# HOW GLOBAL STANDARDS BECOME LOCAL

## USING THE SUSTAINABILITY BUILDING BLOCKS

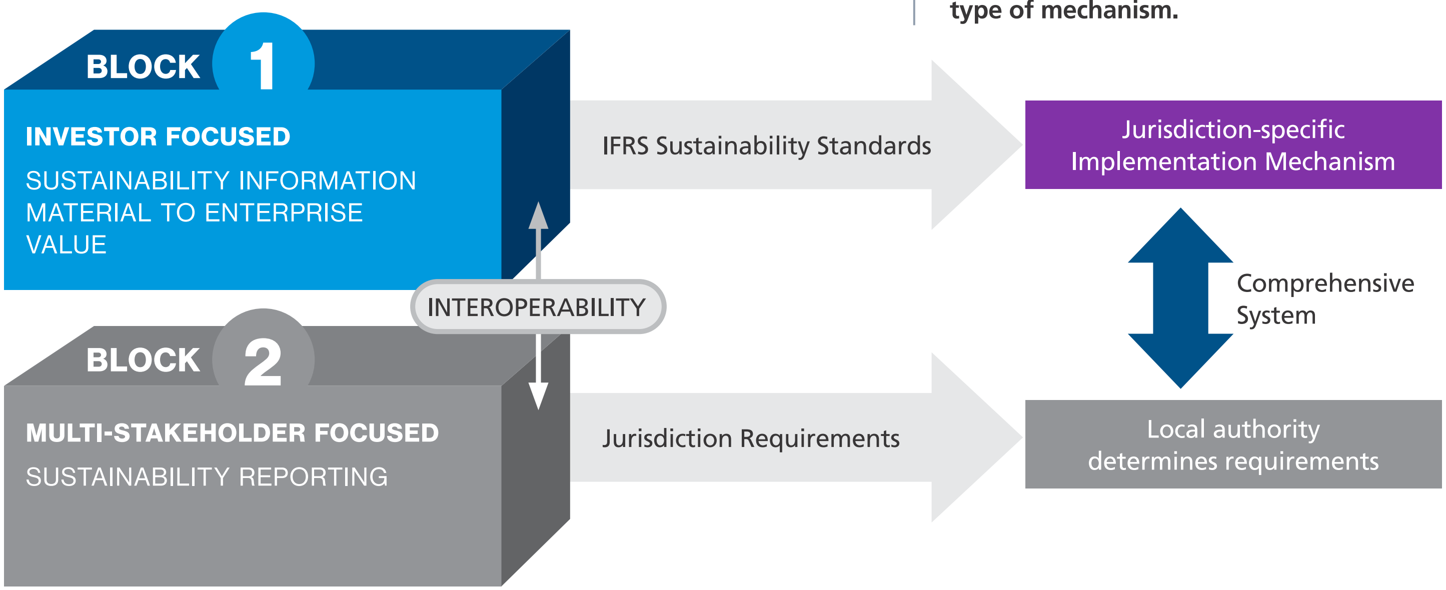
Investor-focused sustainability information, integrated with financial reporting, provides a more complete picture of enterprise value. A global system for sustainability-related reporting that results in comparable, decision-useful, and assurable information—for investors, capital markets and other stakeholders—depends on jurisdiction-specific decisions to use, implement, and apply international standards.

The decision to use international sustainability standards is part of the **Building Blocks Approach**—implementing and enforcing **BLOCK 1** reporting requirements established by the International Sustainability Standards Board (ISSB) in combination with any jurisdiction-specific **BLOCK 2** (i.e., development, impact, or policy based) reporting requirements.

As a global standard setter, the ISSB intends to develop IFRS sustainability standards for use by all jurisdictions. These standards are intended to form a **baseline of decision useful information** (disclosure topics and metrics) that addresses sustainability impacts relevant to **short-, medium-, and long-term enterprise value.**

**BLOCK 1** global standards are voluntary by nature; **each jurisdiction will need a local mechanism to implement these standards** in a manner that makes them enforceable (or effective as guidance) for reporting on sustainability-related matters. This mechanism may already be in place for implementing IFRS financial reporting standards (see next page).

**BLOCK 2** requirements are set by jurisdiction level authorities and do **not require the same type of mechanism.**




**Block 1** is the focus of this diagram; **Block 2** is included for context.

### Framework for transitioning global standards into local standards

**LEGAL FRAMEWORK:** Legislative or regulatory processes in a country provide both the framework for corporate reporting (including sustainability-related disclosures) and the mandate to use standards developed by an independent, private sector body such as the ISSB. In some jurisdictions, existing laws delegate such matters to a "competent authority" / regulator.

**COMPETENT AUTHORITY:** A government ministry or a separate agency established by legislation (e.g., a securities regulator / IOSCO member) is typically designated with responsibility for reporting requirements in public securities markets and is held accountable for compliance with legislative requirements.

**OVERSIGHT:** Independent oversight of global and regional standard-setting bodies, as well as jurisdiction-level implementation activities, helps ensure that the public interest is served throughout the standard-setting and implementation process.

# BLOCK 1

# PATHWAYS TO IMPLEMENTATION

## Jurisdiction-specific Implementation Mechanism

**DESIGNATED BODY:** Unless a jurisdiction adopts the ISSB and its standards directly into local law, a designated body (e.g., an existing or new standard-setter or a special purpose adoption/endorsement entity) must recommend or determine that ISSB global standards should be enforced locally. Active engagement by this designated body in standard-setting activities, coupled with outreach to local stakeholders, serves to inform the ISSB standard-setting and jurisdictional recommendation process.

Financial reporting standards set by the IASB have been adopted and implemented in more than 140 jurisdictions. **There are existing, proven mechanisms already in place** that may be adapted to include sustainability standards set by the ISSB, which falls under the same governance arrangements as the IASB.

## CONSIDERATIONS TO INFORM THE DECISION TO MAKE GLOBAL STANDARDS LOCAL

**1** Will the reporting requirement promote fair and efficient markets?

**2** Will corporate reporting be enhanced by new or additional disclosures that are consistent, comparable, and enforceable?

**3** Will the standards lead to relevant matters being reported in a fair and balanced manner?

## CRITERIA FOR SUCCESS

**Outcome:** Consistent, comparable, assurable baseline of sustainability information for capital markets (BLOCK 1), which is complemented by jurisdiction-specific reporting requirements (BLOCK 2)

**STATEMENT OF INTENT:** The jurisdiction has publicly stated its intent to move toward ISSB reporting requirements.

**AUTHORITY & OVERSIGHT:** Clear legislative and regulatory authority/oversight supports the legitimate application of the standards in the jurisdiction.

**SCOPE OF APPLICATION:** The scope of covered entities (domestic and/or foreign) that are required or allowed to use the ISSB's standards is clearly defined.

**PROCESS FOR APPLICATION:** Effective, transparent due process has been established that facilitates jurisdictional implementation of ISSB reporting standards/requirements.

**ASSURANCE:** Assurance reports state whether information was prepared in conformity with ISSB standards.

## Use process for adopting IFRS Standards OR something different?

- New mechanism required
- Use existing mechanism to adopt <u>both</u> IASB and ISSB standards

### FOR EXAMPLE

Endorsement of the ISSB or a standard-by-standard approach to making sustainability standards part of the local legal framework that governs corporate reporting

Incorporation of the ISSB's standards into local corporate reporting requirements

Memoranda of Understanding between the ISSB and local standard-setting bodies/regulators to set standards identical to those of the ISSB

Reference as best practices with guidance to follow ISSB standards (applies where sustainability disclosure requirements are not prescriptive)

Achieving equivalency over time through convergence with pre-existing, local sustainability disclosure requirements

**EITHER PATH SHOULD SUCCESSFULLY TRANSITION GLOBAL STANDARDS INTO LOCAL STANDARDS**



IFAC International Federation of Accountants