PART III

Policymakers and Regulators

NINE

Global Sustainability Reporting Standards

On the Threshold of a New Era of Internationally Coherent Regulation?

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After more than two decades of voluntary, market-led development, corporate sustainability reporting has reached a critical juncture. National regulators and international accounting authorities have begun to act in the coordinated fashion necessary to ensure the comparability and quality of nonfinancial information reported by companies. Their actions over the next few years have the potential to drive the routine

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internalization of social and environmental externalities in the capital allocation of firms and financial markets, both within and across jurisdictions. In addition, the rise of mandatory sustainability reporting has the potential to increase corporate transparency and accountability to stakeholders. These outcomes have long been the holy grail of the private sector reform sought by activists and many economists and policymakers.

Notwithstanding the recent progress toward mandatory mainstream reporting of sustainability considerations by companies, this journey continues to face considerable challenges. Notable among them is the risk that some national regulators will decide to go their own way and thereby replicate the fragmentation that characterized the competing private voluntary standards their actions were meant to replace. All stakeholders, not least the business community, will need to remain engaged in this process during the next few crucial years in order to avoid such an outcome.

A Rapidly Evolving Landscape

Over the past twenty years, corporate sustainability reporting has expanded substantially. A 2017 study found that about three quarters of the top one hundred companies in each of forty-nine different countries published corporate responsibility or sustainability reports, nearly four times more than the roughly 20 percent that did so in 2001–2002.[1] Worldwide, the average reporting rate is more than 60 percent across all industrial sectors. Almost half of the reporting companies seek external verification for at least some of the relevant data.[2]

Such reporting is now common practice for large and publicly traded companies. Many are now seeking to integrate these factors into their core strategy, governance, and reporting procedures. A survey of four hundred CEOs, CFOs, and other high-ranking executives and senior accounting professionals from large companies in over fifty countries found that the great majority believe that financial and nonfinancial data ought to be combined more systematically to enhance risk management, decision-making, and trust.[3] However, only 24 percent expressed confidence that current sustainability reporting practices are adequate for investors' information needs.

1. KPMG (2017).
2. Ibid.
3. AICPA, IIRC, and Black Sun PLC (2018).

Moreover, 84 percent of the investors surveyed in the same exercise reported that they often exclude nonfinancial information in their decisions because of a lack of comparable information across companies and the limited external assurance of such information.[4]

Accordingly, despite all the progress that has been made, the field of nonfinancial reporting remains disjointed, generating information of limited value to capital providers and society more generally.[5] However, the pace of change is accelerating. More corporations, investors, accountants, and governments are recognizing that well-governed companies and properly functioning financial markets require integrated reporting of financial and sustainability performance.

Following are signs of this growing consensus.

BUSINESSES. In 2020, the International Business Council (IBC) of the World Economic Forum (WEF), comprising around 120 of the globe's most significant companies, established a consistent set of metrics and disclosures of sustainable value creation for mainstream reports.[6] The purpose of this exercise was to demonstrate, in a more credible and comparable manner, the shared societal value they generated and the related contribution to progress toward achieving the UN's Sustainable Development Goals (SDGs). They also wanted to encourage regulators and accounting authorities to take steps of their own to enhance the coherence and quality of corporate reporting around the world. With the support of the four biggest accounting firms, they identified and committed to report against twenty-one common metrics and disclosures applicable to all industries, derived from existing standards.[7] In parallel, the number of companies using the Sustainability Accounting Standards Board (SASB) standards in their reporting, many of which are U.S.-based, rose from roughly five hundred to twenty-five hundred between 2020 and 2023.[8] At the same time, several sector-specific coalitions established sustainability reporting and performance expectations for their member companies. Examples include the International Council on Mining and Metals, the Consumer Goods Forum, and the Responsible Business Alliance.

4. Ibid.

5. For an in-depth discussion on progress and persisting fragmentation, see ACCA and CDSB (2016).

6. WEF IBC (2020).

7. Ibid.

8. SASB (n.d.).

INVESTORS. The UN-endorsed Principles for Responsible Investment were established in 2006.[9] Since then, over three thousand institutional investors and service providers have joined the initiative, including five hundred asset owners accounting for $90 trillion in assets under management (AUM).[10] A recent survey of such asset owners found that nearly all, 95 percent, are already integrating sustainable investing into their portfolios or considering doing so, and more than half (57 percent) foresee a future in which they allocate funds only to third-party investment managers who adopt formal ESG strategies.[11] As for individual investors, 81 percent of those responding to a global survey indicated a desire to match their consumer spending behaviors with their values, and 39 percent reported already having sustainable investments in their portfolios. A majority (58 percent) predicted that it would become standard practice within a decade.[12]

ACCOUNTANTS. The International Federation of Accountants (IFAC) represents nearly three million accountants in 130 countries and jurisdictions. It sees "a significant opportunity to enhance trust in companies and confidence in markets by including information in corporate reporting . . . derived from the financial statements (i.e., 'non-GAAP' or 'non-IFRS' measures), other 'Key Performance Indicators' connected to financial performance, and broader information related to value creation, sustainability or environmental, social, and governance factors."[13] It believes that "integrated reporting, bringing together the relevant information about a company, provides a holistic picture of performance and provides insights on an organization's ability to create sustainable value over time. . . . Integrated reporting supports 'integrated management thinking'—which fosters organizational decision-making and change focused on broader, longer term value creation." Similarly, Accountancy Europe, representing about one million accountants from thirty-five countries, states that "inclusion of a core set of global metrics for [non-financial information] in mainstream reports and in a connected way with financial information would respond to

9. For the UN Principles of Responsible Investing, see "About the PRI" at https://www.unpri.org/about-us/about-the-pri.

10. Saa (2020).

11. Morgan Stanley Institute for Sustainable Investing (2020).

12. UBS (2018).

13. IFAC (2019). For information on IFAC's representation, see the "About" web page at https://www.linkedin.com/company/ifac/.

stakeholders' concerns that these issues that are often material to business resilience are not reported with the same discipline and rigour as financial information. An approach to interconnected standards setting for corporate reporting is therefore needed that will standardise the qualitative characteristics of information and disclosure principles for mainstream reports, connecting nonfinancial information with financial reporting."[14]

STOCK EXCHANGES. Stock exchanges have been an important driver of increased sustainability reporting. In a global survey of fifty-seven stock and derivatives exchanges, 84 percent reported either encouraging or mandating disclosure on sustainability or ESG factors.[15] Nearly one-third recommended or required companies to incorporate such disclosures in their annual reports. However, a majority reported that interest on the part of investors was not high, with only 18 percent considering it "extensive." Only six exchanges (19 percent) included the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in their guidelines, although over half indicated an intention to do so.[16]

REGULATORS. The interest of regulators in mainstream ESG disclosure is also on the rise. By 2016 the number of mandatory ESG and sustainability reporting requirements around the world was 248, a significant increase from thirty-five in 2006. By 2020 the count had risen to about 350.[17] While many of these requirements focus on a specific sector or issue, some have a broader scope. Examples include the EU's 2014 Non-Financial Reporting Directive, the related 2016 UK regulations, and Japan's 2014 Stewardship Code and Corporate Governance Code. In particular, the EU and the State of California have enacted requirements for the disclosure of sustainability and climate change for large firms doing business in their jurisdictions, and these requirements are scheduled to be phased in beginning in 2024 and 2026, respectively.

Intergovernmental regulatory bodies have become more active in this area as well. The Financial Stability Board's (FSB's) industry-led TCFD

14. Accountancy Europe (2019), 9. For information on the organization's representation, see Accountancy Europe (n.d.)

15. WFE (2019), 13–15.

16. Ibid.

17. GRI and USB (2020), 17.

published recommendations in 2017 that prompted over one hundred governments and financial regulators involved in the Network for Greening the Financial System group to urge "all companies issuing public debt or equity as well as financial sector institutions to disclose in line with" such recommendations.[18] Many regulators are taking steps to enforce these disclosures. Similarly, the International Organization of Securities Commissions (IOSCO), which oversees more than 95 percent of the world's securities markets across approximately 130 jurisdictions, in February 2020 decided to form a Task Force on Sustainable Finance.[19] The goal was to enhance the consistency and investor value of corporate sustainability-related disclosures, including by preventing duplicative and incoherent efforts among regulators and other organizations.[20] In 2021, the organization declared its priorities and vision for the creation of an International Sustainability Standards Board (ISSB) under the IFRS Foundation. Also in 2021, the U.S. Securities and Exchange Commission (SEC) initiated a public consultation on approaches to facilitate the disclosure of consistent, comparable, and dependable climate change information, following a recommendation from the ESG Subcommittee of its Asset Management Advisory Committee.[21] The SEC's final rule, issued in March 2024, requires climate disclosures in annual reports and registration statements for large filers beginning with reports for the year ending December 31, 2025.[22]

INTERNATIONAL ACCOUNTING AUTHORITIES. In response to calls by IOSCO and others for more uniform corporate sustainability reporting, in 2020 the Board of Trustees of the IFRS Foundation, which oversees the International Accounting Standards Board's (IASB's) financial reporting standards, implemented in over 140 countries and jurisdictions, initiated a formal consultation process to assess its potential entry into this field.[23] Its constitution was subsequently amended in April 2021, granting it authority to create the ISSB as a counterpart to the IASB. The foundation then

18. NGFS (2019), 3. The Financial Stability Board was created by the G20 following the global financial crisis and comprises the financial regulators of G20 countries, including those of major developing countries in every region.
19. IOSCO (2020).
20. See IOSCO (2021a, 2021b).
21. Lee (2021).
22. SEC (2024).
23. IFRS (2021a).

convened an informal group of voluntary standard setters to support the technical preparations for such a board.[24]

Thus there has been growing agreement among these *market actors*—not solely environmental, human rights, or development advocates—on the importance of mainstreaming sustainability reporting, in the sense of formally integrating sustainability reporting into annual reports and other key communications to capital providers and linking it to financial reporting. International accounting authorities and national securities regulators have finally begun to address this challenge by establishing a globally consistent baseline reporting standard through the IFRS Foundation.

The obstacles likely to be encountered along the way should not be underestimated. For example, the sustainability and ESG corporate reporting ecosystem encompasses multiple different actors and interests (e.g., rating agencies, disclosure frameworks, sustainability stock and bond indices, advocacy initiatives, proprietary service providers) as well as multiple tools and frameworks within each distinct functional layer of the ecosystem.[25] Moreover, it has many audiences, which often require different information (e.g., investors, NGOs, governments, the public). Indeed, investors themselves are a diverse group, including active, passive, quantitative, value, engagement, and other styles of asset management, each with somewhat different information needs and preferences. Finally, there often are important differences in how individual industrial sectors view the relevance or materiality of information; for example, some sustainability issues are inherently more relevant or material for extractive industries that interact extensively with governments and remote communities than others that are more significant for B2C (business-to-consumer) firms than B2B (business-to-business) enterprises.

In the absence of a central international authority to prescribe a harmonized core or baseline set of metrics and disclosures, numerous frameworks and mandates have surfaced over time, sowing considerable confusion and resulting in expensive inefficiencies. The Reporting Exchange, a free online platform created by the World Business Council for Sustainable Development, has charted the international mosaic of reporting requirements and tools. It displays information on ESG- and

24. IFRS (2021b).
25. See, e.g., ACCA and CDSB (2016) and WEF (2019).

SDG-linked resources and reporting mandates for more than seventy countries.[26]

The European Commission has sought to lead the charge with respect to the mainstreaming of consistent sustainability reporting by companies. In early 2020, it launched an initiative to provide detailed guidance on how publicly traded companies with more than five hundred workers should report in a comparable and comprehensive manner on environmental, social, and employee topics, human rights, and bribery and corruption. In 2020, it explained its reasoning as follows:

> "1. There is inadequate publicly available information about how non-financial issues, and sustainability issues in particular, impact companies, and about how companies themselves impact society and the environment. In particular:
>   a. Reported non-financial information is not sufficiently comparable or reliable.
>   b. Companies do not report all non-financial information that users think is necessary, and many companies report information that users do not think is relevant.
>   c. Some companies from which investors and other users want non-financial information do not report such information.
>   d. It is hard for investors and other users to find non-financial information even when it is reported; and
>
> 2. Companies incur unnecessary and avoidable costs related to reporting non-financial information. Companies face uncertainty and complexity when deciding what non-financial information to report, and how and where to report such information. . . . Market pressures on their own have not proven to be sufficient to ensure that companies report the non-financial information that users say they need. The market is characterised by a number of overlapping and sometimes inconsistent private non-financial reporting frameworks and standards, and companies face significant challenges in deciding whether and to what extent they should use these different frameworks and standards."[27]

26. ESG Book (n.d.).
27. DG FISMA (2020).

The EU's initiative, which was later expanded to address a larger universe of companies, including those not listed,[28] instilled a sense of urgency in the business sector and other participants in the sustainability reporting sphere. Big corporations and investors tend to favor the development of a unified international system for sustainability reporting, given that their operations and supply chains often span many jurisdictions. For this reason, many have been encouraging international accounting authorities and regulators to establish a universally accepted baseline international standard as soon as possible based on (but not necessarily limited by) the best practices of existing private voluntary standards.

Such an approach would mirror the evolution of financial accounting standards in the twentieth century, which resulted from a process of iterative collaboration among businesses, investors, accounting bodies, and governments. Starting with railroads and heavy industry, which needed to raise capital from public markets, to large industrial companies requiring improved data to oversee intricate and far-flung operations, to institutional investors seeking increased transparency about the performance of their portfolio companies, to individual investors aiming to safeguard themselves against the risks of asymmetric information (e.g., misrepresentation or self-dealing by large firms and their top managers and investors), financial accounting and disclosure practices grew out of the practical learnings of companies and their accountants in navigating market demands. These innovations were eventually distilled into best practices, with many ultimately being codified initially as private standards set by the accounting community (the American Institute of Certified Public Accountants Accounting Principles Board) and later as formal standards under the quasi-public independent authority of the Financial Accounting Foundation and its two similarly independent and public-private standards boards, the Financial Accounting Standards Board and the Governmental Accounting Standards Board, whose decisions have been recognized as authoritative by the U.S. securities regulator, the SEC, since 1973.

The previous two decades can be viewed as a "market discovery" phase for sustainability reporting, akin to the development of more organized financial reporting initially within the private sector in the late nineteenth century and much of the twentieth. Multiple fundamentally complementary sustainability reporting structures have been developed and trialed in the market in recent years. Their best features can form the building blocks of

28. European Commission (2021); Accountancy Europe (n.d.).

the systemically coherent mandatory solution that international accounting authorities and securities regulators are beginning to develop.

The strategy the IFRS Foundation and IOSCO are pursuing for their entry into this domain tracks the vision initially framed by the accounting profession sector and a group of influential voluntary standard setters in the 2019 Accountancy Europe Cogito series paper and the 2020 Joint Declaration of the "Group of 5" leading voluntary standard setters, respectively.[29] IOSCO and the IFRS Foundation consulted extensively with these private standard setters and the TCFD in establishing the ISSB. Indeed, in order to achieve a running start, in 2022 the ISSB integrated much of the staff and intellectual property of two of them—the Climate Disclosure Standards Board and the Value Reporting Foundation.

In March 2022 the new board published two proposals ("exposure drafts") for public consultation, Draft IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information, and Draft IFRS S2, Climate-related Disclosures. More than 1,400 comment letters on these exposure drafts were submitted during the consultation period, from all over the world and from a wide range of stakeholder groups.[30] The feedback prompted the ISSB to revise the standards and include some transitional measures. In the first year that companies apply these ISSB standards, they do not need to:

"1. provide disclosures about sustainability-related risks and opportunities beyond climate-related information;
2. provide annual sustainability-related disclosures at the same time as the related financial statements;
3. provide comparative information;
4. disclose information about Scope 3 greenhouse gas (GHG) emissions; and
5. use the Green House Gas Protocol to measure emissions, if they are currently using a different approach."[31]

In addition, companies that report solely on climate-related risks and opportunities in the first year have a slightly easier path in their second year, when they do not need to present comparative information about sustainability-related risks and opportunities beyond climate issues.[32]

29. Accountancy Europe (2019); CDP, CDSB, GRI, IIRC, and SASB (2020).
30. IFRS (2023a).
31. FSB (2023).
32. Ibid.

In June 2023, the final versions of IFRS S1 and IFRS S2 were published, alongside the ISSB's Bases for Conclusions, Accompanying Guidance, Effects Analysis, Project Summary, and Feedback Statement. These will apply to annual reporting periods beginning on or after January 1, 2024 (i.e., to the 2024 annual reports by companies).

IOSCO has endorsed IFRS S1 and IFRS S2.[33] The organization has urged its 130-member jurisdictions, which account for more than 95 percent of global financial market activity, to consider how they could adopt, implement, or be guided by these standards.[34]

Thus, more than three decades after the 1992 UN Conference on Environment and Development in Rio de Janeiro, which framed a global agenda for the pursuit of sustainable development, the world finally has its first official international standard for the disclosure of sustainability-related information by companies. This is an important milestone on the journey toward greater corporate transparency and accountability and the systematic internalization of social and environmental externalities in the operations and capital allocation of companies and investors, as implied by the SDGs.

Key Challenges in the Years Ahead

Nevertheless, several major challenges remain regarding the role of corporate reporting in advancing progress on sustainable development.[35] These will be important for the international community to address as it seeks to accelerate progress on the SDGs in the run-up to 2030 and begins to craft the post-2030 Agenda for Sustainable Development. Such challenges relate to the following:

- the ultimate breadth of jurisdictional adoption and substantive scope of the ISSB standards;
- the interoperability of these global standards with those in specific jurisdictions having a different substantive scope, in particular those requiring reporting not only of the impact of sustainability factors on enterprise value creation (financial materiality) but also

33. IOSCO (2023).
34. FSB (2023), IOSCO (2023).
35. Part of this section is drawn or adapted directly from FSB (2023).

of the company's sustainability impact on society, or so-called double materiality;
- the fitness for purpose of both these types of reporting in terms of generating reliable, decision-useful information to guide strategic decision-making by boards, management teams, and investment committees (as opposed to creating unnecessary complexity and detail that produce a perfunctory, check-the-box compliance mentality); and
- the need for capacity building for small and medium-size enterprises (SMEs) and other related issues, especially in developing countries.

Breadth and Interoperability of Jurisdictional Adoption

Many jurisdictions have indicated that they plan to adopt the first two ISSB standards. As of October 2023, seventeen out of twenty-four government members of the FSB stated that they had established or were putting in place structures and processes to bring them into compliance with local regulatory requirements.[36] At the December 2023 UN COP28 climate change negotiations in Dubai, the ISSB announced that "regulators and standard setters from ASEAN, Brazil, Brunei, Canada, the European Union, Germany, Ghana, Hong Kong, Japan, Kenya, Mauritius, Mexico, Myanmar, Nigeria, the Philippines, Singapore, Turkey, the United Kingdom, Uruguay and Vietnam have . . . welcomed the work of the ISSB," in addition to hundreds of industry, investor, accounting, and civil society organizations.[37] Moreover, the CDP (formerly the Carbon Disclosure Project), a member of the Climate Disclosure Standards Board (CDSB) and sponsor of the world's largest environmental disclosure platform, announced the year before at COP27 that it would incorporate IFRS S2 into its annual questionnaires issued to companies on behalf of 680 financial institutions with over \$130 trillion in assets.[38]

36. For country-specific details in this regard, see FSB (2023).

37. For a full list, see IFRS (2023c).

38. The CDP is a not-for-profit charity that runs a global disclosure system supporting investors, companies, cities, states, and regions to manage their environmental impacts. It was established in 2000 as a platform issuing questionnaires to companies about their climate impact for the benefit and use of institutional investors (https://www.cdp.net/en/info/about-us/). Since then, the CDP has broadened its scope to incorporate disclosures on deforestation and water security while also expanding its reach to support cities, states, and regions. See also CDP (2022).

Despite the progress that is being made, a significant number of jurisdictions have expressed reluctance to adopt the standards in full, at least for the foreseeable future, owing to concerns about the readiness of their business communities and the perceived rigor of the standards. Accordingly, the actual breadth and depth of the global uptake of these new standards may prove to be slower and more uneven than many had hoped, other things being equal.

Among first-mover jurisdictions are the EU, Singapore, Canada, the UK, and California,[39] the last of which looks poised to set the pace in the large U.S. market in light of the significant political disagreement and likely litigation on this issue at the federal level and the large number of U.S. and foreign firms doing business in the state.[40] The EU's Corporate Sustainability Reporting Directive (CSRD) includes a requirement for more than 50,000 large and listed companies based in the EU (but also certain third-country companies based outside the EU with undertakings in the EU) to report sustainability-related information under European Sustainability Reporting Standards (ESRS), the EU sustainability reporting framework.[41] The final ESRS was adopted on July 31, 2023, and states:

> "Companies will have to start reporting under ESRS according to the following timetable:
>
> - Companies previously subject to the Non-Financial Reporting Directive (NFRD) (large, listed companies, large banks and large insurance undertakings—all if they have more than 500 employees), as well as large non-EU listed companies with more than 500 employees: financial year 2024, with first sustainability statement published in 2025.
> - Other large companies, including other large non-EU listed companies: financial year 2025, with first sustainability statement published in 2026.
> - Listed SMEs, including non-EU listed SMEs: financial year 2026, with first sustainability statements published in 2027. However,

39. For an overview of California's new requirements (which will affect an estimated three quarters of Fortune 500 firms, among others), see AFREF, Public Citizen, and Sierra Club (2023).

40. The State of California initiative is also being challenged by some parts of the U.S. business community. See, e.g., Mindock (2024).

41. European Parliament (2022).

> listed SMEs may decide to opt out of the reporting requirements for a further two years. The last possible date for a listed SME to start reporting is financial year 2028, with first sustainability statement published in 2029."[42]

These EU developments illustrate both the promise and challenge facing corporate sustainability reporting in the years ahead. The early action of such a large jurisdiction will certainly accelerate the mainstreaming of such reporting by companies, particularly larger ones and those with global operations. However, the European directive has moved ahead of the international process in a number of key respects and will likely have a certain extraterritorial effect on non-EU companies having important operations in the EU. Their home jurisdictions ultimately may choose not to regulate in the same way as the EU, potentially creating conflicting disclosure requirements and additional complexity for companies operating in both jurisdictions (and others).

The first and most fundamental potential source of discontinuity is the EU's use of the "double materiality" concept. Unlike the ISSB standards, which are focused on aspects of sustainability deemed financially relevant to a firm's performance, the EU is requiring companies also to report on the firm's material impact on society and the environment, and to do so irrespective of the extent to which such effects have or are likely to have a significant bearing on the firm's financial performance and prospects. The EU is not alone in preferring this wider scope of reporting; however, such an approach creates challenges for the international coherence of corporate reporting and the complexity of compliance for companies that operate across jurisdictions.

The EU and the ISSB have been working to mitigate this risk by seeking to make their standards interoperable in the sense of having the ISSB global baseline standard serve as a foundational "building block" of the more expansive European reporting requirements. The stated goal is to ensure that companies using the global ISSB standard will not have to redo or substantially adapt that aspect of their reporting in their EU filings; rather, they would focus on supplementing it with reporting on the additional topics and scope of materiality mandated by the EU. However, this remains a work in progress, and the jury is still out on how seamless the modularity of ISSB

42. European Commission (2023).

and ESRS standards will be. Indeed, there remains a risk that companies will feel compelled to choose between the two, in effect creating two global baseline standards and thereby defeating the original purpose of shifting from the "alphabet soup" of initialisms of competing voluntary standards to a coherent global framework of official ones.

In the case of climate-related reporting, this challenge is made somewhat easier by the reliance of both the ISSB and the ESRS standards on the pioneering and mutually reinforcing work of the TCFD, CDSB, and SASB (box 9.1). These voluntary standards initiatives have facilitated the quality and comparability of corporate climate reporting for many years. Nevertheless, questions persist about the data collection methodologies and the quality and thoroughness of such disclosure and its actual impact on company strategy, capital allocation, and operational decision-making.[43]

Substantive Scope of Reporting Requirements

Another potential source of incongruity among national regulatory requirements and between them and the global baseline standard being created by international accounting authorities relates to the scope of the sustainability topics they cover. One of the most important contributions of the EU's initiative has been to create some of the first officially mandated topical requirements for corporate sustainability reporting beyond climate change. The ESRS includes twelve standards covering a range of sustainability topics, as summarized in table 9.1.

Here again, the quest for global consistency and comparability of reporting is facilitated by the EU's reliance on the earlier work of voluntary standard setters, in this case that of the Global Reporting Initiative (GRI).[44] GRI standards are used by over 10,000 companies and other organizations in more than one hundred countries, and the European Commission has acknowledged that "from the beginning of the development of draft ESRS by EFRAG, the GRI served as an important reference point, and many of the reporting requirements in ESRS were inspired by the GRI standards,"[45] which in turn drew from other relevant frameworks, such as the UN Guiding Principles on Business and Human Rights.[46]

43. See, e.g., EY (2023).
44. See GRI (2024).
45. European Commission (2021).
46. See OHCHR (2011) and Business and Human Rights Resource Centre (n.d.).

Box 9.1. The Status of Climate Change Reporting as of 2023

The 2023 Status Report of the Task Force on Climate-Related Financial Disclosures used artificial intelligence (AI) to assess how alignment with its eleven recommended disclosures evolved across more than 1,350 large public companies from 2020 through 2022. The same publication examined 2022 reports from a broader global sample of around 3,100 diverse companies and presented results from a survey on climate-related reporting practices across leading global asset managers and asset owners. Key findings include the following:

- TCFD-aligned disclosure is expanding. Over half (58 percent) of surveyed public companies aligned with at least five recommendations in 2022, a significant increase from 18 percent in 2020.
- However, only 4 percent of firms aligned with all eleven TCFD recommendations.
- Disclosure of climate-related risks increased by 26 percent between 2020 and 2022, whereas reporting on board oversight and targets increased by twenty-five and twenty-four percentage points, respectively.
- Climate information was four times more likely to be disclosed in sustainability and annual reports than in financial filings.
- The most frequently disclosed TCFD recommendation was reporting of metrics relating to climate-related risks or opportunities (71 percent of companies). At the same time, 66 percent of companies reported on greenhouse gas (GHG) emissions and climate-related targets, compared to only 42 percent in 2020.
- By contrast, a mere 11 percent of the sample disclosed information pertaining to resilience under different climate-related scenarios.
- European companies averaged 7.2 out of the eleven recommended disclosures, whereas Middle Eastern and African firms disclosed 3.8 recommendations on average.
- Larger companies were more likely than smaller companies to disclose TCFD-aligned information, reporting on average 6.7 recommendations in 2022 compared to 3.9 in 2020. Climate-related targets (85 percent) and metrics (83 percent) were the areas most reported by larger companies.
- Asset managers and owners referenced insufficient availability of information from investee companies as the biggest challenge to climate-related reporting. Public companies posed the biggest problem for asset managers (62 percent), as did private investments for asset owners (84 percent).

Sources: FSB (2023); TCFD (2023).

Table 9.1. Topics Covered by European Sustainability Reporting Standards (ESRS)

Group	Number	Subject
Cross-cutting	ESRS 1	General requirements
Cross-cutting	ESRS 2	General disclosures
Environment	ESRS E1	Climate
Environment	ESRS E2	Pollution
Environment	ESRS E3	Water and marine resources
Environment	ESRS E4	Biodiversity and ecosystems
Environment	ESRS E5	Resource use and the circular economy
Social	ESRS S1	Own workforce
Social	ESRS S2	Workers in the value chain
Social	ESRS S3	Affected communities
Social	ESRS S4	Consumers and end users
Governance	ESRS G1	Business conduct

Source: European Commission (2023).

In addition, two other voluntary multistakeholder sustainability standards initiatives are seeking to lay the foundation for the rapid creation of high-quality, globally coherent official standards on the topics of biodiversity and inequality: the Task Force on Nature-Related Financial Disclosures (TNFD) and the Task Force on Inequality and Social-Related Financial Disclosures (TISFD), respectively.[47] The TNFD is further along, having issued its recommended standard in September 2023, whereas the TISFD was formed in mid-2023 from a merger of two related initiatives.[48] Both efforts seek to track the basic architecture of the TCFD framework, which was organized around the four topics of governance, strategy, risk management, and metrics and targets.

These two initiatives are timely. Now that the ISSB has completed work on its general-purpose and climate-specific standards, it is considering the next sustainability topics on which to develop standards,[49] and some jurisdictions are already engaged in standard setting on ESG topics beyond climate change. This expanded scope is important for three reasons. First, the public interest is at stake. Progress is lagging badly on nearly all of the 17 SDGs,

47. TNFD (n.d.); TIFD (n.d.a).
48. TIFD (n.d.b).
49. ISSB (2024) and IFRS (2024a).

which were universally adopted by governments in 2015. The private sector has a critical role to play in the achievement of these goals. Second, many companies are interested in the internal benchmarking and public reporting of wider SDG progress on a credible and comparable basis. Such reporting was an explicit rationale invoked by WEF International Business Council CEOs in creating their common metrics in 2020. Third, absent a structured and internationally coordinated effort to create high-quality reporting standards across much of the ground covered by the SDGs, low-quality and inconsistent reporting on such matters is likely to result. This will frustrate the internalization of social and environmental externalities by companies and the greater corporate transparency that leaders have promised in multiple multilateral declarations, complicating efficient resource allocation by firms, investors, and governments and undermining public accountability.

Relevance for Decision-Making

However, achieving comprehensiveness and consistency in corporate sustainability reporting is only half the battle. Ensuring its effectiveness in terms of influencing board, C-suite, and investor thinking and decision-making is an equally important and difficult challenge, one that is sometimes referred to as the connectivity of financial and sustainability reporting.

To this end, the IFRS Foundation has stated that one of its priorities for the foreseeable future will be to facilitate dialogue and outright cooperation between the IASB and ISSB on such matters. According to a 2023 report of the FSB,

> The outcome of this project could be narrow-scope amendments to IFRS Accounting Standards, limited new application guidance, new illustrative examples, or further educational materials. One of the related challenges will be to determine the precise boundary between this project and the requirements of the new ISSB Standards. The feedback the IASB has received so far is quite mixed. Some stakeholders hold the view that the existing accounting requirements are principles-based and thus already address any climate-related risks sufficiently. Others disagree with this view and are requesting a review of all existing accounting standards with a view to explicitly addressing climate-related risks.[50]

50. FSB (2023), 11.

Capacity Building and Other Challenges

Based on a survey of its member jurisdictions, the FSB identified a number of other salient challenges for the future of corporate sustainability reporting, including the following:[51]

ADOPTION BY EMDEs AND SMEs AND PROPORTIONALITY. The ISSB standards are likely to present a greater implementation challenge in emerging markets and developing economies (EMDEs) and for smaller firms more generally. Member jurisdictions suggested a range of possible strategies in response, for example applying a sense of proportionality in reporting requirements based on firm size and offering transitional or phase-in periods to enable the gradual introduction of certain disclosure requirements for smaller firms.

CAPACITY BUILDING. Knowledge gaps exist among various stakeholders. Efforts to provide technical and regulatory information and advice along with initiatives to strengthen ESG-related technical abilities among both regulators and market participants will be needed to ensure firms are prepared for the new disclosure requirements. In addition, there is much work to be done in refining methods to quantify the impact of climate-related risks in companies' financial statements.

DATA AVAILABILITY, DATA QUALITY, AND TRUSTWORTHINESS. Data scarcity and subpar data quality are likely to present challenges in the early stages. There is also a risk that companies will cherry-pick the most positive or easily available information or otherwise engage in "greenwashing." Third-party assurance of climate-related and other sustainability information is critical; however, it also requires considerable further development and application among firms.

CHALLENGES IN PROVIDING VARIOUS METRICS, SUCH AS SCOPE 3 GHG EMISSIONS AND SCENARIO ANALYSIS. Some metrics require further refinement to facilitate broader and more consistent application. The calculation and reporting of Scope 3 GHG emissions in particular are likely to benefit from

51. Ibid. Material in the next four paragraphs is paraphrased from this source (FSB 2003).

additional assistance and guidance.[52] A number of jurisdictions emphasized the importance of ensuring consistency between the requirements of IFRS S2 and the GHG Protocol Corporate Accounting and Reporting Standard.[53]

Implications for the Post-2030 Development Framework

Thus the strength and coherence of official standards governing private sector conduct are important new issues to be prioritized in a post-2030 (i.e., post-SDG) sustainable development framework. So too is the considerable increase in capacity-building assistance for SMEs and developing countries that the spread of such standards implies. These topics received very limited attention in the MDGs and SDGs.

Across the business, investor, and accounting communities, private sector actors have a pivotal role to play in sustaining the momentum and ensuring the ultimate success of each aspect of this process: standard setting, standards adoption (by both jurisdictions and firms), and capacity building.[54] These actors wield considerable influence, especially when they push in the same direction, and they would benefit enormously from the efficiencies that improved international coordination of norms, tools, and capacity building would bring in a post-2030 development framework that prioritized them. These actors are most familiar with current market conditions, opportunities, and challenges. They are also well positioned, by virtue of their role in the development of voluntary standards over many years in cooperation with NGOs, to ensure the robust involvement of civil society and academic experts in key aspects of sustainability, supported, where necessary, by development assistance institutions. This influential community is likely to retain a critical role in shaping how societies evaluate the adequacy of regulators' efforts.

52. From the EPA's website, "Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly affects in its value chain. An organization's value chain consists of both its upstream and downstream activities" (https://www.epa.gov/climateleadership/scope-3-inventory-guidance#:~:text=Scope%203%20emissions%20are%20the,its%20upstream%20and%20downstream%20activities).

53. FSB (2023), 28–29.

54. As discussed in Samans and Nelson (2022).

Board chairs and CEOs have substantial convening and agenda-setting power.[55] With a certain amount of collective attention and action, they could help to ensure that the most relevant international organizations, governments, and industry and civil society organizations maintain the necessary political and material backing for the realization of a high-quality, truly interoperable international system of corporate sustainability reporting standards that incentivizes the routine internalization of social and environmental externalities in corporate and investor decision-making.

The next few years are likely to prove decisive in this regard. With so much at stake, the private sector should engage proactively with governments and civil society partners to:

- encourage political authorities in various jurisdictions, and particularly first-mover jurisdictions such as the EU and California, to ensure that their standards are designed to achieve building-block modularity and interoperability with the international baseline that is being developed by the ISSB;
- ensure the fitness for purpose of market-based tools and methods on which implementation of official standards relies, such as the Greenhouse Gas Protocol, which recently embarked on a technical review and potential refreshment of its widely used framework[56]; and
- expand capacity building for SMEs and developing country firms that otherwise might struggle to compete fairly with larger and more experienced and better-resourced firms with respect to sustainability management and reporting.[57] Even larger firms have begun expressing qualms about the sheer volume of work that will be required to comply with ESRS, which has published a list of over 1,100 data points corresponding to its framework.[58]

Finally, business leaders wishing to strengthen the sustainable value creation performance of their own firms while helping to accelerate broader

55. Ibid.
56. Greenhouse Gas Protocol (n.d.).
57. A significant new initiative in this regard is the ESG Exchange.
58. See, e.g., Michel (2023).

progress toward achieving the SDGs should do more than express support for and await the results of the construction of this new, harmonized corporate sustainability reporting ecosystem. They should act swiftly to put into practice their own firm's approach to integrated reporting by applying a pragmatic, best-practice combination of the most relevant mandatory and voluntary standards in their annual report in a manner their board determines best enhances the shared value created by their firm. This is especially the case for the social dimension of sustainability reporting (e.g., respect for labor standards and other human rights, payment of a fair living wage, and other workplace practices that bear on worker safety, health, agency, and productivity). These aspects have thus far received less attention from regulators and accounting authorities than environmental issues despite their central importance to both business and societal value creation. Such a proactive posture will help ensure that their firm's disclosures keep pace with a rapidly changing business and corporate governance context in which employees, board members, and investors are increasingly interested in benchmarking firm performance and strategy on a full range of sustainability considerations.

In particular, the ISSB and GRI standards appear to provide a sound basis for any firm seeking to satisfy respectively the financially material and societal impact dimensions of its disclosure. National regulators should make a point of building on these frameworks by incorporating or cross-referencing them in their requirements in the interests of reducing business complexity and enhancing the overall consistency and thus effectiveness of sustainability reporting.

Accordingly, there is no need for company management teams and boards to hold off until the international sustainability standards regulatory landscape is fully developed. Higher performance, lower risk, and more satisfied investors and other stakeholders are in store for firms that take immediate action along these lines. They can do so by utilizing the internationally accepted frameworks that are already available and by actively encouraging regulators to progress rapidly in the direction of a more complete and consistent international system of mandatory sustainability reporting requirements that serves to internalize social and environmental externalities in investment decisions at scale across the world economy, as implied by the SDGs, to which all governments have agreed.

At the same time, economic policymakers and development institutions should recognize that improving the accountability and facilitation of the private sector's contribution to progress on sustainable development merits much greater emphasis in both current policy and the post-2030 framework. The SDGs set specific objectives with respect to the overall economic, social, and environmental progress humanity seeks. But a sharper focus on implementation is clearly required in the years ahead, particularly in the private sector, where most of the corresponding changes in behaviors and priorities must ultimately occur. It follows that the norms, policies, and metrics of private sector governance and conduct, including but not limited to those pertaining to sustainability disclosure, ought to become far more central to the way humanity organizes and encourages progress on sustainable development in the years to come.

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