



SITUATION UPDATE BRIEF

ESG Reporting

5 April 2023



THE STANDARDISATION OF ESG REPORTING: ISSB WILL BE A GAME CHANGER FOR CORPORATES

Key Points

- Increasing pressure from investors and other key stakeholders will drive more organisations to disclose transparent and accurate Environmental, Social and Governance (ESG) information.
- With over 600 ESG frameworks and standards globally, today's reporting landscape is both fragmented and oversaturated, leaving the business community confused and frustrated with the current system.
- The establishment of the International Sustainability Standards Board (ISSB) will forge a path towards a global baseline of sustainability disclosures, allowing for consistent and comparable reporting standards.

Context

ESG reporting has become synonymous with a convoluted and overwhelming landscape stemming from erratic national legislation and a plethora of voluntary reporting frameworks, standards and ratings. Current guidance is consequently making ESG reporting more complex and opaque for organisations. However, these standards and frameworks form a critical tool with which the business community can measure, understand and communicate their exposure to a range of ESG risks and opportunities.

A lack of standardised ESG data is impacting investors' ability to make sound and informed decisions regarding companies' ESG performances. In addition, the array of different standards allows organisations to cherry pick which issues they consider to be the most relevant, while also being heavily reliant on self-reporting. This enables business leaders to disclose only the information which portrays their firm most favourably, as opposed to providing an objective and accurate assessment.

Although reporting ESG issues remains largely voluntary, mounting pressure from investors and other stakeholders has pushed disclosures from being 'nice to have' to essential. The legislative mechanisms necessary to operationalise ESG considerations are now coming to fruition, with clear evidence that mandatory reporting is becoming a reality. For instance, ESG reporting will be formalised through the Corporate Sustainability Reporting Directive (CSRD) in the **EU** and the Sustainability Disclosure Requirements (SDR) in the **UK**; the Securities and Exchange Commission (SEC) has also proposed new ESG disclosure rules for funds and advisors in the **US**.

During the 2021 United Nations Climate Change Conference (COP26), the International Financial Reporting Standards (IFRS) Foundation Trustees announced the creation of the ISSB as part of a push to create global ESG reporting standards. The key objectives of the ISSB are:

- To develop standards for a global baseline of sustainability disclosures
- To meet the information needs of investors
- To enable companies to provide comprehensive sustainability information to global capital markets
- To facilitate interoperability via disclosures which are jurisdiction-specific and/or aimed at broader stakeholder groups

Forecast

We assess the launch of the ISSB to be a major step towards the establishment of globally consistent, comparable, accurate and trusted ESG disclosures. In a similar vein to what the International Accounting Standards Board (IASB) has become for financial reporting, the ISSB will pave a clear path for the ESG reporting landscape.

The standards will likely be issued by the end of Q2 2023. It is key to note that these standards are not a complete reinvention of the ESG reporting process, but rather the outcome of the merging of several existing frameworks. Notably, the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF), including its staff, content and technical expertise, were consolidated as part of the ISSB's creation. The ISSB has also been fully endorsed by the World Economic Forum (WEF), the Task Force for Climate-related Financial Disclosures (TCFD), the G7, the G20 and the Financial Stability Board, as well as finance ministers and central bank governors across over 40 jurisdictions.

Following the International Cooperation Forum and Meeting of African Ministers of Finance, Economy, Development and Environment in Egypt on 7–9 September 2022, various African finance ministers released a communiqué expressing support for the ISSB's work and urging close collaboration between the ISSB and African stakeholders. We assess that this will likely help to promote and achieve the early uptake of ESG frameworks and standards across Africa.

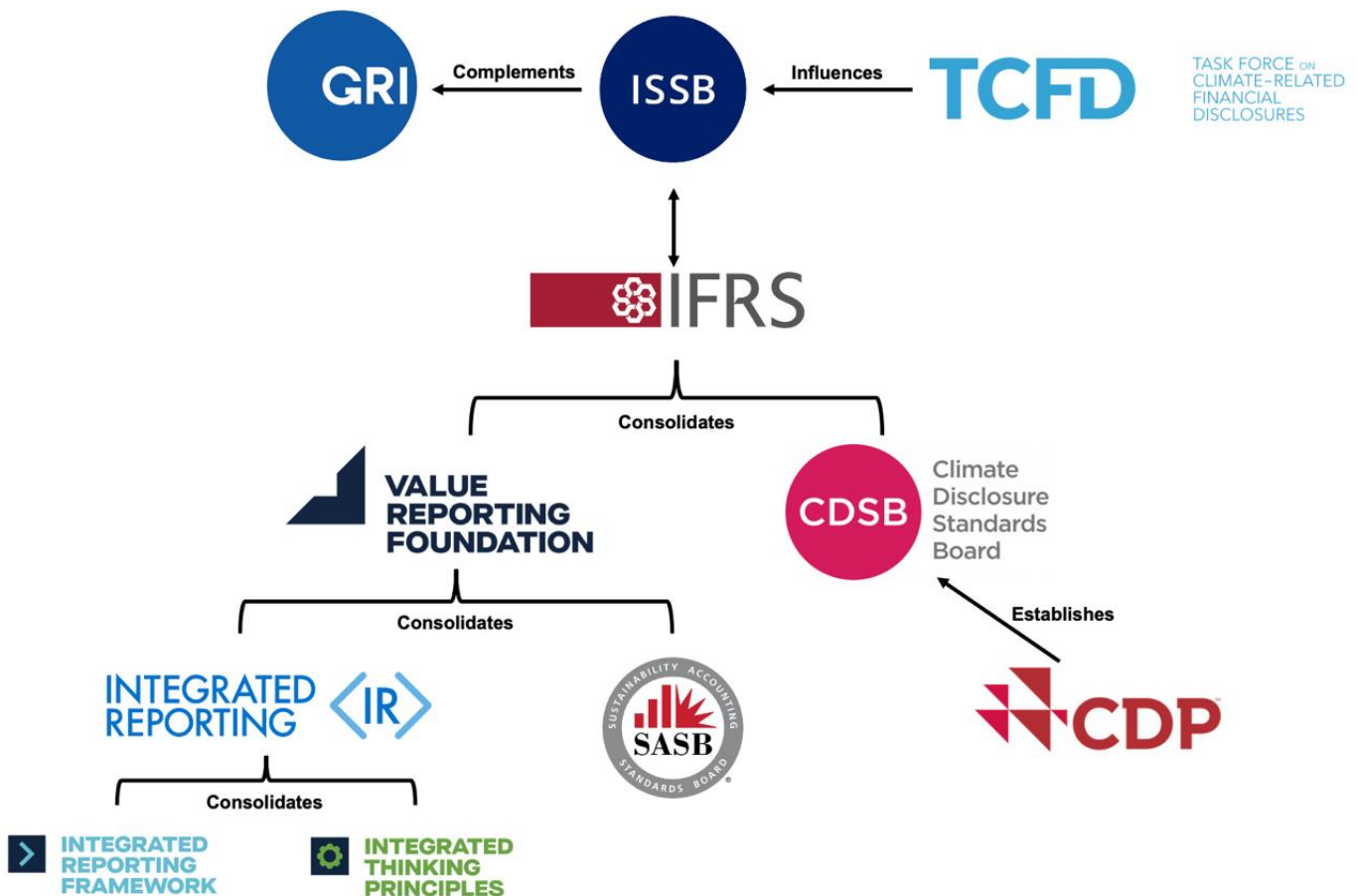


Figure 1: ISSB: Consolidation of ESG reporting frameworks

The ISSB has committed to embedding the Sustainability Accounting Standards Board's (SASB) current industry-based approach into the development of its standards. This comes alongside the ISSB's collaboration with the Global Reporting Initiative (GRI), another leading and long-standing ESG framework. The International Organization of Securities Commission (IOSCO) will also work closely with the IFRS to endorse the standards once they have been finalised. We assess that these developments and endorsements will highly likely result in the widespread uptake of ESG reporting standards around the world.

Fundamentally, the custodians of these standards intend to complement jurisdiction-specific requirements, such as the EU's CSRD (see [Sibyline Special Report – 22 March 2023](#)). In addition, other jurisdictions, such as **Australia**, **Canada**, and **Japan**, are also in the process of establishing (or have already established) sustainability standards boards that will likely ensure both co-operation and compatibility with the ISSB.

Due to an estimated 600 ESG reporting frameworks and standards (CDP, GRI, IIRC, SASB, TCFD and WDI to name a few), we assess that the ISSB is ideally placed to achieve the standardisation of ESG reporting on a global scale. While it will not fully resolve all the complexities surrounding ESG reporting, this consolidation almost certainly represents a welcome solution for companies as they attempt to navigate the complex landscape of current ESG frameworks, standards and ratings. It will highly likely provide much-needed clarity and consistency for organisations across the world, delivering an instrumental tool which investors and an array of other stakeholders will be able to trust.

Please **contact us** if you would like more information on how our strategic risk information could work for your organisation.

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