

July 29, 2022

International Sustainability Standards Board (ISSB)  
Emmanuel Faber, ISSB Chair  
Sue Lloyd, ISSB Vice-Chair

RE: [Draft] IFRS S1 Exposure Draft: General Requirements for Disclosure of Sustainability-related Financial Information

Dear Chair Faber and Vice-Chair Lloyd:

IFAC welcomes the opportunity to comment on the International Sustainability Standards Board's (ISSB) Exposure Draft addressing general requirements for disclosure of sustainability-related financial information (the "Exposure Draft"). As the global voice of the accountancy profession, IFAC represents over 180 Professional Accountancy Organizations in 135 jurisdictions, thereby representing over three million professional accountants. As such, our perspective on this consultation—like that of the ISSB—is global in scope, while also taking into consideration important jurisdictional activities (i.e., such as that in the United States and the European Union, among others) that must align with and compliment the requirements for a comprehensive global baseline of disclosure requirements that will be the focus of the ISSB's work.

We applaud the IFRS Foundation Trustees for their leadership in establishing the ISSB. IFAC supports including a broader range of information in corporate reporting so that organizations can communicate more effectively—and stakeholders can better understand—prospects for longer-term value creation. We believe that companies that adopt an "integrated mindset"—insight gained by management and those charged with governance from *both* financial and sustainability information—will make better commercial decisions as well as take account of value to customers, employees, suppliers, and societal interests.

IFAC's various relevant positions related to sustainability are presented in our policy paper on [Enhancing Corporate Reporting](#), our call-to-action for the establishment of the new ISSB—[The Way Forward](#), our [response to the IFRS Foundation Consultation on Sustainability Reporting](#), our guidance that specifically addresses the [Sustainability Building Blocks Approach](#) and [How Global \[ISSB\] Standards Become Local Reporting Requirements](#), in addition to [IFAC's Vision for High-Quality Assurance of Sustainability Information](#) and our thought leadership on [Championing an Integrated Mindset](#). We are currently working in partnership with AICPA-CIMA on an updated review (based on 2020 and 2021 reporting years) of market practice with respect to sustainability-related reporting and assurance—informing understanding of current market practice globally.<sup>1</sup>

We believe our current views on sustainability-related disclosure remain broadly consistent with those of the leading integrated and sustainability reporting organizations (i.e., the CDSB, IIRC, and SASB), which either have been or are in the process of being consolidating into the IFRS Foundation, and remain

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<sup>1</sup> See [The State of Play in Sustainability Assurance](#) (2019). 2020 UPDATE: [The State of Play in Reporting and Assurance of Sustainability Information](#). 2021 data to be published at a later date.

consistent with IFAC’s response in 2020 to the IFRS Foundation’s Sustainability Reporting Consultation.<sup>2</sup> In developing our positions, IFAC continues to conduct extensive engagement across our global membership as well as other stakeholders. **As a result, we recently released a [joint statement with PRI and the World Business Council for Sustainable Development](#) that emphasizes the need for global and jurisdiction-specific sustainability disclosure initiatives to avoid regulatory and standard-setting fragmentation by collaborating and, wherever possible, aligning key concepts, terminologies, and metrics on which disclosure requirements are built.**

IFAC anticipates the completion of the ISSB’s work on this Exposure Draft, as well as [Draft] IFRS S2 Exposure Draft: Climate-related Disclosures, with potential endorsement by IOSCO later in 2022. IFAC strongly supports these important steps towards a harmonized, global system based on a comprehensive, global baseline of sustainability information—financially material disclosure topics and performance metrics—for investors and global capital markets, addressing enterprise value.

**In this context, IFAC highlights five thematic areas that we believe are important to high-quality, decision-useful sustainability-related disclosures.**

1. **Investor focus:** Sustainability-related information enhances investors’ ability to assess company performance, risks, opportunities, and long-term prospects—i.e., “enterprise value.” A [“Building Blocks Approach,”](#)—as advocated by IFAC, the IFRS Foundation, IOSCO, and others—balances the information needs of investors and capital markets with those of other stakeholders who also want a better understanding of a reporting entity’s societal impacts on people, economy or environment. Further, some jurisdictions may require specific public policy-related disclosure. The distinction between these two primary “perspectives” is nuanced and may change over time as investor assessments of materiality are dynamic in nature.<sup>3</sup>

**Perspective 1:** “Outside-in” disclosures address how ESG factors—and a company’s actions related to ESG—can impact a company’s enterprise value.

**Perspective 2:** “Inside-out” disclosures address multi-stakeholder needs—societal impacts—not already captured by the assessment of enterprise value.

Therefore, IFAC supports the ISSB’s continued collaboration with GRI<sup>4</sup> (a reporting standard with global recognition according to our benchmarking research<sup>5</sup>) and encourages the ISSB to develop its comprehensive global baseline of disclosure requirements addressing enterprise value while taking into consideration whether some societal impacts may be relevant to investors’ assessment of enterprise value. We believe this approach, coupled with cooperation with jurisdiction-specific initiatives (see below), has the greatest potential for a truly global system for reporting sustainability-related information that serves the interests of capital markets and broader society.

2. **Alignment:** The interoperability of jurisdiction-specific sustainability disclosures with global disclosure requirements of the ISSB is critical for investors who allocate capital based on comparable information about entities across different markets. Reporting entities should be able to accurately collect and report information in a manner that effectively serves requirements under globally applicable or jurisdictional requirements. Alignment of key concepts, terminologies, and metrics is imperative to

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<sup>2</sup> CDP, CDSB, GRI, IIRC, and SASB (“The Alliance”). See their joint [Statement of Intent to Work Together Towards Comprehensive Corporate Reporting](#) and their [open letter to IOSCO](#).

<sup>3</sup> See page 2 – “Sustainability Matters can be viewed Through Different Lenses” of IFAC’s [Enhancing Corporate Reporting – The Sustainability Building Blocks](#)

<sup>4</sup> See statement by the [IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures](#)

<sup>5</sup> See page 6: 2020 UPDATE: [The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis](#).

avoiding standard-setting and regulatory fragmentation and to allowing companies to avoid unnecessary duplication of effort. Stakeholder reporting—aligned with IFRS Sustainability Disclosure Standards—must be as simple, clear, and decision-useful as possible in order to achieve its intended purpose of allowing investors to readily compare relevant, high-quality sustainability information.<sup>6</sup>

We applaud the establishment of the Sustainability Standards Advisory Forum as well as a working group composed of representatives from jurisdictions actively engaged in sustainability standard-setting.<sup>7</sup> IFAC urges the ISSB to continue these collaborative alignment efforts towards the goal of achieving a global system for sustainability disclosures based off—and aligned with—the comprehensive global baseline of disclosure being developed by the ISSB. Policymakers and regulators engaged in jurisdiction-specific sustainability standard-setting activities *must do their part* to collaborate with the ISSB and align off this global baseline.

- 3. Importance of regulation:** Sustainability information must be high-quality, decision-useful, and trusted. Therefore, the current myriad of frameworks for such disclosure (primarily voluntary) must be rationalized and harmonized. In fact, our research indicates that 80% of companies who reported ESG information relied on multiple standards/frameworks—an increasing trend since 2019.<sup>8</sup> IFAC supports the consolidation, under the IFRS Foundation, of the work and resources of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF, comprised of the Sustainability Accounting Standards Board and International Integrated Reporting Council) and collaboration with the World Economic Forum and the Task Force on Climate-Related Financial Disclosures (TCFD). (See Annex A)

Developing disclosure standards based on these core investor-focused initiatives will provide a basis for international agreement on a global baseline of disclosures, promote rigor in reporting, and result in robust information. We note that incorporating the industry-specific nature of SASB Standards into the work of the ISSB can help companies develop, in a cost-effective manner, disclosures that are most relevant to their specific facts and circumstances and that promote decision usefulness and comparability for investors.

However, to achieve high-quality disclosure, authorities and regulators will need to mandate reporting and its assurance (see below). We encourage the ISSB and IFRS Foundation Trustees to work with local policy makers and regulators to make the ISSB’s [global standards local](#) reporting requirements—to minimize the current voluntary, fragmented approach to sustainability-related reporting.

- 4. Verifiability:** To be trusted, sustainability information should be subject to high-quality, independent, external assurance, based on global standards of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). However, our research indicates that assurance lags reporting of ESG information. While 92% of the companies we examined in our latest benchmarking research report *some* information, **only 58% also obtain assurance** on (a portion of) the information they report.<sup>9</sup> (See Annex B)

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<sup>6</sup> See: [Leading Financial Market Participants Call for Stronger Alignment of Regulatory & Standard Setting Efforts around Sustainability Disclosure](#)

<sup>7</sup> See IFRS Foundation statement on: [ISSB establishes working group to enhance compatibility between global baseline and jurisdictional initiatives.](#)

<sup>8</sup> See page 6, 2020 UPDATE: [The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis.](#)

<sup>9</sup> See page 9, 2020 UPDATE: [The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis.](#)

IFAC supports the IAASB's current work to develop a global, overarching assurance standard for sustainability that encompasses all sustainability topics, all information disclosed about sustainability topics, all mechanisms for reporting, all reporting standards, and all users/stakeholders. Consistent reporting of sustainability-related information is the best foundation for high-quality assurance. We urge the ISSB to continue to actively engage with the IAASB in its new standard-setting work and to take assurance into account in the development of IFRS Sustainability Disclosure Standards.

5. **Interconnected approach:** Sustainability disclosures are most valuable to investors and other stakeholders when they are connected to financial reporting information. This includes improving the timeliness and proximity of location between financial and sustainability information when being made public. Sustainability-related information must be at the same level of quality and decision usefulness as financial information. IFAC supports the use of management commentary or integrated reports for sustainability disclosure and encourages the ISSB and IASB to utilize principles and concepts from the Integrated Reporting Framework in their standard-setting work—seeking opportunities to align and incorporate the concepts of the Framework with similar concepts in the IASB and SASB conceptual frameworks.<sup>10</sup> (See Annex C)

A harmonized, global system for reporting sustainability information will help accelerate sustainability—by providing reporting that addresses the climate crisis, by helping companies and their stakeholders measure and assess progress towards sustainability objectives, and by promoting more sustainable companies that will deliver long-term value for investors and society.

As policymakers consider the best way forward for crafting the emerging global system,<sup>11</sup> IFAC—through our engagement with Professional Accountancy Organizations and Network Partners around the world, the Forum of Firms (comprised of the largest global accounting firm networks), IOSCO, the B20, G20 and other international bodies—supports the mission and activities of the ISSB and stands ready to assist the Board and IFRS Foundation Trustees in any way that we can.

Sincerely,



Kevin Dancey  
Chief Executive Officer, IFAC

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<sup>10</sup> See IFRS Foundation statement on [Integrated Reporting—articulating a future path](#).

<sup>11</sup> The Finance Ministers and Central Bank Governors of the G7 recently expressed their agreement on i) “the need for a baseline global reporting standard for sustainability, which jurisdictions can further supplement,” ii) welcoming “the International Financial Reporting Standards 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, involving them and a wider range of stakeholders closely to foster global best practice and accelerate convergence” and iii) encouraging “further consultation on a final proposal leading to the establishment of an International Sustainability Standards Board ahead of COP26.” [G7 FINANCE MINISTERS & CENTRAL BANK GOVERNORS COMMUNIQUÉ | U.S. Department of the Treasury](#)

## ANNEX A: The Role of SASB Standards and the TCFD Framework

IFAC supports initiatives for climate and other sustainability information that leverage the existing work of high-quality, *investor-focused*, sustainability standards and frameworks, including SASB Standards and the TCFD recommendations (for climate and applied more broadly to other sustainability factors).

Based on research conducted by IFAC and AICPA-CIMA on 2019 and 2020 corporate reporting among 1400 companies from the G20 nations plus Hong Kong S.A.R., China and Singapore, we observe a significant increase since 2019 in the use of/reference to SASB Standards (an increase of 153%) and the TCFD Framework (an increase of 100%).<sup>12</sup> We believe that this broad-based increase supports the incorporation of these standards/frameworks into this Exposure Draft and future ISSB work. The graphics below provide a jurisdiction-specific breakdown—with notable increases in:

- SASB – Brazil, Mexico, France, Germany, Spain, South Africa, Australia,
- TCFD – Brazil, France, South Africa, UK, Australia, Japan, South Korea.

### Use of SASB Standard and TCFD Framework in 2020 reporting



<sup>12</sup> IFAC has updated its State of Play benchmarking research on reporting and assurance of sustainability information for fiscal year 2020. Unpublished results from our research indicate a material increase in the use of SASB and TCFD in many jurisdictions as depicted above.

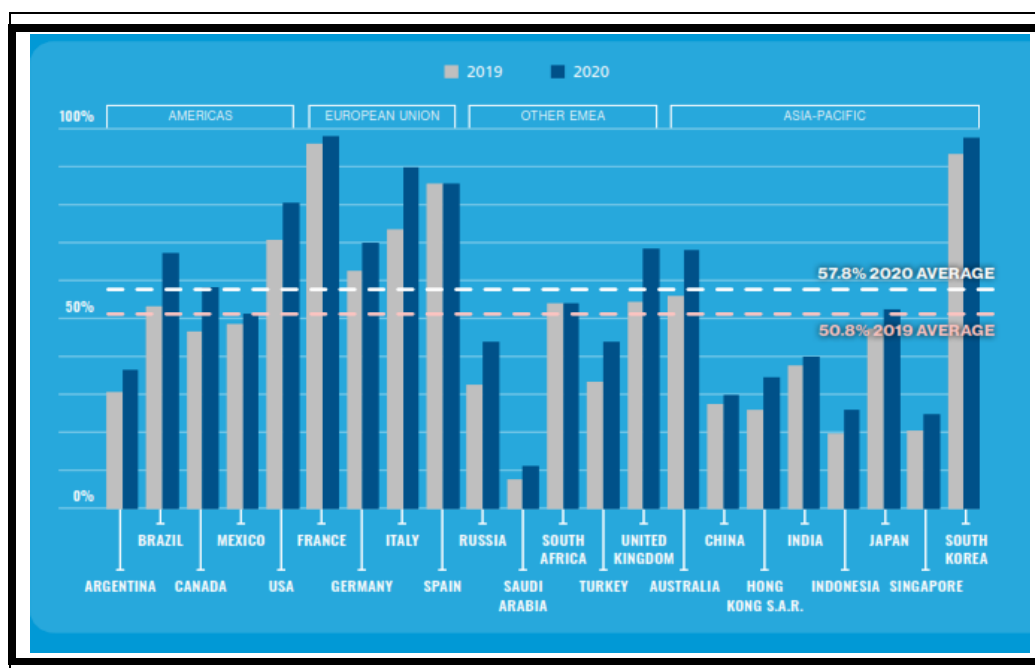
## ANNEX B: Verification of Sustainability Disclosure

IFAC believes that assurance improves user confidence, enhances access to capital, brings rigor to the development of company reporting systems and processes, promotes comparability of information, and *enhances investor protection*. The alignment of corporate reporting requirements and the development of a global baseline of disclosure for sustainability information must support evolution and harmonization of assurance standards and practice—in accordance with global standards of the IAASB.<sup>13</sup>

Current practice with respect to assurance of sustainability information mirrors the lack of standardization in reporting practice. Data from our IFAC/AICPA-CIMA study shows a situation that is still evolving, with significant differences in practice across jurisdictions.

### Assured Sustainability Information by Jurisdiction – 2020

58% of the companies that disclosed sustainability information also obtained assurance



Providers of assurance services (be it addressing financial or sustainability information) must be independent, follow applicable standards for conducting assurance engagements, work in accordance with a system of quality control, be skilled and competent in assurance practice/procedures, and possess needed subject matter expertise (including working with subject matter experts where appropriate).

IFAC believes—based on investor feedback (see PWC’s 2021 investor survey)—that this framework, delivered by professional accountants, is best positioned to provide investors with the appropriate

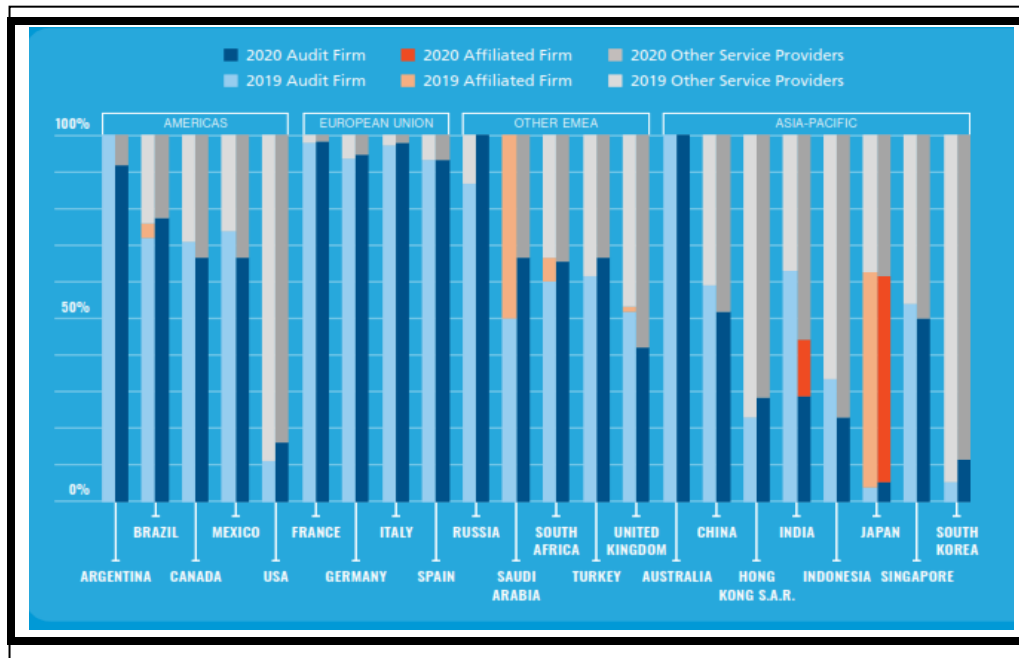
<sup>13</sup> See [International Standard on Assurance Engagements 3000 \(Revised\)](#), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, as well as the [IAASB Consultation on Extended External Reporting \(EER\) Assurance](#).

level of trust and confidence in the ISSB’s global baseline of information, so that it can be used for capital allocation decisions.<sup>14</sup>

However, data collected in our IFAC/AICPA-CIMA study (based on fiscal 2019 and 2020 reporting) demonstrates that over a third of assurance engagements addressing sustainability information conducted in 2020 were still conducted by service providers other than professional accountants.

### **Type of Assurance Providers by Jurisdiction – 2020 vs.2019**

In 2020, 61% of sustainability assurance engagements were performed by audit firms (or their affiliates)—compared to 63% in 2019



IFAC supports a level playing field for all assurance service providers and believe all should be subject to professional requirements, or requirements in law or regulation, regarding their responsibility for a system of quality management and adherence to a code of ethics which are at least as demanding as the IAASB’s ISQM 1 and the IESBA Code.

<sup>14</sup> Respondents to a [2021 investor survey conducted by PWC](#) expressed high expectations of an organization providing assurance on ESG reporting: 82% of respondents think it is important that the assurance work is conducted using a recognized assurance standard; 82% say the firm should have appropriate quality management systems in place; 81% support work should be done by a team that collectively has expertise in both providing assurance and the subject matter covered by the assurance; 80% support an assurance firm and its employees who are subject to regulated ethical standards and independence requirements.

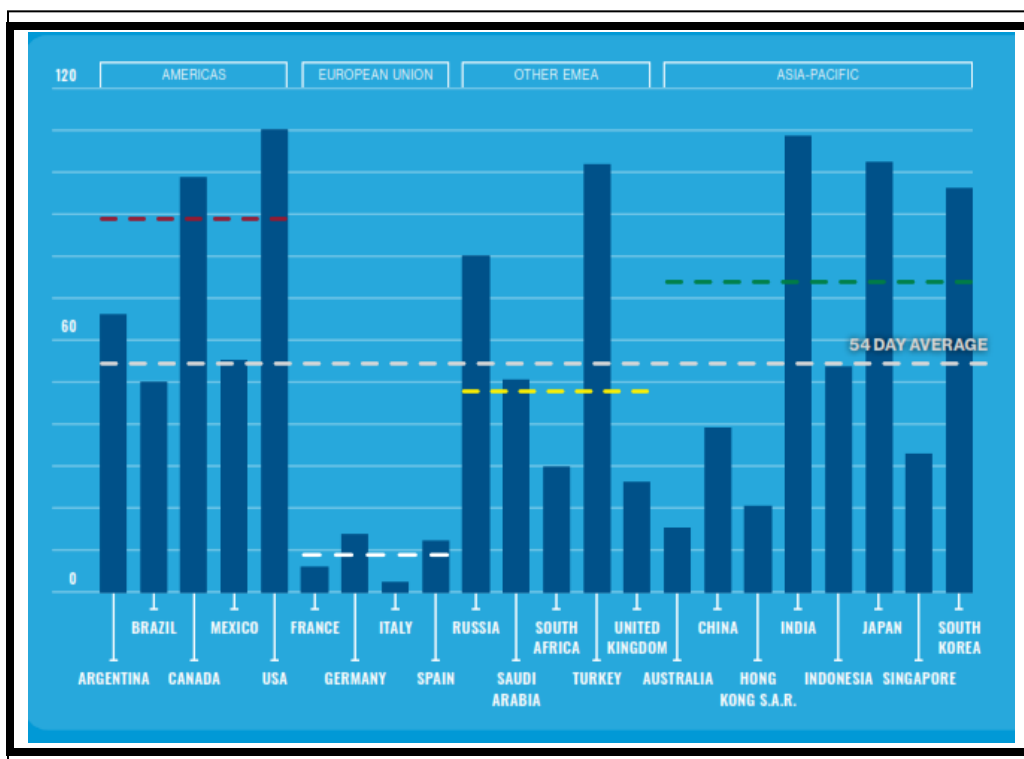
## ANNEX C: The Role of Timeliness in Sustainability-related Disclosure

Based on extensive stakeholder outreach that IFAC has conducted to understand ESG reporting practice and identify best practices, we conclude that aligning sustainability disclosure with financial reporting (i.e., improving timeliness and including ESG information in annual or integrated reports) supports and promotes reporting and assurance practices that *connect* financial and sustainability-related information.

Our recently published analysis for the 2020 reporting cycle indicates that significant timing gaps may exist between the audit of financial information versus the assurance of sustainability information obtained by companies.<sup>15</sup> We view these timing gaps as a proxy for discrepancies in the timeliness and interconnectedness of financial vs. sustainability-related reporting. In our view, these gaps must be narrowed if sustainability information is to be on-par in importance and reliability with financial information—i.e., taking an “interconnected” approach that best serves the needs of investors as well as other stakeholders.

### Days Between Issuance of the Statutory Audit and ESG Assurance Report – 2020

On average, 54 days separate the issuance of the statutory audit report from the ESG assurance report—with significant jurisdictional differences observed



<sup>15</sup> Analysis conducted on behalf of IFAC and AICPA-CIMA indicates an average gap of 9 days for companies reporting in the EU, 48 days in other EMEA, 73 days in Asia-Pacific, and 89 Days in the Americas.