provide a mix of qualitative and quantitative information, but quantitative information is limited and not consistent
- generally, companies do not provide detailed disclosures on the impact of sustainability practices on their financial performance and there is inconsistency in location (eg, annual reports, standalone reports, corporate websites, etc.) and timing of reports, as well as the application of audit and assurance

The findings are summarised in more detail in Section 3.2.

3.2. Detailed summary of observations

3.2.1. The completeness, consistency and comparability of sustainability-related information

Asset managers seek complete, consistent and comparable sustainability-related reporting to inform investment and risk analysis

Asset managers gather sustainability information on corporate issuers from a variety of sources – including annual financial reports, sustainability reports, and raw and packaged data, among others.

The use of this information in decision-making processes (principally investment and risk management) is largely consistent among asset managers across all jurisdictions covered by IOSCO's engagement exercise.

- *Assessing companies' future prospects.* As part of their analysis, asset managers typically assess the financial impact of material ESG factors on an investee company over a long-term horizon. They seek information on how a company is exposed to sustainability risks and opportunities and how these may impact its business model, strategy and financial performance over time. This affects asset pricing and capital allocation decisions. Asset managers noted that such analysis typically feeds into tools, methodologies and models, which, as well as the other uses of information described below, increases the need for data to be complete, consistent and comparable.

- *ESG or sustainable investment strategies*. Sustainability information also underpins ESG or sustainable investment strategies – eg, exclusion or negative screening, best-in-class, sustainability-themed, and impact strategies. Reliable and comparable information is not only key to designing and delivering such products and strategies, but also to monitoring and reporting on their performance. Therefore, a good flow of information is seen as important in enabling asset managers to align products and strategies to specific investor demands and clearly disclose the outcomes (be they financial, environmental, social or a combination).

- *Investor stewardship*. As ESG and sustainability considerations become more prominent in asset managers' investor stewardship activities, sustainability information is often seen as critical to developing stewardship strategies, informing engagement and voting priorities.

- *Onward disclosure*. Asset managers may seek sustainability information to meet firms' own regulatory, client reporting and/or product disclosures. For instance, as of March 2021, asset managers in the European Union must make a number of disclosures at both the entity and product level, including information on the principal adverse impacts of their investment decisions on sustainability factors under the SFDR. For instance, to report on principal impacts, asset managers will have to consider the indicators set out in draft regulatory technical standards (RTS) that refer to: (i) environmental and climate-related issues; and (ii) social and employee-related matters, respect for human rights, anti-corruption and anti-bribery matters. The draft RTS includes a specific science-based metric for each indicator.

Companies' sustainability-related disclosures are not complete, consistent and comparable

The quality of disclosures varies across jurisdictions, and by company size and sector

Across the jurisdictions considered, varying levels of completeness, consistency and quality of disclosures were observed. Completeness, consistency and quality also vary by company size and sector, and there is a general lack of consensus around the information that companies should be disclosing.

- Sustainability-related disclosures are currently more comprehensive among companies with larger market capitalisation, as well as among those subject to mandatory national reporting requirements, and those in more climate-exposed sectors. Within the sample of reports covered by the analysis, there was evidence of a positive correlation between the market capitalisation of a company and the maturity of its sustainability disclosures. This may be the result of larger companies investing more resources to sustainability reporting (in part driven by legislative/regulatory requirements) and being subject to greater market discipline.
- The quality of disclosures varies significantly across jurisdictions, in part reflecting differences in the legal or regulatory framework for disclosures or differences in approaches to supervision and enforcement of sustainability information. Better quality disclosures are often linked to national regulation or the intensity of investor stewardship activities; eg, prevalence of shareholder resolutions and forums such as Climate Action 100+. The quality of information also varies *within* sectors across jurisdictions. For example, in the energy sector, qualitative disclosures are comprehensive and accompanied by robust metrics and targets in some jurisdictions, while in others the disclosures on environmental and climate-related matters are notably lacking in comparison.

The scope of ESG or sustainability topics on which companies report varies

Finally, there is considerable divergence in how companies define, address and disclose sustainability-related matters and the topics on which they report. This may reflect factors such as the following:

(i) there is currently no precise definitional boundary to determine the issues that fall within the scope of ESG or sustainability (see also findings on the disparate use of voluntary frameworks and standards)

(ii) ESG or sustainability issues are not static – as scientific knowledge on matters such as climate change and biodiversity continue to evolve, and social issues are subject to closer scrutiny, this will remain a fast-evolving area

(iii) the importance or impact of a particular ESG or sustainability issue may vary considerably across companies, sectors and jurisdictions

3.2.2. Existing principles and frameworks

In the absence of a mandatory common international standard, asset managers see value in investee companies' reporting systematically against established frameworks

Asset managers value structured reporting against established frameworks and standards

Many asset managers covered by IOSCO's engagement exercise consider sustainability-related disclosures most useful when they are prepared in accordance with a specified framework or standard. They believe that this promotes structure, consistency and comparability in the reported information.

Given the global nature of the industry, asset managers expressed the view that systematic – ideally *mandatory* – corporate reporting against a common standard would address many of the shortcomings in current reporting (see asset managers' priorities for improvement in sustainability-related reporting (Box 1)). They consider that a common reporting standard would:

- help to fill important data gaps
- permit more informed pricing and capital allocation decisions (across issuers and markets)
- address the 'cherry-picking' that is often observed in companies' disclosures
- support time series analysis and digitisation and storage of sustainability-related information

A further benefit would be the potential to coalesce around a common understanding of material ESG or sustainability matters, including at the sector or industry level.

Asset managers consider the leading reporting frameworks and standards used today to be complementary

Many asset managers consider that no single existing voluntary framework provides *all* the information they need to support their investment activities. Asset managers see value in each of the current leading frameworks. While there are overlaps between them, they consider that each offers a particular perspective and there is considerable complementarity between them.

- Asset managers observed that the **GRI** framework is currently the most widely used by investee companies internationally. Asset managers value the *breadth* of GRI's standards, although some note that the absence of either an industry or financial materiality filter can make it difficult to interpret and assess the implications of some disclosures for company valuation.
- The majority of asset managers welcome the framework of the **TCFD**'s recommendations, particularly when applied in combination with the metrics specified by SASB. The four pillars of TCFD recommendations support asset managers' need to see how a company is exposed to climate-related risks and opportunities, and how it identifies, monitors and manages them. In particular, asset managers want to see how a company's business model and strategy may be affected over time.
- More generally, many investors value the range of sustainability topics covered by **SASB** standards, as well as its *industry specificity* and *financial materiality* lens.

Asset managers that took part in STF members' engagement efforts would therefore welcome more widespread reporting against a combination of frameworks and standards until a mandatory common reporting standard is established.

Box 1. Asset managers' priorities for improvement in sustainability-related disclosures

As part of STF members' engagement with the sample of around 60 asset managers across jurisdictions, asset managers were asked to set out their priorities for improvement in sustainability-related disclosures to address their key needs. The most frequently cited priorities are summarised below.

1. The creation and adoption of a mandatory common international standard for sustainability-related financial reporting is considered the most important area for improvement among asset managers.

The findings from the corporate reporting exercise reflect multiple different sustainable reporting requirements with different levels of compliance (eg, voluntary/comply-or-explain/mandatory). As such the absence of a global standardised mandatory sustainable disclosure framework has contributed to the lack of reliable, consistent and comparable sustainable data.

2. Asset managers call on investee companies to better integrate their sustainability reporting with their financial reporting, and some encourage greater scrutiny by auditors or other providers of third-party assurance.

There is often a disconnect between sustainability information, either in the narrative sections of companies' annual reports, or separate publications, and the companies' financial statements. The financials often fail to reflect material sustainability information. There is also both a lack of consistency in content and a mismatch in timing between the separate publications. Generally, where not mandated, only the largest companies seek external assurance for their sustainability reports.

3. There is a broad consensus among asset managers across jurisdictions that regulators should set more stringent sustainability reporting expectations for companies.

Sustainability reporting is still largely inconsistent and requires the intervention of policymakers to set clear expectations and/or a minimum set of mandatory requirements for companies' sustainability information. There are calls (among asset managers) for regulators to globally adopt mandatory reporting requirements based on TCFD and SASB as an initial step while a global standard is developed.

4. Some asset managers call for enhanced digitisation and storage of sustainability information, such as a structured electronic tagging system to support machine-readability and a (global) central repository.

There is currently no single standardised format to organise sustainability information under a clear set of headings to help ensure a link with financial information. Similarly, there is no detailed taxonomy for electronic reporting where extra-financial metrics are 'tagged' to enable it to be read and used easily by information technologies, which is essential for digitisation.

Most of the asset managers conveyed that the TCFD's recommendations are the framework they would like to see universally applied for climate-related disclosures. In several cases, asset managers have called for mandatory reporting based on the TCFD Recommendations. Alongside TCFD, and especially to add specificity and to promote disclosures on sustainability topics beyond climate, many asset managers encourage reporting against SASB, and in some cases also GRI.

For example, in a joint statement published in November 2020, CEOs of Canada's eight largest pension plan investment managers asked companies to "measure and disclose their performance on material, industry-relevant ESG factors by leveraging the SASB standards the

TCFD framework…". Norges Bank Investment Management also published a position paper in March 2020 calling for companies to "as a starting point consider the industry specific SASB metrics and base broader disclosures on the GRI Standards".

Companies report selectively against multiple different voluntary frameworks and standards

Sustainability-related disclosure requirements differ across jurisdictions

Companies are subject to different sustainability reporting requirements in the jurisdictions covered by IOSCO's corporate reporting review. These entail not only different disclosure content, but also different levels of compliance (eg, mandatory, comply-or-explain, or voluntary) as well as differing regulatory and legislative underpinnings (eg, companies' legislation, environmental legislation, national legislation implementing EU directives, listing rules, accounting rules and corporate governance codes). In most instances, producing a sustainability report is mandatory, though rules tend to be high-level and principle-based and do not prescribe specific requirements on the detailed information that issuers should disclose. Compliance with any particular reporting framework tends to be voluntary.

Where voluntary frameworks are used, many companies report selectively against these frameworks

There is great disparity in the use of reporting frameworks and standards among companies. Some do not adopt any at all, while a range of frameworks and standards are referenced among those that do.

Consistent with the perspective provided by asset managers, IOSCO's analysis of corporate reports reveals that GRI is the most commonly referenced framework for sustainability reporting. Around 40% of the corporate issuers reviewed reported using a sustainability framework or standard, of which 80% referenced GRI. That said, many companies report *selectively* against the GRI standards and do not always provide a clear indication or mapping of which standards have been followed and which have not.

TCFD is commonly used for climate-related disclosures, with SASB and the UN Sustainable Development Goals (SDGs) also gaining popularity. Some companies also reference disclosures against frameworks such as CDP, the International Petroleum Industry Environmental Conservation Association (IPIECA) and the UN Global Compact.

Some companies apply a single framework while others may report against particular elements from a combination of different standards promulgated under different frameworks. Consequently, the format and content of companies' ESG and sustainability-related disclosures varies greatly, again detracting from the comparability and consistency of the disclosures.

Where companies adopt a single reporting framework, the extent of a company's adherence to that framework may vary, even within the same sector, similarly limiting comparability. For example, although there is growing convergence towards adoption of the TCFD's recommendations for climate-related financial reporting, the quality of reporting varies across companies (See Section 3.2.1).

Some companies have indicated that they are planning to enhance their sustainability reporting. They note, for instance, plans to report against specified frameworks or standards (such as TCFD and SASB), and plans to submit their sustainability reports to external assurance.

3.2.3. Topic scope and materiality

Asset managers generally value investor-oriented, industry-specific information on all three 'ESG' categories

Most asset managers are interested primarily – but not exclusively – in enterprise value creation

Most asset managers surveyed are interested primarily – but not exclusively – in the financial implications of sustainability factors on a company's performance. Accordingly, the majority of asset managers emphasise the importance of financially material sustainability information that helps them assess a company's future prospects. These may also be affected by the company's external sustainability impacts on people or the planet, though some external impacts may not be immediate.

Many asset managers explained that they do not view materiality as a 'binary' concept. They note that materiality is 'dynamic' - this is a continually evolving space and the materiality of sustainability factors isn't fixed over time (see Section 4).

Although specific information needs vary, there is a level of consensus around categories of decision-useful information

Specific information needs vary by industry, investment style and strategy. Nevertheless, asset managers in every surveyed jurisdiction value information on all three ESG categories, citing evidence that a wide breadth of sustainability factors can be material to company prospects. Furthermore, there is strong interdependence between them.

The decision-usefulness of information on any given topic depends on the investee company's business model, or the specific questions the asset manager is looking to answer. Several asset managers observe that information on 'governance' topics is often a good indicator of the extent to which a company takes ESG factors into account.

Many asset managers consider *sector- or industry-specific* information to be important, particularly for peer comparison. They acknowledge that although some risks are sector or industry specific, the relevance and materiality of each factor also depends on the nature and size of the individual company. This is why it is important for companies to conduct their own materiality assessment and disclose factors which they consider to be material to their business.

Several asset managers cited SASB's Materiality Map as a useful tool to help them identify the sustainability-related factors that are most likely to impact companies' financial performance in each industry.

Companies' sustainability-related disclosures typically aim to meet multiple stakeholders' needs (eg, shareholders, government, suppliers, employees and customers) on core sustainability themes

Most companies generally provide qualitative disclosures on the core sustainability themes of principles of governance, planet, people and prosperity. This is the scope of factors considered in the metrics to measure stakeholder capitalism, set out by the WEF in September 2020.

Although company reports target a wide range of stakeholder interests, the primary users of those reports seem to focus largely on enterprise value creation.

Equally, few companies disclose the impact of their activities on the environment and society more broadly, even when reporting against a standard such as GRI.

3.2.4. Narrative disclosures and quantitative metrics

Asset managers value a mix of narrative information and quantitative metrics

Asset managers value a mix of narrative and quantitative information:

- *Narrative information* helps asset managers understand in greater detail how investee companies have integrated considerations of sustainability-related risks and opportunities into their governance, decision-making, strategy and risk management. It also provides context for what are often forward-looking disclosures. Where the narrative information includes examples and case studies, and is clearly linked to tangible outcomes, it can be an important indicator of a company's strategic maturity in relation to sustainability. Narrative information can also help asset managers understand and interpret quantitative metrics. In addition, the majority of asset managers view direct engagement with investee companies as an opportunity to gain a greater understanding of how the narrative and quantitative information fits together.
- *Quantitative metrics* meanwhile provide objectivity and specificity, aid company analysis and valuation, support industry benchmarking and cross-company comparisons, and provide visibility of trends over time. Several asset managers also value quantitative metrics as inputs to their internal models or methodologies for valuation and/or risk management as they increase their understanding of how ESG factors drive corporate outcomes. Models and internal ESG scoring tools often provide a more holistic overview of the company's sustainability performance from which asset managers can consider trends and monitor outcomes.

Companies do make both narrative and quantitative disclosures, but information is not consistent and quantitative metrics are limited

Companies generally provide qualitative disclosures on environmental, governance, social and economic topics. However, the information is of varying quality, often not specific or granular, and not typically accompanied by examples or case studies.

Quantitative metrics are not reported consistently

Where provided, quantitative metrics are often not presented clearly with supporting narrative context and interpretation. In this sense, although for some metrics issuers may provide comparative data, there is typically no accompanying explanation on how they have evolved. Metrics are generally limited to a few select topics (eg, employment statistics, greenhouse gas (GHG) metrics, and metrics for energy, waste and water management).

In relation to climate change, most issuers provide GHG metrics. However, units of measurement often differ, hampering comparability. It is also difficult to contextualise these metrics against the size of the company. Scope 1 and 2 emissions are more widely disclosed than Scope 3 emissions, which are disclosed only by some of the largest issuers. Some companies' Scope 3 disclosures are not directly relevant to their industry and therefore do not serve as a meaningful indicator for analysis and valuation considerations.

Companies that disclose energy, waste and water metrics generally disclose company-specific data on energy consumption, waste generation and water consumption (e.g., improvement over the previous year).

Some companies conduct and report on scenario analysis or set carbon-reduction targets. Fewer still specify whether their targets are Science Based Targets initiative (SBTi)-validated (in line with <2 degrees warming pathways). There is also a general lack of forward-looking metrics in companies' disclosures. In addition, the absence of time series data and the differences in methodologies make it difficult to compare quantitative information across companies.

As an example of that inconsistency, the quality of reporting against the TCFD's recommendations varies considerably

As noted, the TCFD's recommendations are increasingly being adopted for climate-related financial reporting. However, some companies report only on the physical and climate transition risks as defined by the TCFD; while others conduct additional scenario analysis and disclose the resilience of their business model to those scenarios. The variability in the completeness and quality of reporting underlines the need for greater specificity in standards to complement the TCFD's recommendations.

3.2.5. Linkage between sustainability reporting and business strategies/ financial implications

Asset managers want to see the linkage between a company's sustainability risks and opportunities and its business, strategy and financials

Asset managers covered by IOSCO's engagement exercise observe that companies have made considerable improvements in their climate- and sustainability-related financial disclosures over time. However, there is often a disconnect between the information that investee companies produce, and the information that asset managers consider most decision useful. They note that further maturity in companies' disclosures is needed to better capture the tangible implications of climate governance, strategy and risk management for business planning, operations and financial outcomes.

For example, asset managers view a company's disclosures under the governance and risk management pillars of TCFD as critical to asset managers' understanding the corporate 'mindset', and how deeply climate- and sustainability-related risks and opportunities have been integrated into business and risk decisions. Disclosures under the TCFD strategy pillar are considered critical to understanding the company's forward-looking assessment of business and operational risks and opportunities.

Companies often do not provide a sufficient amount of detail in their disclosures. This may result in a lack of coherence between the sustainability risks and opportunities identified, their business model and strategy, and key performance indicators (KPIs)/targets. Some companies have set 'net zero' or emission reduction targets, but their disclosure reports do not set out a roadmap demonstrating how these goals will be achieved, monitored or assured.

There is often a disconnect between companies' reported financial and sustainability performance, and inconsistency in location and timing of reports, as well as application of audit and assurance

The majority of companies in the sample considered do not disclose detailed, quantitative information on the impacts of sustainability factors for their financial performance. Some of the largest companies provide brief disclosures on sustainability investments and/or finance and savings from sustainability practices, although these may not be significant compared to their balance sheet. In addition, these disclosures are usually embedded in narrative reporting, which makes them difficult to find and compare.

For example, integration between sustainability disclosures and financial reporting is often not observed or lacking. For example, companies do not typically:

(i) quantify ESG impacts such as cost savings and increased revenue

(ii) quantify climate risks such as impairing assets, changing the fair valuation of assets, changing provisions and contingent liabilities

(iii) incorporate 'purpose-led' metrics, which provide investors greater visibility into all aspects of a company's value proposition

An important gap to overcome therefore is the integration of climate and sustainability-related financial information with companies' financial statements. As discussed elsewhere in this report, a number of industry initiatives are looking at integrating reporting of climate, sustainability and financial disclosures in annual financial accounts. Asset managers welcome these initiatives. Some asset managers also want to see disclosures submitted to independent assurance (although they acknowledge that this may not be achievable immediately).

There is a lack of consistency in the location and timing of reports

Furthermore, sustainability disclosures are often located in a dedicated report separate from the annual financial report, which is sometimes published at a different time. More targeted sustainability information may also be incorporated into other publications such as CDP reports and website material (sometimes across different subsidiaries). Reporting periods for companies are often not consistent which, in addition to the time lag among various reports, makes it difficult for users of the disclosures to match and integrate sustainability information with the financial information reported.

In some jurisdictions there are regulatory requirements to publish integrated information on climate-related issues and other sustainability information within the annual financial report. However, even where such obligations exist, some corporates continue to publish a second sustainability report that contains legally required information that should have been included in the annual financial report along with the financial information.

There is also a fragmented landscape and varying quality of external assurance and auditing of sustainability information

Many jurisdictions have not set mandatory assurance requirements and as a result there is significant variation in how companies seek internal or external assurance for their sustainability disclosures. The scope and breadth of assurance engagements also differ markedly, as do the completeness and quality of assurance processes, the assurance frameworks used to underpin assurance opinions (with differing guidelines on gathering sufficient evidence), and the professional qualifications and related independence requirements.

Among the sample of corporate reports considered, generally only the largest issuers were found to have subjected their disclosures to assurance voluntarily. There was also a general lack of adequate consideration by auditors of climate-related risks, and compliance with reporting frameworks.

4. Materiality of sustainability-related information

In the STF's factfinding work, summarised in Section 3, investors called for issuers and investors to "coalesce around a common understanding of *material* ESG or sustainability matters, including at sector or industry level".

The question of how to determine the materiality of information in the context of sustainability has been a key area of focus in the discussion of sustainability reporting and therefore an important consideration in the STF's work.

4.1. The objectives and principles of securities regulation

In its January 2019 *Statement on Disclosure of ESG Matters by Issuers*, IOSCO emphasised that ESG matters, although sometimes characterised as non-financial, may have a material impact on issuers' business operations, as well as on risks and returns for investors and their investment and voting decisions.

IOSCO therefore encouraged issuers to consider the materiality of ESG matters to their business, to assess risks and opportunities in light of their business strategy and risk assessment methodology.

In its *Objectives and Principles of Securities Regulation*, IOSCO states that "there should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions" (Principle 16). Accordingly, when ESG matters are considered material, issuers should disclose the impact or potential impact on their financial performance and value creation.

4.2. Different materiality lenses

Some have drawn a distinction between financial materiality and environmental/social materiality. The European Commission's 2019 *Guidelines on reporting climate-related information* and 2017 *Non-binding Guidelines on Non-financial Reporting* define these concepts, as follows:

- Financial materiality is defined with reference to the impact of sustainability-related matters on the "development, performance [and] position" of the reporting company. That is, the focus is disclosure of sustainability-related information that is relevant for determination of the **enterprise value** of the company and material to investors and other participants in the capital markets. This approach is sometimes referred to as taking an "outside-in" perspective.

- Environmental and social materiality refers to the external "impact of [the company's] activities". According to this lens, sustainability-related information should be reported if it is necessary for an understanding of the external **impacts** of the company on the environment or society. This approach is sometimes referred to as taking an "inside-out" perspective.

Reporting on *both* dimensions is commonly understood as applying a **double materiality** lens. Traditionally, these different lenses have been associated with the differing information needs of investors (financial materiality) vis-à-vis other stakeholders, such as customers, employees, suppliers and civil society (environmental and social materiality).

These dual approaches are reflected in the focuses of the leading voluntary sustainability reporting organisations. For instance, SASB applies a financial materiality lens, focussing on sustainability matters that are reasonably likely to impact the financial condition or operating performance or risk profile of a typical company in an industry.

In an Exposure Draft published for comment in 2020, SASB defines financially material information as that which 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".

In an Exposure Draft published in June 2020, as part of a review of its Universal Standards, GRI emphasises how the concept of 'impact' underpins its standards. In particular, GRI encourages organisations to prioritise "reporting on those topics that reflect its most significant impacts on the economy, environment and people, including impacts on human rights." Disclosures made in accordance with GRI standards are intended to provide users with sufficient information to make informed "assessments and decisions" about the reporting organisation.

While SASB clearly defines the audience that disclosures against its standards are intended to inform, GRI does not definitively identify 'stakeholders'. In its Reporting Principles, GRI's *Stakeholder Inclusiveness* principle defines these as "entities or individuals that can reasonably be expected to be significantly affected by the reporting organization's activities, products, or services; or whose actions can reasonably be expected to affect the ability of the organization to implement its strategies or achieve its objectives." GRI notes that "stakeholders can include employees and other workers, shareholders, suppliers, vulnerable groups, local communities, and NGOs or other civil society organizations, among others."

4.3. Overlaps in reporting under the two materiality lenses

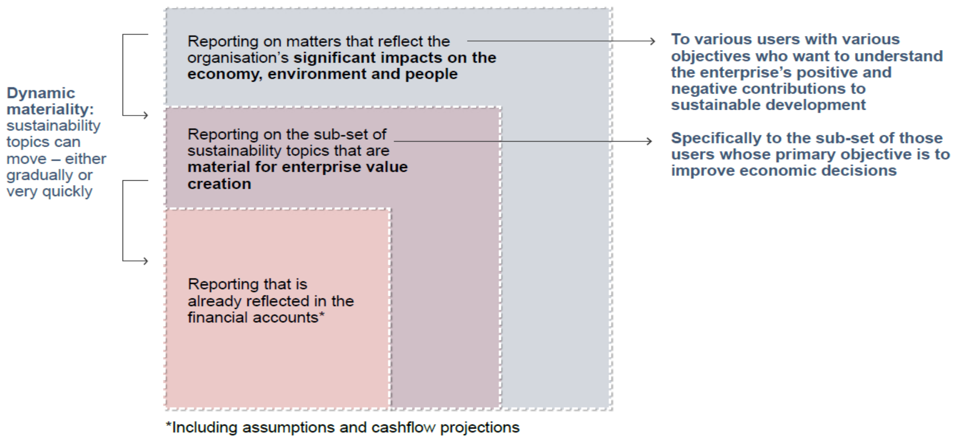
There can be significant overlap in reporting under the two lenses. In particular, a company's external sustainability impacts can feed back to a company's financial performance and position in the short-, medium-, or long-term. Information on these impacts is therefore relevant for investors' determination of a company's enterprise value – ie, its future value creation and cash flows.

Where this is the case, information about a company's impacts on sustainability (ie, information on the company's performance in respect of environmental and social objectives, such as the Paris Agreement) could be captured by standards that adopt an enterprise value lens, as these have the potential to become financially material. Across all sectors and industries, companies depend (to varying degrees) on people and the natural environment, as well as financial capital, to create and preserve enterprise value. Impacts on people and the natural environment may not be captured on company balance sheets, but often may be critical for investors, as part of their sustainable investment strategies or to assess companies' ability to create value in the future. Many of a company's external impacts, including how the company ensures the preservation of social and environmental systems, could therefore be expected to influence investors' decisions.

For example, where companies depend on ecosystem goods and services that flow from natural capital assets – such as air and water filtration, food and water production, and climate regulation – investors need disclosures on companies' impact on and management of this ecosystem. Some investors may also need additional information on companies' impacts on the ecosystem, for instance where they have specific sustainable investment targets.

In September 2020, the alliance published a '[statement of intent]' to work together towards a 'comprehensive, globally accepted, corporate reporting system' that meets the information needs of different stakeholders. The statement introduces the conceptual device of 'nested boxes' to illustrate how different sets of sustainability information serve different purposes, how they relate to one another, and how they can be viewed through different materiality lenses (see Figure 3). Figure 3 illustrates that sustainability topics can move between lenses (dynamic materiality of topics), while each materiality lens applied to these topics remains distinct (with different objectives and a different view of the company's performance).

Figure 3. Nested sustainability information



Source: Statement of Intent, September 2020

It is instructive briefly to consider the differences between enterprise value-oriented reporting on sustainability topics and financial reporting. While both are viewed through a financial materiality lens, sustainability related disclosures include non-monetary disclosures (narratives and non-financial metrics, such as those related to carbon emissions or labour policies) and are generally more forward-looking in nature, when compared to the proportion of financial information that is forward-looking. Sustainability related disclosures also capture matters that may have less certain, but potentially significant, monetary implications over time – for instance future regulatory changes or strategic business impacts over the short, medium or long term.

In December 2020, the alliance also developed and published the Prototype, which provides a basis for consideration of the significant overlap between information that is potentially relevant using an 'enterprise value' lens vis-à-vis an 'impact' lens.

An important message of the Prototype is that a company's external sustainability impacts can have a material impact on its future (and sometimes present) development, performance and position – and hence its enterprise value. The gap between the information disclosed using enterprise value-oriented standards and those that adopt a 'double materiality' perspective may therefore not necessarily be that large.

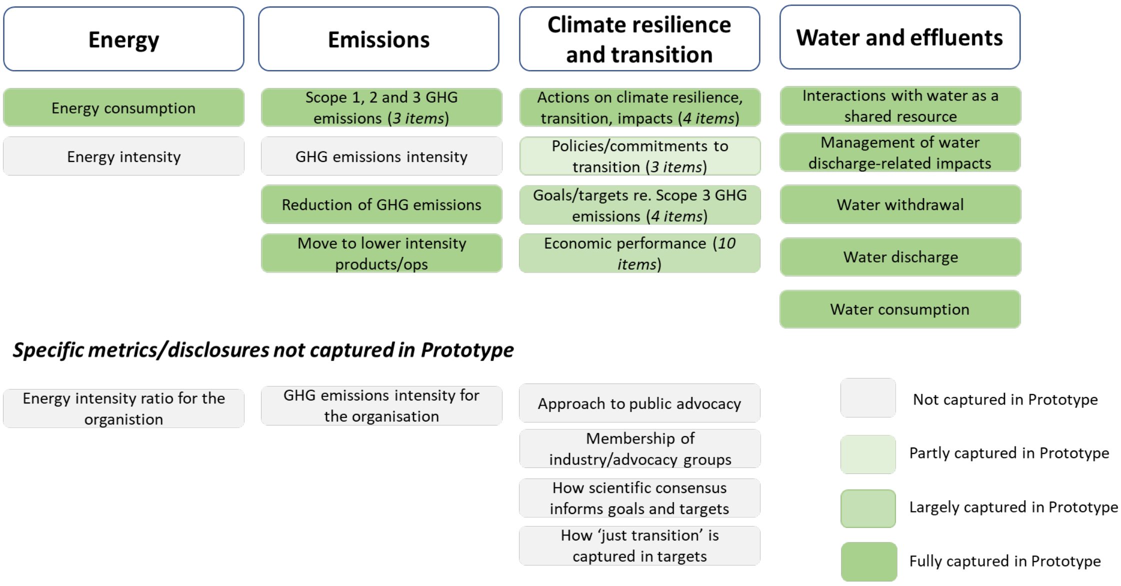
This point holds true at least over a sufficiently long investment horizon. Where this is the case, information on a company's environmental and social impacts would be captured in reporting based on standards that are designed to encompass enterprise value, as well as those that encompass socio-environmental impacts. For instance, general metrics such as absolute value of GHG emissions can be used as an impact performance metric (eg, emissions compared to a "2 degrees carbon budget") or value creation performance metrics (eg, emissions intensity). In the long term, any externalities that are not internalised may be expected to attract a regulatory response. In the case of climate-related externalities, for example, the UN PRI refers to the Inevitable Policy Response.

When comparing the Prototype to initiatives concerned with providing information relevant to sustainable development, there is a significant overlap in terms of the disclosure requirements. As an example, Figure 4, below, provides an illustration of the degree of overlap between the climate-related disclosures included in an exposure draft of GRI's multi-stakeholder standard for the oil and gas sector and those disclosures captured in the Prototype. Figure 4 sets out four broad categories of topic, and fifteen sub-categories. A total of 34 specific metrics/disclosures sit under these sub-categories, some being "outside-in" metrics and others being "inside-out" metrics.

As set out in Figure 4, 28 of the 34 specific metrics/disclosures are captured in the Prototype – an overlap of more than 80 per cent with GRI multi-stakeholder metrics.[3] Furthermore, it is not necessarily the case that those metrics/disclosures that are not included in the Prototype are omitted on the basis that they are not deemed material to enterprise value creation. It may be that some of these omitted items would be considered in a future ISSB's standard-setting deliberations. The TWG is currently working on enhancements to the Prototype.

[3] GRI metrics apply a double materiality perspective and therefore they encompass both an enterprise value creation and an environmental and social materiality lens.

Figure 4. Overlap between metrics/disclosures in GRI multi-stakeholder standards and climate-related metrics/disclosures captured in the Prototype – oil and gas industry



Source: Alliance (2020); GRI

4.4. Convergence of information needs over time

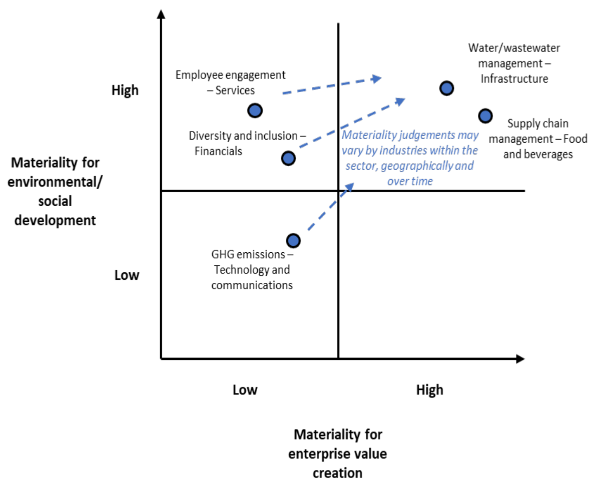
The dynamic nature of materiality also means that the relationship between the two lenses will continue to evolve.

Sustainability matters may be material for disclosure to investors in a given reporting period if it is reasonably possible that they affect the company's business model in the short-, medium- or long-term. Over time, the sustainability matters that a company assesses to be material for disclosure to investors can change in response to developments in economic activity contribution by industry, stakeholder views, regulations, investor preferences and science regarding sustainability matters. This is referred to as dynamic materiality. It is a key reason why ongoing standard-setting based on robust due process is critical for maintenance of high-quality standards that enable decision-useful information to be provided to investors.

Companies' impacts and dependencies on stakeholders differ across sectors/industries, by geography and over time. So, the materiality to enterprise value of different sustainability factors will similarly differ on all of these dimensions.

Figure 5, below, illustrates this in a four-quadrant materiality matrix, taking the example of five sustainability factors (spanning environmental, human and social factors), across five sectors. In three of the cases illustrated, there is likely to be a high correlation between materiality judgements using the two lenses. In the other two cases, the correlation may be lower, but with potential for closer convergence in some industries, by geography, or over time.

Figure 5. The correlation and evolution of materiality assessments



- Utilities companies in the infrastructure sector will need carefully to manage their use of water resources for operational efficiency and to meet regulatory expectations. This factor will inherently be material to both enterprise value creation and environmental/social development.
- Similarly, food and beverages companies will need carefully to manage their supply chains for operational efficiency and to meet consumers' expectations.
- GHG emissions in most sectors of the technology/communications industry are currently relatively low, such that they may not be material on either dimension; however, this could change as the global economy transitions.
- In the case of some human or social capital factors, materiality to enterprise value creation may differ significantly by within and between industries, and may differ by geography and over time. For instance, the social materiality of employee engagement and diversity and inclusion may be high across all industries, but is arguably becoming increasingly material for enterprise value creation in sectors where this wasn't previously the case.

For the case of GHG emissions in the technology and communications sector, the transition toward a heavily internet-enabled economy could result in a significant increase in the GHG emissions over a long investment horizon. Materiality assessments in this case could therefore move concurrently from 'low' to 'high' under both lenses.

There are reasons to believe that the trend going forward will be toward closer convergence of informational needs under the different materiality lenses.

Importantly, the sustainability performance of businesses and institutional investors across the globe is increasingly in the spotlight as societal awareness of sustainability matters rises – not only in respect of climate change, but the breadth of environmental and social issues, from biodiversity, to income equality, to diversity and inclusion, to human rights. The pandemic has brought this into sharp relief. The heightened societal awareness translates into increased expectations from stakeholders, including consumers and beneficiaries, for businesses and investors to be transparent and accountable for their impacts on environment and society.

If these expectations affect a company's business model over time and therefore determination of its enterprise value. Companies that fail to meet customers', investors', employees', regulators', and business partners' expectations with regard to their performance on these ESG factors and their management of ESG risks and opportunities can be expected to experience the financial effects of those failures. The financial consequences might manifest in decreased demand for goods or services, increased cost of capital, governmental fines or taxes, impaired competitiveness in the labor markets, increased insurance costs, and other financial impacts.

UN PRI (2020) acknowledges that "for many investors and PRI signatories, the effect of ESG risks on individual investees' financial positions is still their greatest concern". However, there is a "rising awareness of the need to analyse and understand sustainability performance in the context of social and environmental outcomes". If investors are increasingly factoring sustainability outcomes into investment decision making, this will naturally affect enterprise value, and in turn their data needs.

More recently, there has also been some debate around adaptation of the traditional optimisation of risk and return in Modern Portfolio Theory, by also capturing the third dimension of 'impact' (see Eccles (2021)). There are also trends, through active ownership and responsible investment practices, to take a long-term perspective in investment decisions.

As a result, the UN PRI's revised signatory reporting framework now includes a voluntary module on sustainability outcomes. Among other things, the module focuses on signatories' sustainability targets and how they use their asset allocation to advance sustainability outcomes. The approach is aligned with the UN PRI's framework for investing with SDGs outcomes.

Consistent with this direction of travel, investors around the world are adapting to the expectation that private finance will play its part in the low carbon transition.

To coordinate efforts, the United Nations-convened Net Zero Asset Owners Alliance's members[4] have committed to setting and reporting interim targets towards net-zero portfolio emissions by 2050, with some reporting targets for 2025. Meanwhile the Net Zero Asset Managers Initiative's members[5] have also "promised to work with clients to reach net zero emissions by 2050 or sooner and set 2030 emissions reduction targets"; and the Institutional Investors Group on Climate Change has launched a Net Zero Investment Framework to help align investment strategies with a net zero trajectory.

Therefore, as expectations change and business strategies and investment flows respond, the drivers of enterprise value will change. The difference in scope of information addressed by the alternative materiality lenses ("outside-in" and "inside-out") should therefore narrow further – notwithstanding that each materiality lens remains distinct in the way in which it assesses a company's performance (ie, based on either financial objectives or preservation objectives). And standard setting under the ISSB will need to ensure that its standards evolve over time to accommodate this dynamic process and to keep pace with the expanding enterprise value creation lens.

5. Priorities and mechanisms to improve sustainability-related disclosures

Taken together, the findings of the two exercises reveal that investors' needs are not currently being sufficiently met. The STF's analysis, as well as IOSCO's engagement with stakeholders in its two roundtable sessions, reveals that many market participants, including issuers, are waiting for regulators to help to drive clarity, consistency, and quality of sustainability reporting across jurisdictions. They recognise that there may be limitations to private sector initiatives, especially where these may be more regional or focused on specific topics, and where they lead to fragmentation and inconsistency in reporting.

Building from this evidence base, IOSCO set out in its 24 February press release three priority areas in which improvements could be made in the system for sustainability disclosures in line with IOSCO's objectives.

IOSCO also set out its vision for global comprehensive corporate reporting architecture that would address the identified gaps and shortcomings and deliver on the priority improvements. The STF discussed the key elements of IOSCO's vision in its roundtable sessions with stakeholders, finding both strong support as well as a clear willingness to work collaboratively to deliver the vision.

[4] 37 members with $5.7 trillion in assets under management as at April 2021.

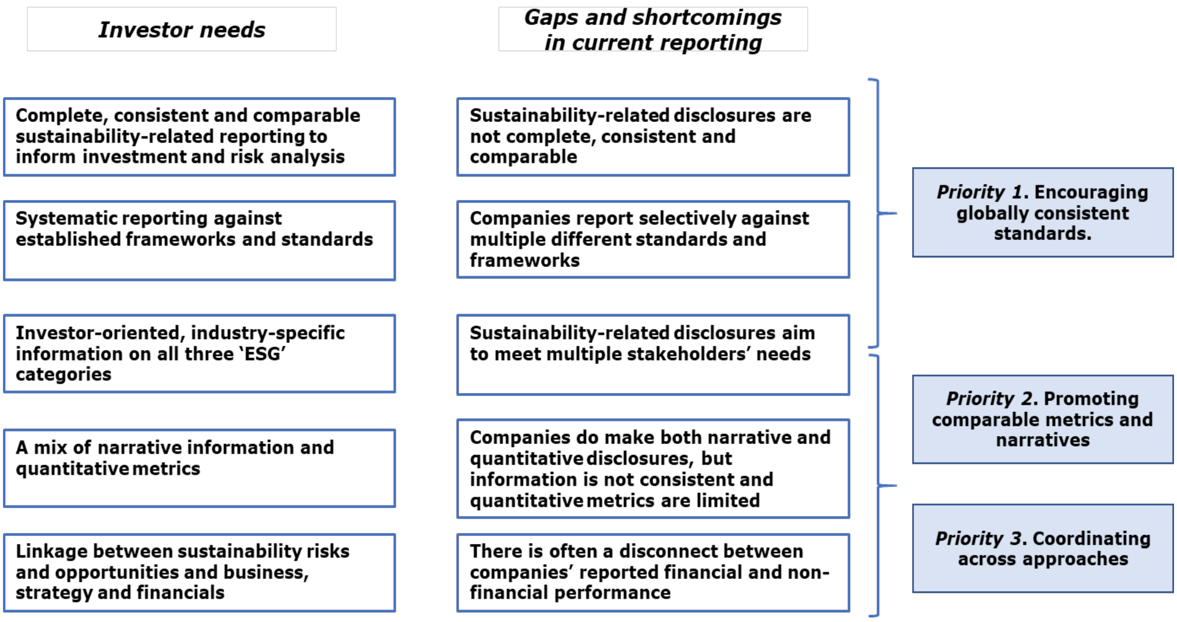
[5] 87 global asset manager signatories, representing $37 trillion in assets under management as at April 2021.

The three priorities and the key elements of IOSCO's vision are introduced in the remainder of this section.

5.1. Priority areas of improvement

The priority areas for improvement are introduced below. They are informed by the investor needs and the analysis of gaps and shortcomings (Figure 6).

Figure 6. Investor needs and identified gaps inform priorities for improvement



These three priorities are supported by a more granular set of attributes that the STF would like to see in a disclosure regime for sustainability-related reporting. Also drawing from the summary of the STF's engagement with asset managers in Section 3, these attributes elaborate on each of the investor needs.

These granular attributes are elaborated in Section 6 and used as the basis for an assessment whether the Prototype climate-related financial disclosure standard, published by the alliance in December 2020, could form a sound basis for standard setting under the IFRS Foundation.

> ***Priority 1*. Encouraging Globally Consistent Standards.** Encourage progress towards globally consistent application of a common set of international standards for sustainability-related disclosure across jurisdictions, covering the breadth of sustainability topics and leveraging existing principles, frameworks, and guidance.

Priority 1 responds directly to the clear demand among asset managers for high-quality, reliable sustainability-related reporting and a complete, globally consistent and comparable baseline of information to inform investment and risk analysis.

The evidence base in Section 3 highlights the following overarching aims and objectives of a globally consistent reporting standard. That is, to:

- provide investors with the necessary information to accurately assess the impact of sustainability issues on portfolio companies' ability to create and preserve enterprise value

- facilitate efficient pricing of sustainability risks and opportunities across issuers and markets to enable better-informed capital allocation decisions

As is clear from the summary of findings in Section 3, asset managers consider that common international standards, covering the breadth of sustainability topics and leveraging existing principles, frameworks and guidance, would: help to fill important data gaps; better inform pricing and capital allocation decisions; address selective disclosures; and support time series analysis and digitisation and storage of sustainability-related information.

At the same time, there are potentially important benefits for corporate issuers. Common standards would potentially reduce the burden on corporate issuers having to comply with diverging frameworks and help to clarify for issuers *what* they should disclose, *where* and *when* to make their disclosures and *what* structure/methodology to use.

Corporate issuers currently receive multiple, diverse requests for sustainability information from different asset managers and data service providers, which can be costly and inefficient. With clarity on reporting expectations from a common set of international standards, corporate issuers will be able to build the relevant governance, systems and controls.

***Priority 2*. Promoting Comparable Metrics and Narratives.** To promote greater emphasis on industry-specific, quantitative metrics in companies' sustainability-related disclosures and standardisation of narrative information.

Priority 2 responds to the STF's observation that asset managers and other investors increasingly demand granular, raw, quantitative data as inputs to their internal models for valuation and/or risk management. They also need forward-looking information on how a company's business model may be affected over time, as well as data to support their own reporting to clients, including disclosures under incoming regulations (eg, in the European Union).

To be most useful as a basis for both cross-sectional and time series analysis, these data should also be provided with comparative historical information. Furthermore, noting the variability in the quality of narrative information provided in existing corporate reporting, any common standards introduced in accordance with Priority 1 should also promote structured narrative reporting, where feasible and appropriate.

The reference to industry-specific metrics reflects the observation in the STF's factfinding reveals that many asset managers value the sector/industry specificity of SASB's reporting standards – including identification of material sustainability factors most likely to impact companies' financial performance in each sector/industry.

***Priority 3*. Coordinating Across Approaches.** To drive international consistency of sustainability-related disclosures with a focus on enterprise value creation, while also supporting mechanisms to coordinate investors' information needs on wider sustainability impacts – and (i) to promote closer integration of those two aspects with reporting under current accounting standards frameworks and (ii) facilitate independent assurance of companies' disclosures.

Priority 3 recognises that investors value high-quality, reliable and internationally consistent sustainability-related information that is material to investment decisions based on an assessment of enterprise value creation. As described in Section 4, the materiality assessment would be expected also to take into account external sustainability impacts that might not have a near-term effect on a company's financial statements today but may nevertheless influence investors' decisions over the medium or long term.

Furthermore, also as described in Section 4, standards that adopt an enterprise value lens should acknowledge the dynamic materiality of sustainability matters – recognising that scientific knowledge and societal expectations regarding sustainability issues are continually evolving. At the same time, investor-oriented reporting standards should support interoperability with other sustainability reporting, including reporting to support the informational needs of other stakeholders.

Common standards should also foster closer integration of investee companies' sustainability reporting with their financial reporting, contributing to a stronger linkage between companies' reporting on sustainability issues and their impacts on their business, strategy and financials.

Finally, common standards should also support closer scrutiny by auditors or third-party assurance providers and underpin regulatory expectations regarding audit and assurance. In Section 3, we identified a perceived lack of clarity and consistency around the purpose and scope of assurance, together with material differences in audit processes, the profile and independence of and requirements to be followed by assurance providers of sustainability-related information. This can potentially lead to market confusion, including misleading investors and exacerbating the expectations gap.

The IAASB has issued authoritative guidance with ISAE 3000 (Revised) on *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ISAE 3410 on *Assurance Engagements on Greenhouse Gas Statements* as well as additional Guidance to support the application of ISAE 3000. However, the IAASB has already noted that it stands ready to enhance its framework and guidance as the architecture for corporate reporting on sustainability matures. IOSCO notes that the International Federation of Accountants (IFAC) is also carrying out research and analysis on the current status of audit and assurance of sustainability reporting.

5.2. Key elements of IOSCO's vision to deliver the priorities for improvement

Pursuing the three priorities set out above would be consistent with IOSCO's objectives to protect investors, maintain fair, efficient, and transparent markets, and reduce systemic risk.

IOSCO considers that the IFRS Foundation Trustees' initiative, building on existing work, including that of the TCFD framework and the alliance of leading sustainability reporting organisations, potentially could deliver an outcome consistent with the priority areas for improvement and IOSCO's objectives, provided that IOSCO's expectations (including those set forth below) are satisfied, and differences in domestic legal frameworks can be accommodated.

In its press release on 24 February, IOSCO set out three key elements of its vision to deliver on the necessary improvements. These are summarised below and considered in further detail in Sections 6 and 7.

Element 1. Establishing an ISSB with a strong governance foundation

Establishing an ISSB with a strong governance foundation

- Strong governance
- IOSCO endorsement and market adoption

In its press release, IOSCO welcomed the announcement by the Trustees of the IFRS Foundation on 2 February 2021 signalling the next phase of their work towards establishing an ISSB under the IFRS Foundation structure (see Box 2). Consistent with IOSCO's own findings, the Trustees noted the "growing and the urgent demand to improve the *global* consistency and comparability in sustainability reporting" and reported that they received clear feedback that the IFRS Foundation should play a role in this area.

Having assessed responses to their consultation, the Trustees set out in March 2021 the details of their strategic direction in this area and how they propose to organise their work. In April 2021, the Trustees published more detailed feedback from stakeholders and issued an Exposure Draft on constitutional amendments to give effect to this new role.

The Trustees are working toward settling the design of the ISSB by September 2021 and potentially establishing the new Board by the time of COP 26 in November 2021.

Technical preparations and 'requirements for success'

A prerequisite for the establishment of an ISSB is the IFRS Foundation's satisfying seven 'requirements for success' set out in the Trustees' original consultation paper.[6] These include addressing matters such as achieving sufficient support from public authorities, governance, funding and resourcing so that the Foundation can deliver credible, trusted standards without compromising its existing mission.

In their feedback to the consultation paper, the Trustees acknowledged the broad support for the role the IFRS Foundation can play and the urgency to make progress in this area. The IFRS Foundation Trustees have now set out the necessary steps to formalise the creation of the ISSB as part of their Exposure Draft on proposed amendments to the IFRS Foundation Constitution, with a view to making a final decision before November 2021.

To help the IFRS Foundation meet the key requirements for success, the Trustees have also set up two working groups under the IFRS Foundation structure:

1. **A Technical Readiness Working Group (IFRS TWG)**[7], bringing together the relevant organisations with expertise in sustainability reporting from an enterprise value creation. The IFRS TWG will further develop the Prototype as a potential basis for the ISSB. It will also review how technical expertise and content might potentially be transitioned to the ISSB.

[6] (a) Achieving a sufficient level of global support from public authorities, global regulators and market stakeholders, including investors and preparers, in key markets; (b) Working with regional initiatives to achieve global consistency and reduce complexity in sustainability reporting; (c) Ensuring the adequacy of the governance structure; (d) Achieving appropriate technical expertise for the Trustees, ISSB members and staff; (e) Achieving the level of separate funding required and the capacity to obtain financial support; (f) Developing a structure and culture that seeks to build effective synergies with financial reporting; (g) Ensuring the current mission and resources of the IFRS Foundation are not compromised. At their February 2021 meeting, the Trustees agreed to add a further key requirement for success: an urgent need to develop global standards, most notably on climate.

[7] Members of the working group include TCFD; the Value Reporting Foundation (representing the merger of the IIRC and SASB); the CDSB; and the WEF.

2. **A Multilateral Working Group (IFRS MWG)** to begin work with IOSCO and relevant organisations to explore the creation of a multi-stakeholder expert consultative committee.

IOSCO has encouraged the direction of travel of this initiative and is working closely with the IFRS Foundation Trustees as they make the technical preparations for the establishment of the ISSB.

One of the important benefits of a solution under the IFRS Foundation is to bring financial and sustainability reporting closer together. An integrated conceptual framework to connect financial and sustainability reporting would help address many of the issues identified in our factfinding exercise. It could support investor demand for more coherence and internal consistency between sustainability-related financial disclosures and companies' financial statements.

In addition, a structured and systematic reporting standard integrated with financial reporting will make it easier for auditors to challenge issuers on the links between sustainability disclosures and their financial accounts.

Box 2. Governance of the IFRS Foundation

In IOSCO's April 2020 report, it was noted that for most of the existing frameworks and standards for sustainability, "governance, supervision and controls are not clear and they do not include multi-level governance structures providing for public interest oversight and mitigation of potential conflicts of interest."

By contrast, the report noted that "the level of global adoption of the IFRS and ISAs standards, their perception as high-quality international standards, and their international legitimacy" reflect their robust governance structures. The following attributes are particularly important:

(i) public accountability and independence of standard setting bodies

(ii) rigorous, transparent and participatory due process

(iii) a clear mission statement and a defined target audience

(iv) assurance standards applying to the information published

(v) a robust process for selecting topics for new standard setting that focus on matters where enhanced comparability would be meaningful

The IFRS Foundation's three-tier governance structure is designed to deliver on these attributes.

Shortly after the IOSCO Presidents' Committee issued a resolution concerning the use of the International Accounting Standards Committee (IASC) Standards (the Sydney 2000 Resolution), the structure of the IASC was changed to establish a new Board to serve as a full-time independent standard setter (the IASB).

The restructuring of the former IASC into the IASB in 2001 also included the establishment of a Board of Trustees (the IFRS Foundation) to oversee the IASB's activities.

In early 2009, the Monitoring Board was established to enhance the IFRS public accountability by establishing a link to capital market authorities.

IOSCO considers that the governance structure for IFRS standard-setting could remain largely unchanged with the establishment of the ISSB. The three-tier structure works effectively – underpinning global market acceptance and public accountability – and should continue to do so without material adaptation.

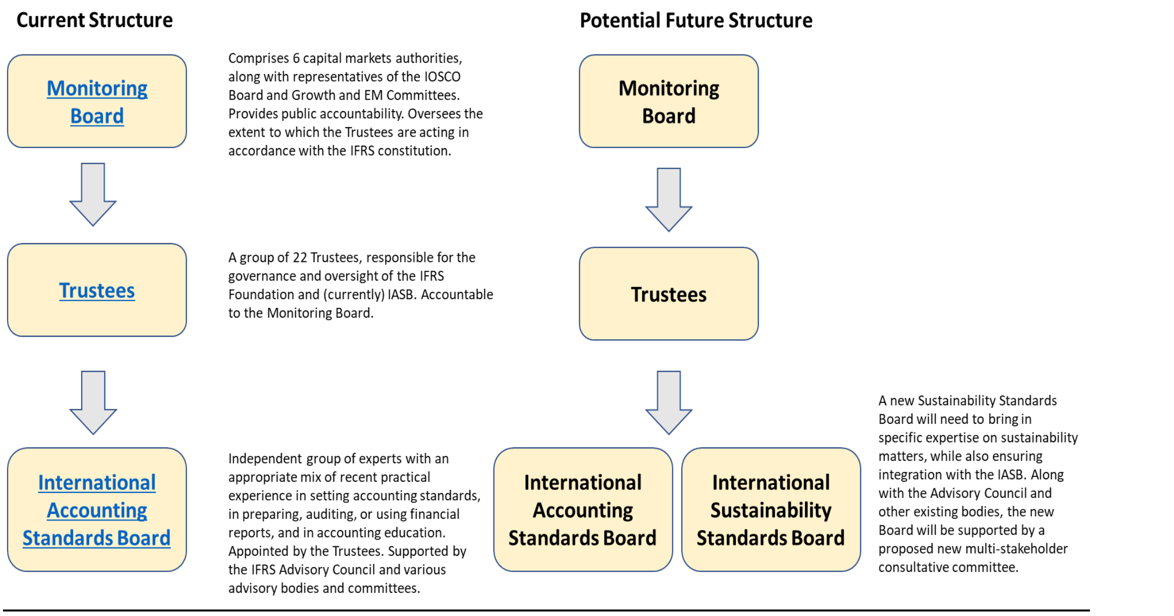
This view is shared by the IFRS Foundation Trustees. In their Exposure Draft on proposed amendments to the IFRS Foundation Constitution to accommodate an ISSB, the Trustees note that they "believe their strategy for a proposed board is consistent with the Foundation's mission to develop standards that 'bring transparency, accountability and efficiency to financial markets around the world'…". They note that the process and operations of the new board, its governance structure and its standard-setting activities would reflect those of the IASB where possible.

The Trustees do not propose substantive amendments to the governance structure on the basis that they consider the existing structure to provide adequate oversight of the new board's activities. In particular, they note that:

- "The Monitoring Board understands that its current composition and expertise will be appropriate to serve legitimately as part of the Foundation's governance structure which…would include one board setting IFRS accounting standards and another board setting IFRS sustainability standards".
- The Trustees do not propose amendments to the size or specific expertise of the Trustee body. However, they expect that its "membership and its expertise can be sufficiently adjusted where necessary in the coming years as the regular rotation of its membership takes place".
- Proposed amendments to the Constitution recognise the need for "a broad base of skills, experience and perspectives" on the ISSB and the Constitution allows for appropriate flexibility in attracting appropriate talent, while maintaining the breadth and inclusivity of the board's composition.
- The Trustees will begin work with IOSCO and other organisations to explore the creation of a multi-stakeholder expert consultative committee within the Foundation's structure to inform the standard-setting process of the new board (see Section 7). As is the case for the IASB's Accounting Standards Advisory Forum (ASAF), this will not require specific reference in the Constitution.
- No changes are proposed in relation to the IFRS Advisory Council, and the Trustees do not propose a separate interpretations committee.

Figure B1 below sets out the current and potential future governance structure of the IFRS Foundation.

Figure B1. Integration of the ISSB into the governance structure of the IFRS Foundation



There is regular and ongoing engagement between the Monitoring Board and the Trustees to ensure that both the IASB and IFRS Foundation's mission and resources are not compromised by the creation of the ISSB.

Through its role in chairing the Monitoring Board of the IFRS Foundation, IOSCO will continue to provide input and monitor any related governance arrangements stemming from the Trustees' work. Should the ISSB be established, there will clearly be a role for the Monitoring Board and IOSCO to review the Trustees' assessment of how the 'requirements for success' have been met.

IOSCO endorsement and market adoption

One effective pathway to mandatory sustainability-related disclosure rests on widespread market acceptance of an agreed set of reporting standards.

This potentially could be supported by integrating the ISSB into the IFRS Foundation's three-tier governance model, which displays the attributes of independence, public accountability and a rigorous, transparent, independent and participatory due process.

Individual jurisdictions have different domestic arrangements for the adoption, application, or use of international standards. It will therefore be important for individual jurisdictions to consider how a common global baseline of sustainability standards could be adopted, applied or otherwise utilized within the context of these arrangements and wider legal and regulatory frameworks in a way that promotes consistent and comparable sustainability-related disclosures across jurisdictions. As an example, many jurisdictions have developed review, endorsement and adoption mechanisms for accounting standards that could be leveraged as jurisdictions develop approaches for considering the use of international sustainability standards within their regulatory frameworks.

While capital market authorities have historically leveraged private independent bodies to assist in establishing corporate reporting standards, IOSCO is in a unique position to underpin market acceptance of independently-determined standards by endorsing the system architecture for sustainability standard setting under the IFRS Foundation – just as IOSCO's Resolution in 2000 laid the foundation for the adoption of IFRS financial reporting standards across member jurisdictions.

As a membership organisation of the world's securities regulators, IOSCO will also have an essential role to play in evaluating the standards issued by the ISSB for use for cross-border purposes in issuers´ sustainability-related reporting requirements, and in encouraging members and relevant authorities to consider these standards when setting sustainability-related disclosure requirements at national and regional levels. IOSCO plays a similar role in the endorsement and oversight of international accounting standard-setting by the IASB.

IOSCO has established a TEG to engage with the IFRS Foundation's sustainability project over the coming months and carry out this evaluation.[8] In the first instance, the TEG's work will be focussed on evaluating whether the Prototype climate-related financial disclosure standard is 'fit for purpose' as a starting point for standards development under the ISSB (see Element 2, below).

In a second phase, the TEG´s preparatory work will inform IOSCO´s views on its potential endorsement of the ISSB standards.

Proportionality for corporate issuers

It will be important for a common international reporting framework to adapt to the needs of different issuers and industries. Designing the sustainability standards in a way that recognises the diverse needs of issuers, such as smaller issuers who may not have significant resources or sophisticated sustainability reporting expertise, and making the standards flexible and scalable, could better facilitate widespread adoption.

Element 2. Building on Existing Efforts

Building on existing efforts
• 'Climate first', expanding to other ESG matters
• Investor focus for enterprise value
• Build from Prototype climate-related financial disclosure standard
• Integration with financial reporting
• Sound basis for audit and assurance

IOSCO has encouraged the ISSB to leverage existing sustainability-related reporting frameworks such as the TCFD framework to set investor-oriented standards focussed on enterprise value, beginning with climate change.

Building on the efforts of existing sustainability reporting organisations will give the IFRS Foundation a running start in developing a common set of international standards for sustainability-related financial reporting to investors. In response, the IFRS Foundation Trustees have confirmed:

[8] The TEG is co-chaired by the US Securities and Exchange Commission and the Monetary Authority of Singapore.

- an initial focus on climate, while also working towards meeting the information needs of investors on other ESG matters
- an investor focus for enterprise value
- an intention to build on existing frameworks, by further developing the Prototype, and engaging a TWG of experts

Climate first and investor focus

IOSCO supports the Trustees' proposed approach.

Given the urgency of the climate challenge, IOSCO supports a 'climate first' approach in the near term. However, the IFRS Foundation should also move forward quickly to develop standards covering other sustainability topics, including environmental, social, and governance issues.

IOSCO also considers it pragmatic to prioritise investors' enterprise value-related information needs in the standards to be developed by the ISSB. Given individual jurisdictions' different sustainability public policy priorities and objectives, IOSCO considers it more likely that international consensus can be reached on enterprise value-oriented standards.

A focus on enterprise value creation may also be more closely aligned with the existing mission of the IFRS Foundation, the existing governance structure and the current composition of the Monitoring Board and Trustees. It can also be captured more readily in a conceptual framework for interconnected reporting. And, finally, it may also be a more familiar basis for the development of an audit and assurance framework.

IOSCO notes the increasing investor focus on investee companies' external impacts on the environment and society. As set out in Section 4, such impacts are increasingly considered in investors' valuation of companies and their capital allocation decisions. Accordingly, information needs to assess sustainability impacts are likely increasingly to be reflected in enterprise value-oriented standards where they impact companies' financial performance and/or cost of capital.

Recognising the dynamic state of knowledge and societal expectations, IOSCO encourages the development of a system architecture that is able to evolve over time with changing views and science on climate and wider sustainability matters, as well as materiality.

To support this, IOSCO is encouraging (see Element 3, below) the establishment of structured mechanisms to advise the ISSB on potentially material sustainability topics and to promote interoperability between enterprise value-oriented standards and any complementary reporting requirements on wider sustainability impacts or other disclosures that extend beyond the ISSB's enterprise value creation orientation.

The Prototype as a basis for standards development

IOSCO welcomes further consideration of the Prototype as a potential basis for the ISSB's standards development. As noted, an important task of IOSCO's TEG over the coming months will be to assess whether the refined version of the Prototype could indeed be a sound basis for the development of an international reporting standard under the ISSB that will:

- meet the capital market's core information needs and serve as a baseline for consistent and comparable approaches to mandatory sustainability-related disclosures across jurisdictions
- be compatible with existing accounting reporting standards and promote good governance of sustainability-related disclosures among preparers
- form the basis for the development of an audit and assurance framework

As a starting point for this work, Section 6 provides a high-level assessment of the Prototype against the granular attributes set out in Figure 8. IOSCO also used the occasion of roundtables in April and May 2021 to gather the views of global stakeholders and market participants on the Prototype and its content.

An important element of future standards development will be incorporating industry-specific considerations, including in relation to topic scope and materiality considerations. Unlike financial reporting, sustainability-related reporting generally requires more differentiation by industry.

This reflects the observation in Section 4 that companies depend (to varying degrees) on natural, social and human capital to create and preserve enterprise value, and that these dependencies are likely to vary by industry (as well as by geography and over time). For example, the disclosure demands for the mining industry on the impact of climate change will differ significantly from those for technology-related firms. Similarly, the broader sustainability-related issues beyond climate change will vary by industry.

Element 3. Encouraging a 'Building Blocks' Approach

Encouraging a 'building blocks' approach
• Coordination mechanism – consultative committee o Dynamic updating of enterprise value-oriented standards o Coordination and interoperability with complementary disclosure requirements

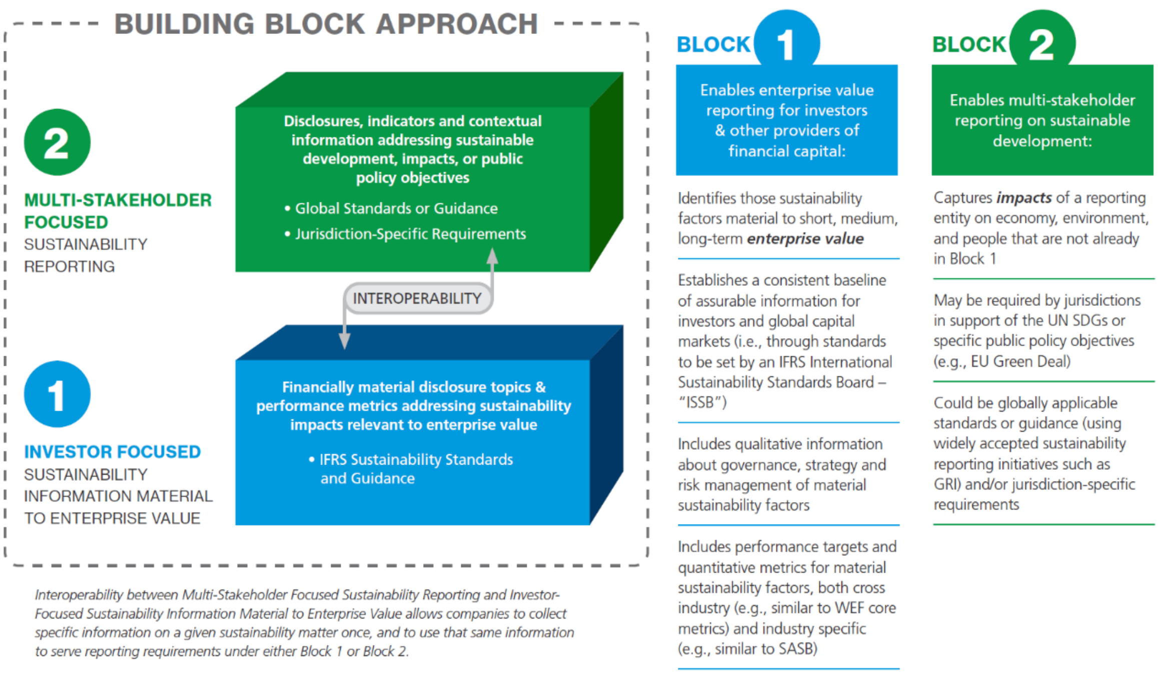
IOSCO has encouraged a 'building blocks' approach to establishing a global comprehensive corporate reporting system.

The building blocks approach could provide a consistent and comparable baseline of sustainability-related information that could be material to investors' decisions because of its impact on enterprise value creation, while also providing flexibility for coordination on reporting requirements that capture other sustainability interests and objectives and serve wider stakeholders.

IOSCO envisages that the ISSB's future standards, sitting alongside financial reporting standards and with a focus on enterprise value creation, would form the first block, providing the global baseline. This would be complemented by other 'blocks' (applicable standards), which may be jurisdiction-specific and may focus on wider sustainability impacts or other disclosures that extend beyond the ISSB's enterprise value creation orientation, but could be based on consistent and comparable metrics and methodologies.

The IFRS Foundation Trustees and the alliance have voiced public support for the building blocks approach. In May 2021, IFAC also published new guidance for its members, articulating a building blocks approach fully consistent with IOSCO's vision (Figure 7).

Figure 7. The building blocks approach



Source: IFAC (2021)

IOSCO has proposed that a multi-stakeholder expert consultative committee, within the IFRS Foundation structure, could be a promising mechanism to support the practical delivery of the building blocks approach. The IFRS Foundation Trustees are exploring the establishment of such a committee.

Such a committee could play a key role in fostering ongoing international coordination between enterprise value-focused sustainability reporting standards issued by the ISSB and any complementary standards related to additional sustainability reporting to meet the demands of other stakeholders or jurisdiction-specific requirements. Importantly, it could also help encourage global consistency and comparability of such additional sustainability disclosure requirements.

IOSCO will continue to engage with the IFRS Foundation and relevant global stakeholders involved in sustainability reporting on how in practice a multi-stakeholder expert consultative committee within the IFRS Foundation structure can:

- help the ISSB identify relevant sustainability topics that may be material to investment decisions based on an 'enterprise value' focus
- while also providing a bridge to support additional information needs on other sustainability issues and promoting consistency and comparability in complementary jurisdiction-specific reporting standards

Section 7 elaborates on IOSCO's vision for a consultative committee under the IFRS Foundation architecture.

5.3. IOSCO's engagement with stakeholders

In developing the approach to implementing the vision, IOSCO's STF has engaged extensively with global stakeholders. This engagement has taken place through participation by the STF's leadership in a number of international roundtable sessions – including events hosted by the WEF and Mark Carney, as United Nations Special Envoy on Climate Action – as well as through IOSCO-hosted roundtable events in April and May 2021 (one hosted in collaboration with the WEF).

IOSCO's roundtables, summarised in a press release, published on 10 May, were attended by senior representatives from a wide range of stakeholder groups, spanning IOSCO STF member jurisdictions, including: international and multilateral organisations, sustainability reporting organisations; global asset managers and other capital markets participants; corporate issuers; accounting firms and the accountancy profession; the IFRS Foundation; and IOSCO member authorities.

Across the two sessions, the STF gathered views on the key elements of IOSCO's vision, and in particular how IOSCO and the IFRS Foundation could: i) build on existing content; ii) accelerate the adoption of the ISSB's standard once established; and iii) encourage a 'building blocks' approach.

Roundtable participants were united in their support for globally aligned reporting standards, to promote comparability of sustainability-related disclosures across jurisdictions and to avoid market fragmentation. Many participants stressed that voluntary disclosure would not be enough and hence supported clear pathways towards mandatory reporting requirements aligned across jurisdictions, along with robust frameworks for audit and assurance.

There was strong support for the key elements of the IOSCO vision, and a clear willingness among participants from all stakeholder constituencies to work collaboratively with IOSCO and the IFRS Foundation to deliver this vision. There was also broad-based agreement that time is of the essence. The ISSB should build on existing initiatives in order to deliver high-quality international sustainability-related reporting standards to address the priority needs of capital market participants on a reasonable timeframe.

Key points of feedback included:

- Roundtable participants were supportive of taking the Prototype developed by the alliance as a starting point for the ISSB's 'climate first' reporting standard. However, they stressed the importance of setting a clear roadmap to extend the scope to a wider spectrum of sustainability topics on an accelerated timeframe.
- To support IOSCO's TEG in assessing key features of the Prototype, participants suggested a number of priority areas of focus, including quantitative metrics and standardisation, forward-looking metrics, scenario analysis, the linkage between sustainability reporting and financial statements, industry-specific standards and metrics, and digitisation.
- There was also agreement that mechanisms should be introduced to support a 'building blocks' approach to implementing a comprehensive global corporate reporting architecture. Roundtable participants voiced support for IOSCO's proposal for a multi-stakeholder consultative committee under the IFRS Foundation, though they stressed

the importance of clearly articulating the purpose of the committee and developing a structure and membership accordingly.

- Participants also encouraged the IFRS Foundation to leverage its existing advisory groups so as to benefit from existing channels for research and consultation with multiple stakeholders across regions.
- Finally, discussions noted that the design of ISSB standards should allow for interoperability with jurisdiction-specific requirements that go beyond enterprise value creation, and support the ongoing evolution of standards over time.

6. High-level assessment of existing content

IOSCO welcomes the work of the alliance of leading sustainability reporting organisations and their efforts to explore how the combination of their respective principles, frameworks, and guidance can form the basis for a future common set of international standards for sustainability-related disclosures.

As described in Section 2, the alliance published a Prototype climate-related financial disclosure standard in December 2020. This builds on the TCFD's recommendations and adopts the form and structure of the IFRS Foundation's financial reporting standards.

The IFRS Foundation Trustees have confirmed that the ISSB will prioritise investors' needs and adopt an enterprise value materiality lens. Consistent with IOSCO's vision, the Trustees have also confirmed that a working group of experts will further develop the Prototype, with a view to delivering this to the ISSB as a running start for its standards development work. IOSCO's TEG is engaging with this work and will consider the 'fitness for purpose' of the refined Prototype.

To help inform the TEG's work, the STF has carried out an initial assessment of how well the Prototype climate-related financial disclosure standard could meet investors' needs and address the gaps and shortcomings in companies' existing sustainability-related reporting identified in Section 3.

6.1. Attributes of a common international reporting standard for sustainability

As a starting point for IOSCO´s assessment of how well reporting standards based on the Prototype would meet investors' needs, the STF has elaborated a set of granular attributes that we would like to see in a regime for sustainability-related reporting for corporate issuer disclosures. These attributes are based on the detailed findings from STF´s engagement with asset managers, as summarised in Section 3.

Figure 8 sets out the granular attributes that we have considered, organising these under the five headings in Section 3. In the remainder of this section, we map the content of the TCFD's recommendations and the principles, frameworks and guidance promulgated by the alliance against these attributes, and also use these attributes as a basis for our assessment of the Prototype.

Figure 8. Key attributes of a regime for issuer sustainability reporting

The completeness, consistency and comparability of sustainability-related information

- Provide investors with the necessary information to accurately assess the impact of sustainability issues on companies' ability to create and preserve enterprise value
- Promote internationally comparable disclosures to facilitate efficient pricing of risk and capital allocation across issuers and markets

Principles, frameworks and standards

- Provide a common, comprehensive and structured global framework for sustainability-related reporting
- Leverage existing principles, frameworks and guidance
- Establish narrative content elements, quantitative metrics, location, format, taxonomy and audit expectations

Topic scope and materiality

- Sustainability topics covered:
  - (a) Climate: include physical and transition risks
  - (b) Wider environmental issues: where identified via multi-stakeholder, inter-governmental, science/evidence-based approaches
  - (c) Social: where identified via multi-stakeholder, inter-governmental, science/evidence-based approaches
  - (d) Governance: inclusion of sustainability issues into terms of reference of board committees, board and management responsibilities and processes; other governance topics where identified via multi-stakeholder, inter-governmental, science/evidence-based approaches
- Assume an investor orientation, with attention to the materiality of sustainability matters for enterprise value creation
- Accommodate dynamic materiality by updating standards and guidance over time to reflect developments in stakeholder views, regulations, investor preferences and evolving scientific knowledge on sustainability matters; the standard should also be interoperable with multi-stakeholder-oriented standards to facilitate adoption of complementary reporting requirements
- Provide industry-specific guidance, including materiality mapping, activity metrics and scenario analysis parameters
- Provide for a materiality assessment by a company within its industry/sector, reflecting its size, business model and geographical factors

Narrative disclosures and quantitative metrics

- Provide guidance for standardised/consistent and detailed management discussion and analysis across specified content elements
- Provide guidance for granular, science-based metrics and methodologies
- Provide guidance for gap analysis against objective science-based criteria
- Provide guidance for granular, structured historical, current and forecast data
- Provide guidance for disclosure of short, medium and long-term targets with timelines, scenario analysis and underlying assumptions
- Specify the location and format of disclosures, and provide a common taxonomy and structure

Linkage between sustainability issues and business strategy/financial implications

- Provide a framework that can be integrated with financial reporting standards
- Provide guidance for disclosure, discussion and analysis of quantitative impact of sustainability issues on financial performance
- Provide guidance for consistent discussion and analysis across specified content elements, and facilitate integration with financial reporting standards
- Provide a framework that can be integrated with financial reporting standards and facilitate independent audit and assurance

6.2. Existing content of TCFD and the alliance of sustainability reporting organisations

The Prototype is based on the content of the TCFD's recommendations and the alliance's principles, frameworks and guidance (TCFD, SASB, GRI, CDP, IIRC, CDSB), together the 'six frameworks'.

Note that, in June 2021, SASB and IIRC completed their merger to establish the Value Reporting Foundation, with the aim of further simplifying the reporting landscape on the path towards introduction of the IFRS Foundation's ISSB. SASB and GRI are also engaged in collaborative work under a joint workplan to help reporting companies better understand how their respective content can be used together.

Of the six frameworks, GRI was established first, in 1997, with the TCFD's recommendations published most recently, in 2017. As a baseline for its work on the product, IOSCO's STF first mapped each of the constituent frameworks against the key attributes of a sustainability reporting regime shown in Figure 8.

As the six frameworks have different target outcomes, objectives and audiences to begin with, it is perhaps unsurprising that none of them individually meets all of the desired attributes. These gaps, along with the observed reporting practices of issuers (eg, cherry picking and reporting selectively against different frameworks), provide a strong rationale for a global reporting standard that leverages on existing frameworks and standards and recognises the complementarity between them.

Table 1 below provides some observations on the extent to which each of the six frameworks meets the key attributes. It is acknowledged that the frameworks continue to evolve.

For example, in its recent Climate Risk Bulletin, SASB welcomes feedback from companies and investors on their experience using the standards and has adopted a project-based model to pursue revisions. Similarly, TCFD consulted on further guidance on forward-looking financial metrics for financial firms in 2020. In June 2021, TCFD launched: a further consultation on metrics, targets and transition plans, proposing amendments to existing guidance to support organizations in implementing and reporting against its recommendations; as well as a technical supplement on measuring portfolio alignment.

Table 1. Mapping of the six frameworks against key attributes

Attribute Groups	Observations on the six frameworks
The completeness, consistency, and	• SASB, TCFD and CDSB focus on information for capital providers to assess impacts on enterprise value for risk pricing and capital allocation.

comparability of sustainability-related information	• CDP and GRI also consider companies' external environmental (and in GRI's case, also social) impacts beyond those that influence enterprise value. • IIRC provides a conceptual framework to disclose on companies' use of a broad scope of capitals (eg, natural, human, social).
Principles, frameworks, and standards	• CDSB, IIRC and TCFD are principles-based frameworks. CDP, GRI and SASB prescribe specific disclosures, including quantitative metrics. • CDP's and CDSB's frameworks have been adapted to incorporate elements of, or refer to, the TCFD's recommendations. • All six frameworks are designed to be voluntary. None of the frameworks prescribes format, taxonomy or audit requirements. • TCFD and CDSB specifically recommend disclosure in mainstream financial reports. The other frameworks provide a range of recommended locations such as annual reports, standalone reports, corporate websites etc. CDP reporting is done through its online portal.
Topic scope and materiality	• GRI, SASB and IIRC, through a different approach, cover all three E, S and G dimensions. They apply different approaches to categorising sustainability topics and selecting from them. • CDP, SASB and TCFD provide industry specific metrics or guidance. • SASB specifies activity metrics that can be normalised for the scale of the reporting entity, and also provides an industry-specific materiality filter. • None of the frameworks provides a structured mechanism to deal with the dynamic nature of materiality.
Narrative disclosures and quantitative metrics	• CDP, GRI, SASB and TCFD provide guidance on both narrative disclosure and quantitative metrics. • IIRC and CDSB provide guidance only on narrative disclosures. • None of the frameworks requires gap analysis against science-based climate parameters (eg, alignment with 1.5º C/<2º C pathways). • TCFD provides guidance on scenario analysis.
Linkage between sustainability issues and business strategy/financial implications	• All six frameworks provide high-level guidance on the impact of sustainability issues on financial planning and performance. • None of the frameworks provides practical guidance or standardised narratives on linkages to financial statements or integration with financial reporting standards.

6.3. Assessment of the Prototype climate-related financial disclosure standard

The alliance's climate-standard Prototype builds from the form and structure of the TCFD's recommendations and applies a mix of narrative and quantitative disclosures (these include backward-looking, contemporaneous and forward-looking metrics and targets – including cross-industry and industry-specific metrics).

With its focus on enterprise value creation, the Prototype standard is designed to meet those capital markets needs on which there is likely to be greatest consensus. An adapted conceptual framework presented alongside the Prototype standard illustrates the connectivity with financial reporting.

The focus on climate-related financial disclosures in the alliance's Prototype supports the IFRS Foundation Trustees' 'climate first' approach. Should the approach in the Prototype be adopted by the ISSB, the ambition would be to build on this in developing a standard for sustainability-related financial disclosures, covering other environmental factors, as well as social and governance factors.

This is underlined by the inclusion in the paper of a 'Presentation Standard' for sustainability-related financial reporting more broadly (ie, beyond climate change). The Prototype also sets out initial views from the alliance on how the IASB Conceptual Framework for financial reporting can be developed for use in sustainability-related financial disclosure standards.

Approach to assessing the December Prototype

The STF has assessed how well the Prototype climate-related financial disclosure standard, which combines the principles, frameworks and guidance described in Section 6.2, could meet investor needs and address the key gaps and shortcomings identified in the STF's factfinding work.

The STF analysed the Prototype against the key attributes of a sustainability reporting regime shown in Figure 8. The purpose of this exercise was to identify: (i) potential enhancements to the prototype, in order to meet investors' needs; (ii) interim guidance needed prior to the establishment of the ISSB; and (iii) longer term considerations for a steady state functioning of the ISSB.

As part of this, the STF has considered whether information provided in accordance with the Prototype would give investors and other market participants sufficient insight into the drivers of long- term value to enable them to assess:

- the nature, type and extent of risks and opportunities arising from climate change to which the entity is exposed
- the impact of climate-related risks and opportunities on the entity's financial position and financial performance and ability to create enterprise value over the short, medium and long term
- how management's use of and effect on resources (inputs, activities, outputs, outcomes) supports the entity's response to and strategy for managing the opportunities and risks of climate change
- the capacity of the company to adapt its business model and operations to manage climate-related risks and opportunities

As a general conclusion of the work, the IFRS Foundation's TWG is encouraged to conduct a more detailed assessment to determine the extent and manner of adaptation needed for the IASB's Conceptual Framework for Financial Reporting to meet investor needs on sustainability reporting.

In particular, the sustainability reporting should be integrated with financial reporting standards in such a way to ensure that sustainability issues impacting companies' financial position and performance are adequately assessed and disclosed, and that financial statements also reflect these issues.

To support the TWG in its ongoing work to refine the Prototype, the STF has highlighted, in Table 2, some suggestions for enhancements to the Prototype and other initial considerations. Some of the areas for potential future enhancement of the Prototype that the STF has identified relate to the Conceptual Framework and Presentation Standard, rather than the disclosure standards.

Table 2. Potential enhancements to the Prototype and other considerations

Attribute Groups	**Potential enhancements and considerations**
The completeness, consistency and comparability of sustainability-related information	*Prototype enhancements*: • Specify the need to assess risks and opportunities attributable to other entities and stakeholders beyond reporting entity that may be material to enterprise value creation for the reporting entity.
Principles, frameworks and standards	*Prototype enhancements*: • Facilitate independent audit and assurance, enforcement by relevant regulators and integration with financial reporting standards. • Include minimum requirements for specific narrative information and quantitative metrics across specified content elements. *Interim considerations*: • Provide guidance to ensure interoperability of the ISSB's standards once available with disclosures on other standards and broader reporting obligations.
Topic scope and materiality	*Prototype enhancements*: • Clarify that the materiality assessment should capture contemporaneous and anticipated future impacts (including over the long term) of the reporting entity where these may have a significant influence on investors' decisions. • Provide guidance on how the standard will take into account size, business model and geographic factors when providing industry specific metrics.

Narrative disclosures and quantitative metrics	*Prototype enhancements*: • Provide granular guidance on quantitative metrics, including use of globally accepted and consistent labels, definitions and measurement methodologies. • Provide guidance on methodologies to measure the long-term financial impact of the most relevant sustainability matters. • Provide guidance on metrics to ensure comparability with prior periods and with other companies. • Consider need to refine industry specific guidance, as SASB's Climate Disclosure Guide may not be fully coherent with the wider Prototype. • Include guidance on definitions of short, medium and long term and provide guidance on forward looking metrics across all three time horizons. • Provide guidance on science-based parameters (eg, alignment with 1.5° C pathway) including assumptions for decarbonisation pathways and negative emissions technologies • Ensure that appropriate guidance is provided for *both* transition and physical risks, including transition planning. • Specify the provision of raw data, the format including machine readability (and designation of which data – narrative or only metrics – will be subject to data tagging), and location of information. • Provide guidance for scenario analysis, including relevant assumptions and methodologies (for example, the NGFS published the second iteration of its climate scenarios in June 2021, providing "a common starting point for analysing climate risks"[9]), including sector-specific guidance.
Linkage between sustainability issues and business strategy and financial implications	*Prototype enhancements*: • Provide guidance on how disclosures should be integrated with the narrative section of the annual financial report. • Provide guidance on how sustainability disclosures should be factored into figures and accompanying notes in financial statements.

IOSCO encourages the IFRS Foundation to set a clear path for the further development of standards to other environmental matters beyond climate change, as well as social and governance matters – including by applying a multi-stakeholder, inter-governmental,

[9] There are six scenarios under three dimensions: 'orderly' (early and gradually more stringent climate policies lead to achieving net zero emissions around 2050 and a 67% chance of limiting global warming to below 2°C); 'disorderly' (delayed and divergent policies across countries and sectors result in net zero emissions achieved around 2050 but with higher costs and emissions not decreasing until 2030); and 'hot house world' (some climate policies (including nationally determined contributions) but globally efforts are insufficient to halt significant global warming).

science/evidence-based approach. In the absence of other regulatory requirements or guidance, issuers may consider meeting investors' needs by reporting in line with widely used international voluntary principles, frameworks and standards in the interim.

IOSCO has identified a number of matters that should be considered as the final 'climate first' standard is finalised, as well as the future work on the standard as it evolves beyond climate change.

These relate not only to the standards development process, but also how the ISSB's standards interact with the wider architecture for corporate reporting and the associated ecosystem, including audit and assurance. IOSCO will continue to engage with the IFRS Foundation Trustees on these topics, including through the collaboration of the TEG and the IFRS Foundation Trustees' TWG.

Table 3. Steady state considerations for the ISSB and the system architecture

Attribute Groups	**Steady state considerations for the ISSB and the system architecture**
Principles, frameworks and standards	• Consider application of a specific structured data (eg, eXtensible Business Reporting Language (XBRL)) taxonomy to support machine-readability, facilitating consistency, collection, tagging, storage and access to data. Consider which information (numerical metrics alone or also narrative disclosure) will be subject to such tagging.
Topic scope and materiality	• Create a structured mechanism for dynamic updating as new sustainability topics become more relevant to investors' assessments of enterprise value creation over time. • Establish a coordination mechanism (eg, the proposed consultative committee) to encourage interoperability with reporting standards that enable (i) companies to apply a multi-stakeholder perspective on their material sustainability impacts and/or (ii) jurisdictions to support specific sustainability-related public policy objectives.
Narrative disclosures and quantitative metrics	• Consider the inclusion of activity-specific metrics to facilitate comparability and, where appropriate, assessment against widely used taxonomies, including those under development.

Linkage between sustainability issues and business strategy and financial implications	• Consider guidance on how the ISSB's standards support reporting updates on material adverse or positive changes to sustainability-related risks and opportunities. These could include interim disclosures of material events, or quarterly or half-year reporting updates • Consider timing of any supplementary sustainability report to coincide with the annual financial report, so as to allow for comparison and cross referencing. • Consider mandatory assurance of sustainability-related disclosures incorporated in annual financial reports and any supplementary financial reports; consider guidance on assurance for supplementary sustainability reports. • Consider guidance to ensure the preparation and audit of financial statements reflects material sustainability-related financial impacts and promotes consistency and coherence between financial and sustainability disclosures. • Consider guidance as to the necessary qualifications of an auditor certifying sustainability information.

7. A consultative committee under the IFRS Foundation

As noted in Section 5, IOSCO has encouraged a 'building blocks' approach to establishing a global sustainability reporting system. This would accommodate a common global baseline of investor focused enterprise value creation standards, while allowing for either global or jurisdiction-specific complements that: (i) serve wider public policy interests; (ii) apply a broader notion of materiality; and/or (iii) meet the information needs of a wider scope of stakeholders.

A modular building blocks approach would recognise that while there may be global consensus around the capital market's needs for more consistent, comparable and reliable information, jurisdictions are adopting wider sustainability policies at different speeds. The EU is an example of a jurisdiction that is moving more quickly than others and may seek to introduce complementary reporting requirements with a focus beyond enterprise value creation.

The IFRS Foundation Trustees have announced that they will proceed with a focus on enterprise value creation. Accordingly, to support a building blocks approach, it will be important to put a coordination mechanism in place that can advise the IFRS Foundation in assessing the dynamic materiality of sustainability topics. Such a mechanism can also promote interoperability with any additional reporting requirements that may be established at the jurisdiction or regional level to support information needs extending beyond matters relevant to enterprise value creation.

7.1. A consultative committee within the IFRS structure

IOSCO is exploring with the IFRS Foundation the design of a multi-stakeholder expert *consultative committee*, sitting within the IFRS structure to act as an advisory forum, provide a coordination mechanism and help facilitate the building blocks approach.

Purpose and objectives of the consultative committee

The main purpose of the consultative committee would be to provide a consultative and advisory forum to support the ISSB in developing in the public interest a single set of high-quality, understandable, enforceable and globally accepted sustainability reporting standards with an investor-oriented focus and adopting an enterprise value creation lens.

The consultative committee would be tasked with formalising and streamlining the ISSB's engagement with the relevant global stakeholders involved in sustainability reporting with a view to **identifying and providing structured input on the broad universe of sustainability topics (and metrics) – the 'superset' –** that are potentially relevant from an enterprise value creation perspective.

This activity would be supported by a structured process to map the superset, informed by the breadth of perspectives on nature, society and economic activity provided by the members of the committee. The structured process could be informed by the existing methodologies adopted by members of the alliance.

The ISSB would filter from the superset in its standard-setting process, selecting those topics that are material to enterprise value creation. Periodic 'filtering' would also accommodate 'dynamic materiality', acknowledging that the materiality of sustainability factors to investors may vary over time.

An additional purpose of the consultative committee would be to **engage on jurisdictional approaches and promote interoperability** between the ISSB's global standards and any jurisdiction-specific standards in additional blocks that may extend beyond the ISSB's standards. The consultative committee could also play a role in fostering consistency in the use of commonly accepted measurement methodologies both for ISSB´s and jurisdiction-specific reporting standards.

To assist this purpose, the consultative committee could facilitate effective technical discussions with jurisdictional standard-setters, particularly in relation to disclosures that capture companies' external impacts on sustainability factors. Those jurisdictions that have wider sustainability objectives and are ready to adopt a broader materiality lens could further select from the superset to inform additional reporting standards that support their wider sustainability objectives. A two-way dialogue with jurisdiction-specific standard-setters could help to encourage the development and evolution of ISSB standards in a manner that supports interoperability.

As a less formal role, aligned with this second purpose, the consultative committee could also serve as a forum for representatives of multilateral bodies and jurisdictional standard setters to promote coordination and reduce fragmentation in jurisdictional standards beyond the ISSB's baseline. In this informal role, the consultative committee could further global coordination and establish a pathway towards globally consistent multi-stakeholder reporting standards that support jurisdictions' wider sustainability objectives.

Organisation, structure and composition of the consultative committee

In determining the organisation, structure and composition of the consultative committee, inspiration could be drawn from the current advisory and consultative committees supporting the IFRS Foundation. These include:

- The Accounting Standards Advisory Forum (ASAF) streamlines the IASB's engagement with national standard setters to gather jurisdictional input on technical issues and facilitate effective technical discussions
- The IFRS Advisory Council provides a forum in which relevant stakeholders can provide strategic advice

To support the dual purposes of the consultative committee, as described above, the IFRS Foundation could constitute two advisory subcommittees:

- *Identifying and providing structured input on the superset*. An advisory subcommittee could be established to advise on the superset of sustainability topics and help the ISSB filter those that may be material from an enterprise value creation perspective. This subcommittee could comprise multilateral organisations. IOSCO's initial thinking is that this subcommittee could potentially be comprised of representatives of multilateral organisations (including the United Nations, Organisation for Economic Co-operation and Development, World Bank, and the International Monetary Fund), as well as standard-setting organisations such as GRI, the International Organisation for Standardisation and the International Labour Organisation.
- *Engaging on jurisdictional approaches and promoting interoperability*. A second advisory subcommittee could be established to facilitate discussions on jurisdiction-specific approaches to companies' sustainability, where these are not otherwise captured by the ISSB's enterprise value-oriented standards. The aim would be to foster a two-way dialogue between standard setters with a view to supporting interoperability between the ISSB's global baseline and jurisdiction-specific add-ons. IOSCO's initial thinking is that this subcommittee could potentially be comprised of jurisdictional sustainability standard setters (eg, EFRAG), and global initiatives on broader sustainability reporting (eg, GRI). In an initial phase and until the ISSB expands its remit beyond climate, it could also comprise international sustainability reporting initiatives with an enterprise value creation focus promoting frameworks beyond climate (eg, the Value Reporting Foundation). The composition of this subcommittee would provide for a broad geographical spread.

Importantly, the consultative committee should complement and not replace or supersede existing advisory groups and outreach arrangements within the IFRS Foundation's architecture.

The ISSB would continue to benefit from the existing inclusive and multi-stakeholder due process already in place, including channels for consultation with stakeholders across regions. Importantly, the proposed consultative committee should complement – and not supersede – existing advisory groups and outreach arrangements.

8. Next steps for IOSCO

This report has set out IOSCO's vision for an ISSB under the IFRS Foundation and described some of the factfinding and analysis that IOSCO's STF has carried out to inform this vision.

IOSCO anticipates significant progress in delivering the key elements of its vision over the coming months. These are expected directly to help address the priorities for improvement, introduced in Section 5.

Figure 9 confirms how the elements of the vision map to the priority improvements, and summarises the implementation actions underway at IOSCO and the IFRS Foundation.

Figure 9. Delivering the priority improvements – IOSCO's vision for an ISSB under the IFRS Foundation

	Priority 1. Encouraging globally consistent standards		**Priority 2. Promoting comparable metrics and narratives**		**Priority 3. Coordinating across approaches**	
	Globally consistent application of common standards	**Standards covering the full breadth of sustainability topics**	**Industry-specific quant. metrics**	**Standard-ised narrative disclosures**	**Investor-focussed, enterprise value-oriented baseline**	**Coordinated information needs on wider sustainability impacts**
Element 1. Establishing an ISSB with a strong governance foundation						
• Strong governance	(1)					
• IOSCO endorsement and market adoption	(2)					
Element 2. Building on existing efforts						
• 'Climate first', expanding to other ESG matters		(5)				
• Investor focus for enterprise value					(7)	
• Build from Prototype climate-related financial disclosure standard			(6)			
• Integration with financial reporting	(3)					
• Sound basis for audit and assurance	(4)					
Element 3. Encouraging a 'building blocks' approach						
• Coordination mechanism – consultative committee – to support						(9)
o Ongoing updating of enterprise value-oriented standards					(8)	
o Coordination and interoperability with						(10)

complementary disclosure requirements						

Commentary on table

(1) Before November 2021 The IFRS Foundation is currently consulting on amendments to its constitution which will be finalised by the autumn. ISOCO-chaired Monitoring Board overseeing sustainability reporting project. Expected November 2021, establishment of ISSB

(2) Key steps:

a. By November 2021, IOSCO TEG assessing whether the Prototype is a sound basis for ISSB standard setting

b. IOSCO TEG to assess 'climate first' standard once developed under ISSB due process (expected 2022)

c. IOSCO has identified some 'steady state' considerations for the ISSB

(3) Once established, ISSB standards to be integrated with financial reporting under the IFRS Foundation architecture. In this report, IOSCO recommends integrated conceptual framework

(4) IOSCO TEG and STF to consider assurance further in 2021/22, with a view to promoting mandatory assurance of sustainability-related disclosures. As part of this, IOSCO STF will assess whether the existing assurance framework is fit for purpose or whether further standard setting enhancements are required

(5) Key steps:

a. 'Climate first' standard expected 2022 following exposure draft and public consultation

b. By November 2021, IFRS Foundation TWG assessing how the Prototype can accommodate expansion to other ESG matters and will make recommendations for potential inclusion in an ISSB Agenda consultation in 2022

c. In this report, IOSCO recommends a clear roadmap and TEG will observe this process

(6) Key steps:

a. IFRS TWG refining the Prototype climate disclosure standard to give the ISSB a 'running start' upon its establishment in November 2021 - includes quantitative metrics and standardised narrative

b. As a starting point for the TEG's work, IOSCO has set out in this report an initial assessment of the Prototype against key attributes and made a number of recommendations, including in relation to industry-specific metrics

(7) By November 2021, IFRS TWG developing recommendations for ISSB with an investor focus for enterprise value

(8) In this report, IOSCO recommends a structured process for dynamic updating of enterprise value-oriented standards, with advice from consultative committee

(9) IFRS TWG considering a consultative committee under the IFRS structure as part of technical preparations ahead of establishment of ISSB in November 2021

(10) In this report, IOSCO recommends a purpose, structure and composition of a consultative committee that will support interoperability with complementary disclosure requirements

Alongside its work on this report, IOSCO looks forward to further collaboration with the IFRS Foundation Trustees as they continue their technical preparations towards establishing an ISSB, as well as ongoing engagement with other stakeholders.

This is a key part of the IOSCO's STF next steps on sustainability-related financial disclosures, which comprise the following key strands of work.

(i) *Monitoring the IFRS Foundation Trustees' plans for design of the ISSB*. Given the strong interest of capital markets authorities in ensuring high-quality, independent and transparent standard setting for corporate reporting, IOSCO will continue to take a close interest in the technical preparations underway at the IFRS Foundation to determine the design of the future ISSB. IOSCO looks forward to engaging on the IFRS Foundation's assessment of the 'requirements for success' for the ISSB. These were set out at the time of consultation as prerequisites for proceeding with the ISSB. They include critical matters such as funding and resourcing, and how the ISSB would be integrated into the IFRS Foundation's governance arrangements and wider system architecture. These matters will be important, not only to the STF, but also to IOSCO in its role as the Chair of the Monitoring Board. For instance, the Monitoring Board will monitor any constitutional changes needed to establish the ISSB within the IFRS governance framework. IOSCO's policy committee on issuer accounting, audit and disclosure (Committee 1) will also consider carefully the interactions with the IASB's existing standard setting activities for financial reporting.

(ii) *Provided that IOSCO's expectations are satisfied, considering market acceptance of the ISSB's future standards and setting a pathway for the ISSB's sustainability reporting standards to serve as the global baseline for consistent and comparable approaches to mandatory sustainability-related disclosures across jurisdictions, in line with domestic legal frameworks.* A key part of the IFRS Foundation Trustees' technical preparations is their work on the content of future sustainability-related financial reporting standards. As described in Section 6, the initial focus is on further refining the prototype climate-related financial disclosure standard to give the ISSB a 'running start' in its standards development. The IOSCO STF will continue to engage with this work, through the TEG that IOSCO has established to carry out an initial assessment of the refinements that the Trustees' working group is making to the Prototype standard. The TEG assessment will benefit from the input from IOSCO Committee Committee 1 and will benefit from its experience in assessing the IASC standards that led to IOSCO´s endorsement of IFRS in 2000. The starting point for the TEG's work will be the recommended enhancements flowing from the STF's analysis of the key attributes of the Prototype standard, as summarised in Section 6 – while also bearing in mind the interim and steady state considerations. Subject to the outcome of the TEG's assessment and the ISSB's subsequent standards development, IOSCO will work towards formal endorsement of the ISSB as the global standard-setter for sustainability-related corporate reporting. IOSCO would encourage IOSCO members and relevant authorities to consider the ISSB's standards when setting sustainability-related disclosure requirements in their respective jurisdictions. As part of its ongoing work and engagement with the IFRS Foundation, IOSCO will consider how the ISSB's standards can be developed and adopted in a proportionate way that acknowledges the different profiles and capabilities of reporting companies across jurisdictions. For instance, more proportionate adoption may be necessary in the case of smaller issuers, or issuers in emerging economies.

(iii) *Supporting the practical implementation of the building blocks approach*. IOSCO looks forward to continuing its dialogue with the IFRS Foundation Trustees on the potential design and introduction of a multi-stakeholder expert consultative committee within the IFRS Foundation structure. IOSCO continues to see a consultative committee as a promising mechanism to support the practical delivery of the 'building blocks' of a global comprehensive corporate reporting system. It will be important to agree on a structure, composition and 'terms of reference' for the committee to ensure that it can effectively advise the ISSB on the evolving universe of potentially relevant sustainability topics (and metrics) and their dynamic materiality, while also supporting interoperability with jurisdiction-specific standards that may extend beyond the ISSB's standards. IOSCO plans to continue its engagement with relevant jurisdictions and international organisations to foster coordination on the practical implementation of the building blocks approach.

(iv) *Developing approaches to support securities regulators' supervision of sustainability-related disclosures once the ISSB's reporting standards are in place.* IOSCO will consider developing recommendations, best practices and/or guidance to assist securities regulators in supervising against sustainability disclosure obligations within the context of their respective regulatory frameworks. This support could also entail the delivery of technical assistance and capacity building programs to IOSCO members.

(v) *Audit and assurance standards*. An important benefit of establishing formal corporate reporting standards for sustainability will be to provide a more robust basis for the development of audit and assurance frameworks that can be applied on a mandatory basis across jurisdictions. Audit and assurance will be a further critical step on the path to delivering capital markets with the complete, consistent and high-quality disclosures on sustainability-related matters that investors have been clear that they need. As part of this, an important area of focus will be how well audits of companies' financial statements capture material sustainability-related financial impacts and promote consistency and coherence between financial and sustainability disclosures. As described in Section 3, capabilities are still evolving in this area and work is underway in bodies such as IFAC and IAASB to help audit and assurance providers build effective frameworks to support their activities. IOSCO has opened a dialogue both with audit and assurance providers and relevant standard setting bodies. The STF will increase its efforts and focus on how IOSCO can support the delivery of a comprehensive assurance framework for sustainability information, including the assurance related standard setting necessary to underpin mandatory assurance of sustainability disclosures. This will be a priority in the next phase of the STF's work.

(vi) *Overseeing the transition to the 'steady state' for IFRS sustainability-related financial reporting standards*. IOSCO encourages the IFRS Foundation to set a clear path for the further development of standards to other environmental matters beyond climate change, as well as social and governance matters. In the interim, recognising investor demand for complete and structured disclosures, IOSCO encourages issuers to consider reporting in line with existing international voluntary principles, frameworks and standards in addition to any mandatory jurisdictional requirements. As part of the analysis of the Prototype climate-related financial disclosure standard against investor needs, summarised in Section 6, IOSCO has identified several directions for the ISSB to further develop its standards over time, once the 'climate first' standard is in place. The IFRS Foundation Trustees and the ISSB are encouraged to keep these matters in mind as they develop their work, to ensure compatibility with the future vision. These include:

- ensure that the standards evolve in a way that can support effective frameworks for audit and assurance and underpin mandatory assurance of sustainability disclosures
- encourage and assess (via the proposed consultative committee) interoperability with jurisdiction-specific reporting standards that may be designed to inform multiple stakeholder groups or apply a wider materiality lens than the ISSB's standards (and with voluntary principles, frameworks and standards until such time as all sustainability topics are covered by the ISSB)

- ensure that a structured mechanism is established for 'dynamic updating' as new sustainability topics become material to enterprise value creation over time
- consider guidance on how the ISSB's standards support interim, quarterly or half-year reporting updates and consider timing of any supplementary sustainability report to coincide with the annual financial report
- consider application, where feasible, of a specific structured data (eg, XBRL) taxonomy to support machine-readability, facilitating consistency, collection, tagging, storage and access to data
- consider including activity-specific metrics in the standard to facilitate assessment against widely-used taxonomies
- consider guidance to ensure the audit of financial statements reflects material sustainability-related financial impacts and promotes consistency and coherence between financial and sustainability disclosures
- develop mechanisms to foster the use of commonly accepted measurement methods even when following jurisdiction-specific reporting standards

(vii) *Contributing securities regulators' perspectives on the ongoing development of sustainability-related reporting standards, including input to post implementation reviews.* Consistent with the *Statement of Protocols for Cooperation between IOSCO and the IFRS Foundation*, IOSCO has an interest in ensuring that the body of ISSB standards will be comprehensive, well developed and maintained, and will be both auditable and enforceable. Accordingly, on an ongoing basis, IOSCO plans actively to engage with the IFRS Foundation and with the ISSB, as it currently does with the IASB, to discuss with the IFRS Foundation any IFRS initiatives, standard-setting projects, post- implementation reviews and other relevant matters. IOSCO will review and comment on proposed new standards and amendments, as appropriate, with a particular focus on their suitability and enforceability.

Glossary

NB: The definitions listed below have been largely obtained from the websites of the relevant organisations and institutions described or mentioned.

Activity-specific metrics	Similar to industry-specific metrics (see below) but related to the issuer´s activities.
Alliance of Sustainability Reporting Organisations (also known as the 'group of five')	This group brings together the leading standard setters (CDP, CDSB, IIRC, GRI and SASB). In September 2020, they issued a "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting". Additionally, they published a joint paper in December 2020, which presented a Prototype climate-related financial disclosure standard (see below).
Best-in-class	Investment strategy whereby sectors, companies or projects are selected for positive ESG performance relative to industry peers. This also includes avoiding companies that do not meet certain ESG performance thresholds.
Carbon Disclosure Project (CDP)	Founded in 2000 as a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts in three areas of focus: climate change, water security and forests
Climate Disclosure (Standards Board (CDSB)	Formed in 2007 at the World Economic Forum's annual meeting. Its vision is a world where decisions and actions in support of sustainable financial and environmental systems are facilitated by companies reporting the impact of climate change and natural capital information on their businesses with the same rigor, quality, and value as their financial capital information. Its first framework was published in 2010 focusing on climate change and expanded in 2013 to include environmental information and natural capital.
Climate 100+	Investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
Double materiality	This notion is embedded in EU Law. First explained in the European Commission's 2019 *Guidelines on reporting climate-related information*, it refers to taking into consideration both the traditional concept of materiality (the so-called "financial materiality") and the environmental and social materiality. According to the Guidelines, "the reference to the company's "development, performance [and] position" indicates financial materiality, in the broad sense of affecting the value of the company. Climate-related information should be reported if it is necessary for an understanding of the development, performance and position of the company" while environmental and social materiality refers to the "impact of [the company's] activities" and therefore, "climate-

	related information should be reported if it is necessary for an understanding of the external impacts of the company”.
Draft Regulatory Technical Standards (RTS) on disclosures under the SFDR	On 4 February 2021, the Joint Committee of the three European Supervisory Authorities (European Banking Authority, European Insurance and Occupational Pensions Authority and European Securities and Markets Authority) published the final report on the draft RTS in response to the mandate received in the SFDR to develop the content, methodologies and presentation of disclosures under the EU Regulation on sustainability-related disclosures in the financial services sector (see below). The European Commission will take this draft into consideration and decide whether to endorse and publish the final RTS.
Dynamic materiality	The materiality of the different ESG matters is not static, since it is dynamic concept that can move between the lenses of each form of reporting overtime: (i) reporting that reflects all significant impacts that typically addresses the broadest range of sustainability matters; (ii) reporting on enterprise value that typically addresses a narrower range of sustainability matters that are considered sufficiently likely to influence enterprise value; and (iii) reporting that relates directly to monetary amounts recognised in the financial statements that addresses the narrowest range of sustainability matters. For example, carbon emissions enter the big lens perspective as society becomes aware of global warming, the middle lens as investors start to factor net zero transition into capital market pricing, and the small lens as financial consequences are felt in net asset values.
Enterprise Value	In the context of this report, this term should be understood in accordance with the definition included in the Prototype climate-related financial disclosure standard published by the ‘alliance’ in December 2020, i.e.: ”[…] market capitalisation (shareholder value) plus the market value of net debt. It is determined by capital market participants, based on their estimation, spanning the short-, medium, and long-term, of the present value of expected cash flows. Essential inputs in determining enterprise value include corporate reporting in financial statements and in sustainability-related financial disclosures”.
Exclusion or negative screening	This investment strategy refers to the process of screening specific assets out of an investment universe or portfolio. In practice it consists of excluding companies that do not comply with specific, pre-set social or environmental criteria. Examples are investment funds that exclude companies involved in the production of alcohol, tobacco or gambling products.

eXtensible Business Reporting Language (XBRL) Taxonomy	A specific structured data taxonomy to support machine-readability, facilitating consistency, collection, tagging, storage and access to data.
Global Reporting Initiative (GRI)	Founded in 1997 in response to calls for corporate transparency to stakeholders post the Exxon Valdez oil spill in Alaska. It envisions a sustainable future enabled by transparency and open dialogue about impacts. Its first guidelines were published in 2000.
GRI Reporting Standards	GRI Sustainability Reporting Standards (GRI Standards) include Universal and Topic standards to help organizations prepare sustainability reports based on material topics. The Standards create a common language for organizations to report on their impacts in a consistent and credible way, which enhances comparability and quality.
Greenhouse gas (GHG)	Gas that absorbs and emits radiation within the thermal infrared range, causing the greenhouse effect. Water vapor, carbon dioxide, methane, nitrous oxide, and ozone are the primary greenhouse gases in Earth's atmosphere.
GHG Protocol	The most widely used international accounting tool for quantifying and measuring greenhouse gas emissions. • **Scope 1** covers direct emissions from owned or controlled sources • **Scope 2** covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company • **Scope 3** includes all other indirect emissions that occur in a company's value chain including emissions both upstream and downstream of the companies' activities covering 15 categories (such as investments, purchased goods and services, transportation and distribution, and use of sold products).
G20 Sustainable Finance Working Group (SFWG)	In April 2021, the G20 Finance Ministers and Central Bank Governors re-established the Sustainable Finance Study Group and agreed to elevate it to a working group. The Group's first objective is to take stock of existing international work on sustainable finance and charter a roadmap for a collective way forward. The Group will begin by developing a climate-focused sustainable finance G20 roadmap in specific priority areas that can be adapted or expanded in future years to cover other topics.

Impact Management Project (IMP)	A forum of more than 2000 practitioners for building global consensus on measuring, managing and reporting impacts on sustainability. The IMP, together with the WEF and Deloitte, have facilitated the launch of the Prototype climate-related financial disclosure standard in December 2020 (see below).
Impact strategies	Impact investing is an investment strategy that seeks to generate financial returns while also creating a positive social or environmental impact.
Industry-specific metrics	Represent business model levers, specific for each industry, that are actionable by companies to improve performance, and therefore improve enterprise value. This ensures that metrics capture the relationship between significant impacts (e.g., contributing to climate change) and drivers of enterprise value in a way that entities have agency over (e.g., fuel consumed and percentage renewable, for airlines). Such metrics are linked to the strategic and operational decisions made by the typical company in an industry.
International Accounting Standards Board (IASB)	An independent group of experts with an appropriate mix of recent practical experience in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education. Broad geographical diversity is also required. Board members are 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 (formerly IFRIC). Members are appointed by the Trustees of the IFRS Foundation through an open and rigorous process that includes advertising vacancies and consulting relevant organisations.
International Auditing and Assurance Standards Board (IAASB)	Independent standard-setting body which currently operates under the auspices of IFAC, serving the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services, and by facilitating the convergence of international and national standards.
International Federation of Accountants (IFAC)	Global organization for the accountancy profession, which serves the public interest by enhancing the relevance, reputation, and value of the global accountancy profession. It supports the development, adoption, and implementation of high-quality international standards.
International Financial	A not-for-profit, public interest organization established to develop a single set of high-quality, understandable, enforceable and globally

Reporting Standards (IFRS) Foundation	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 IASB.
IFRS Accounting Standards Advisory Forum (IFRS ASAF)	The IFRS Foundation announced the formation of the ASAF in February 2013. The ASAF formalises and streamlines the relationships between the IFRS Foundation and IASB with representatives from across the standard-setting community, in order to bring important regional perspectives to the IASB's technical work and to offer feedback on the most important issues. It provides an advisory forum where members can constructively contribute towards the achievement of the IASB's goal of developing globally accepted high-quality accounting standards.
IFRS Advisory Council (IFRS AC)	A formal advisory body providing strategic advice to the Trustees of the IFRS Foundation and the IASB formed in 2001. It consists of a wide range of representatives, comprising individuals and organizations with an interest in international financial reporting.
IFRS Foundation Monitoring Board (IFRS MB)	Created in January 2009 with the aim of 'providing a formal link between the Trustees and public authorities' in order to enhance the public accountability of the IFRS Foundation. The Monitoring Board consists of capital markets authorities responsible for setting the form and content of financial reporting.
IFRS Multilateral Working Group (IFRS MWG)	In March 2021, the IFRS Foundation Trustees announced the formation of a Multilateral Working Group to begin work with IOSCO and relevant organizations to explore the creation of a multi-stakeholder expert consultative committee, within the Foundation's structure to inform the standard-setting process of the new ISSB.
IFRS Foundation's three-tier governance structure	The IFRS Foundation has a three-tier governance structure, which includes an independent standard-setting Board of experts (IASB), governed and overseen by Trustees from around the world (IFRS Foundation Trustees) who in turn are accountable to a monitoring board of public authorities (IFRS Foundation Monitoring Board).
International Integrated Reporting Council (IIRC)	Set up in 2010 to establish integrated reporting and thinking within mainstream business practice so as to promote prosperity and protect the planet. It published its framework in 2013 and revised it in 2021. In November 2020, SASB and IIRC announced their intention to merge in mid-2021 into a unified organization, the Value Reporting Foundation.
International Petroleum Industry Environmental Conservation	Non-profit global oil and gas industry association for advancing environmental and social performance. It involves both the upstream and downstream oil and gas industry. It is also the industry's principal channel of communication with the United Nations.

Association (IPIECA)	
Institutional Investors Group on Climate Change (IIGCC)	Platform for European institutional investors launched in 2001. The IIGCC pursues its objective of contributing to a low carbon economy by engaging with investors, companies and policymakers on different working areas, including climate-related risks.
IIGCC Net Zero Investment Framework	Launched in March 2021, it provides a practical blueprint for investors to maximize the contribution they make in tackling climate change and achieving net zero emissions globally by 2050. A consultation on this framework was launched in the summer of 2020.
International Platform on Sustainable Finance (IPSF)	Launched in October 2019 by the European Union together with relevant authorities of Argentina, Canada, Chile, China, India, Kenya and Morocco. Its members are public authorities in charge of developing environmentally sustainable finance policies. The ultimate objective of the IPSF is to scale up the mobilization of private capital towards environmentally sustainable investments.
International Standard on Assurance Engagements (ISAE)	An international assurance standard, developed by the IAASB and published by IFAC, which provides assurance to different stakeholders.
International Standards on Auditing (ISA)	Professional standards for the auditing of financial information. These standards are issued by the IFAC through the IAASB.
International Sustainability Standards Board (ISSB)	This Board will be set up under the IFRS Foundation in the third quarter of 2021, following necessary amendments to the IFRS Constitution and due process. Its main mission will be to develop sustainability standards.
IOSCO Committee 1 (C1) - IOSCO's policy committee on issuer accounting, audit and disclosure	IOSCO C1 is dedicated to improving the development of accounting and auditing standards and enhancing the quality and transparency of the financial and non-financial information that investors receive from listed companies, including financial institutions. It also considers matters related to the application of these standards in practice. IOSCO considers the accuracy, integrity and comparability of issuer disclosure to be essential for maintaining investor confidence and facilitating a stable international financial system.
IOSCO Objectives and Principles of Securities Regulation	The *IOSCO Objectives and Principles of Securities Regulation* sets out 38 Principles of securities regulation, which are based upon the following three objectives of securities regulation: a) protecting

	investors; b) ensuring that markets are fair, efficient and transparent; and c) reducing systemic risk.
Investment Company Institute (ICI)	A leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide.
Key Performance Indicators (KPIs)	In the context of sustainability, they provide a quantitative measure of a company's performance on environmental and social factors. Examples of environmental KPIs are the following: carbon footprint, energy consumption, product recycling rate, water footprint, waste reduction and recycling rates, etc.
Multi-Stakeholder Expert Consultative Committee	In March 2021, IOSCO proposed the creation of a multi-stakeholder expert consultative committee within the IFRS Foundation structure. This committee could foster ongoing international coordination between enterprise value-focused sustainability reporting standards issued by the ISSB and any complementary standards related to additional sustainability reporting to meet the demands of other stakeholders or jurisdiction-specific requirements. It could also help to encourage global consistency, comparability and interoperability of such additional sustainability disclosure requirements.
Net Zero Asset Managers Initiative	International group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. Launched in December 2020.
Net zero emissions	Net zero refers to the balance between the amount of greenhouse gas produced and the amount removed from the atmosphere.
Network for Greening the Financial System (NGFS)	A network of central banks and supervisors, launched at the Paris 'One Planet Summit' in December 2017, willing, on a voluntary basis, to share best practices and contribute to the development of environment and climate risk management in the financial sector and to mobilize mainstream finance to support the transition to a sustainable economy.
Non-financial Reporting Directive (NFRD)	Directive 2014/95/EU – also called the Non-Financial Reporting Directive (NFRD) – lays down the rules on disclosure of non-financial and diversity information by certain large companies. This directive amends the Accounting Directive 2013/34/EU. In April 2021, the European Commission published a proposal to amend the NFRD: Proposal for a Corporate Sustainability Reporting Directive (CSRD) (see below).

Proposal for a Corporate Sustainability Reporting Directive (CSRD)	In April 2021, the European Commission opened a public consultation on the proposal for a Corporate Sustainability Reporting Directive. It extends the scope of the former Directive (NFRD), requires the assurance of corporate information, mandates EFRAG to produce sustainability standards, requires companies to digitally 'tag' the reported information, and sets up a collaboration and coordination path with the standards that the future IFRS ISSB will issue.
Prototype climate-related financial disclosure standard ('the Prototype')	In December 2020, the 'alliance', comprised of the leading standard setters (CDP, CDSB, IIRC, GRI and SASB), published a joint paper that presented a Prototype climate-related financial disclosure standard based on the notion of enterprise value that builds on their own frameworks and principles, as well as on TCFD recommendations. Work is underway to assess whether the Prototype could be a 'running start' for the work that the IFRS Foundation will carry out in the coming months to deliver sustainability standards, with an initial focus on climate.
'Science based' targets/Science based Targets Initiative (SBTi)	Targets adopted by companies to reduce GHG emissions are considered 'science-based' if they are in line with the level of decarbonization required to keep global temperature increase below 2°C compared to preindustrial temperatures, as described in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC). The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).
Stakeholder	This report refers to those with an interest in, or that are users of, sustainability-information including financial sector stakeholders (e.g.,, investors, lenders, insurance companies, ESG rating providers and proxy voting agencies) and other stakeholders (companies' customers, suppliers and employees, as well as policymakers, regulators and civil society).
Sustainability Accounting Standards Board (SASB)	Founded in 2011, SASB is an independent non-profit organization that sets standards to guide the disclosure of financially material sustainability information by companies to their investors. SASB Standards identify the subset of ESG issues most relevant to financial performance in each of 77 industries. It published its first conceptual framework in early 2017.
Sustainability Accounting Standards Board (SASB) Materiality Map	SASB's interactive tool that identifies and compares disclosure topics across different industries and sectors.

Sustainable Finance Disclosure Regulation (SFDR)	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. The SFDR sets common EU rules on: i) how financial product manufacturers and financial advisers should inform end-investors about sustainability risks, ii) how the impact of investments on the environment and society should be disclosed, and iii) how financial products that are marketed as sustainability-related actually meet that ambition.
Sustainability information	Sustainability disclosures made by companies that refer to ESG factors, ie, environmental (including climate), social and governance factors. Sometimes they are referred to as non-financial information or non-financial reporting, particularly in the context of the EU NFRD, as opposed to financial information. However, the proposed revision of the NFRD by the CSRD (see above) suggests that "non-financial information and reporting" should be replaced with the term "sustainability information/reporting".
Sustainability-themed	Sustainability-themed investments contribute to addressing social or environmental challenges. This involves investing in companies offering solutions to important issues such as population growth, rising wealth in the developing world, natural resource scarcity, energy security and climate change.
Sustainable Development Goals (SDGs)	The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. This blueprint crystalizes in the 17 SDGs, which are an urgent call for action by all countries - developed and developing - in a global partnership. The main objective of these 17 goals is to eradicate poverty in all its forms.
Task Force on Climate-related Financial Disclosures (TCFD)	Established in 2015 by the Financial Stability Board to improve the availability of decision-useful climate-related financial information to financial markets. It published its recommendations in 2017 with subsequent additional guidance documents.
Technical Expert Group (TEG)	In March 2021, IOSCO announced the creation of a Technical Expert Group, under its Sustainable Finance Task Force, to undertake an assessment and review of IFRS Foundation's technical working group recommendations focused on enterprise value creation. As part of this, the TEG will assess refinements to the Prototype and its content, including industry-specific metrics. The TEG will consider whether the refined Prototype could be a sound basis for the development of an international reporting standard under the ISSB.

Technical Readiness Working Group (TWG)	In March 2021, the IFRS Foundation Trustees announced the formation of a technical working group to accelerate convergence in global sustainability reporting standards focused on enterprise value and to undertake technical preparation for a potential ISSB under the governance of the IFRS Foundation. The TWG will provide technical recommendations, including further development of the Prototype climate standard as a potential basis for the ISSB once established. It will also review how technical expertise and content might potentially be transitioned to the ISSB.
UN Climate Summit (COP 26)	The 2021 UN Climate Summit, also known as COP26, is the 26th United Nations Climate Change Conference. It is scheduled to be held in the city of Glasgow from 1 to 12 November 2021 under the joint presidency of the United Kingdom and Italy.
UN-convened Net Zero Asset Owner Alliance	International group of institutional investors launched in September 2019 at the UN Secretary General's Climate Action Summit. They have publicly committed to transitioning investment portfolios to net zero greenhouse gas emissions by 2050.
UN Global Compact	Voluntary initiative based on CEO commitments to implement universal sustainability principles and to take steps to support UN goals.
UN Principles for Responsible Investment (PRI) Inevitable Policy Response	UN PRI project which aims to prepare financial markets for climate-related policy risks likely to emerge in the short and medium term.
UN 2030 Agenda for Sustainable Development	Launched at a UN Summit in New York on 25-27 September 2015, aimed at ending poverty in all its forms. The 2030 Agenda was adopted by all United Nations Member States in 2015. It includes an ambitious plan that is reflected in its 17 SDGs and their 169 targets.
Value Reporting Foundation (VRF)	In November 2020, the IIRC and the SASB announced their intention to merge into a unified organisation, the Value Reporting Foundation, providing investors and corporates with a comprehensive corporate reporting framework across the full range of enterprise value drivers and standards to drive global sustainability performance.
World Economic Forum (WEF)	An international non-governmental organisation, founded in 1971, and based in Switzerland. The WEF's mission is stated as "committed to improving the state of the world by engaging business, political, academic, and other leaders of society to shape global, regional, and industry agendas".

	In September 2020, the WEF International Business Council published the report *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation*, following a consultation launched in January 2020.