

Climate First – ISSB's Plan to Converge International Sustainability Disclosure Standards

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HKEX ESG Academy webinar series:
Path to Decarbonisation with Climate Transparency

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About the IFRS Foundation

Our organisation

- Not-for-profit, public interest organisation
- Three-tier governance model
 1. Monitoring Board (oversight)
 2. Trustees (governance & strategy)
 3. IASB + ISSB (standards)
- Extensive, inclusive due process

Our mission

Develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world

IFRS Accounting Standards

Required for use by more than 140 jurisdictions around the world

Current sustainability reporting landscape



International initiatives

- Voluntary application
- Multiple standards
- Multiple audiences

Jurisdictional initiatives

- Different jurisdictions, different requirements
- Differences in scope, ambition and pace

Consequences

'Alphabet soup' of requirements



Cost & complexity in reporting

Selective & inconsistent application of voluntary standards



'Greenwashing' risk

Different requirements by different jurisdictions



Lack of global comparability & consistency

Lack of capital market rigour (mandated standards, audited information, digital reporting)



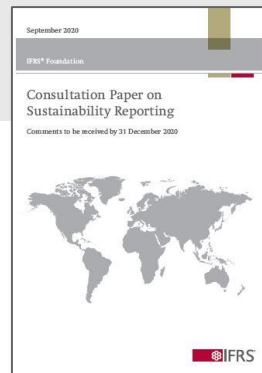
Lack of confidence and trust in information

Impediment to financial market participation in drive towards Net Zero

Demand-driven process

What we asked

- Demand for global sustainability standards?
- Should the IFRS Foundation play a role?
- Is the solution a sustainability-focused standard-setting board within the IFRS Foundation?



What we heard

- Growing and urgent demand for global standards to improve consistency and comparability
- Broad support for Foundation to play a role
- ESG focus but climate first



COP26 Statement



“

Finance Ministers and Central Bank Governors from 40+ jurisdictions* from 6 continents joined the UK in publicly welcoming the announcement of the establishment of the ISSB and its work programme to develop a set of internationally consistent, high-quality, and reliable baseline standards for disclosure of sustainability-related information on enterprise value creation.

* Australia, Brazil, Canada, Chile, China, Costa Rica, Egypt, Ethiopia, European Commission, Fiji, France, Germany, Greece, Guatemala, India, Indonesia, Italy, Jamaica, Japan, Kenya, South Korea, Luxembourg, Maldives, Mexico, Morocco, Netherlands, New Zealand, Nigeria, Paraguay, Philippines, Russia, Saudi Arabia, Seychelles, Singapore, Spain, Switzerland, Tonga, Turkey, UK, Uruguay, USA

COP26 announcement



1. Formation of the International Sustainability Standards Board (ISSB)



2. Consolidation with Climate Disclosure Standards Board (CDSB) & Value Reporting Foundation (VRF)



3. Publication of climate and general disclosure prototype requirements

Creates the necessary institutional arrangements and technical groundwork for a global sustainability standard-setter for the financial markets

1. International Sustainability Standards Board (ISSB)



Develop **global baseline** of sustainability disclosure standards



Focus on meeting the **information needs of investors**



Will enable companies to provide comprehensive sustainability information for the global capital markets



Climate first but not climate only

1. International Sustainability Standards Board (ISSB)

Global
baseline and
building block
approach

Build on
existing
investor-
focused
frameworks



Global baseline approach

Sustainability reporting (broader multi-stakeholder focus)

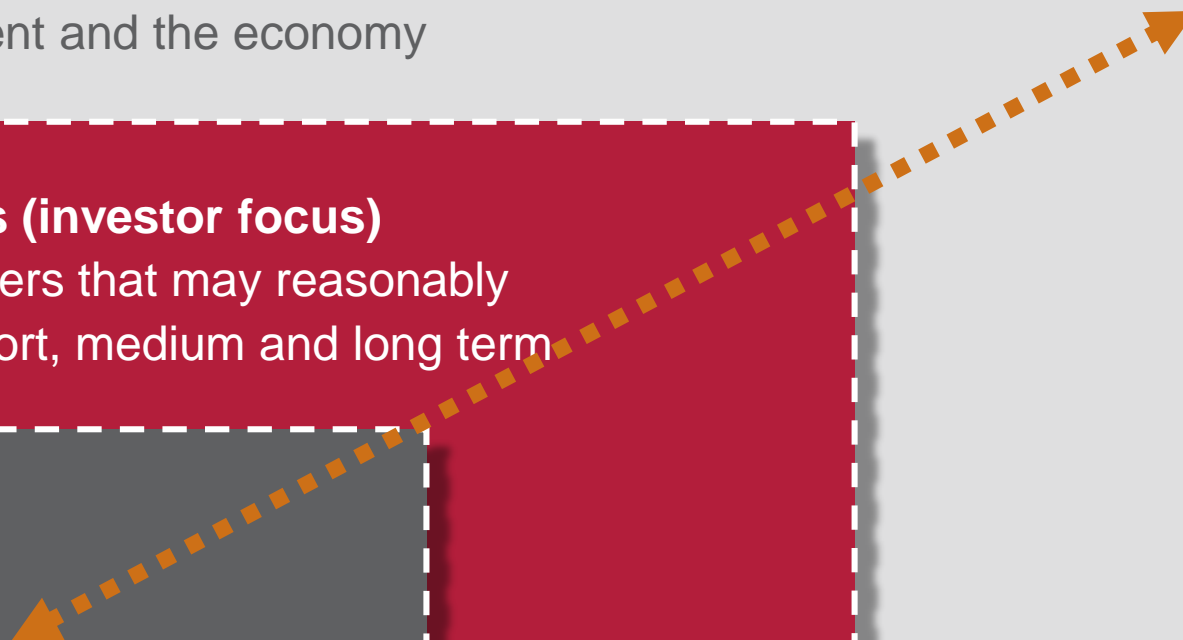
Reporting on all sustainability matters that reflect significant positive or negative impacts on people, the environment and the economy

Sustainability-related financial disclosures (investor focus)

Reporting on those sustainability-related matters that may reasonably create or erode **enterprise value** over the short, medium and long term

Financial reporting (investor focus)

Reflected in monetary amounts in the financial statements



2. Consolidation with VRF & CDSB

Becomes part of the IFRS Foundation



Climate
Disclosure
Standards
Board



INTEGRATED
THINKING
PRINCIPLES



INTEGRATED
REPORTING
FRAMEWORK



SASB
STANDARDS



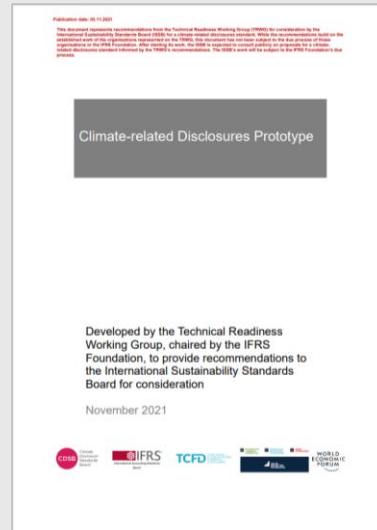
VALUE
REPORTING
FOUNDATION

Additional members of Technical Readiness Working Group



3. Publication of prototype requirements

Climate-related Disclosures

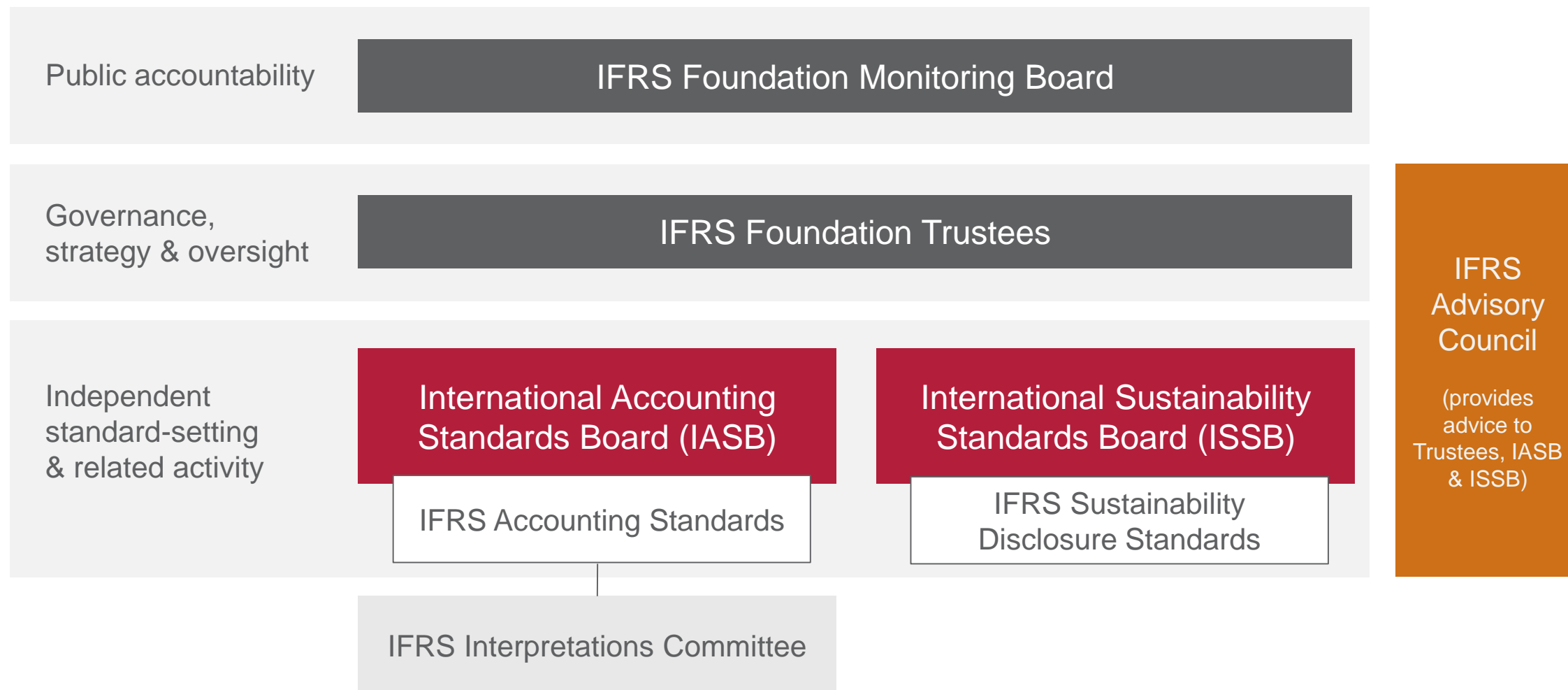


General Requirements for Disclosure of Sustainability-related Information



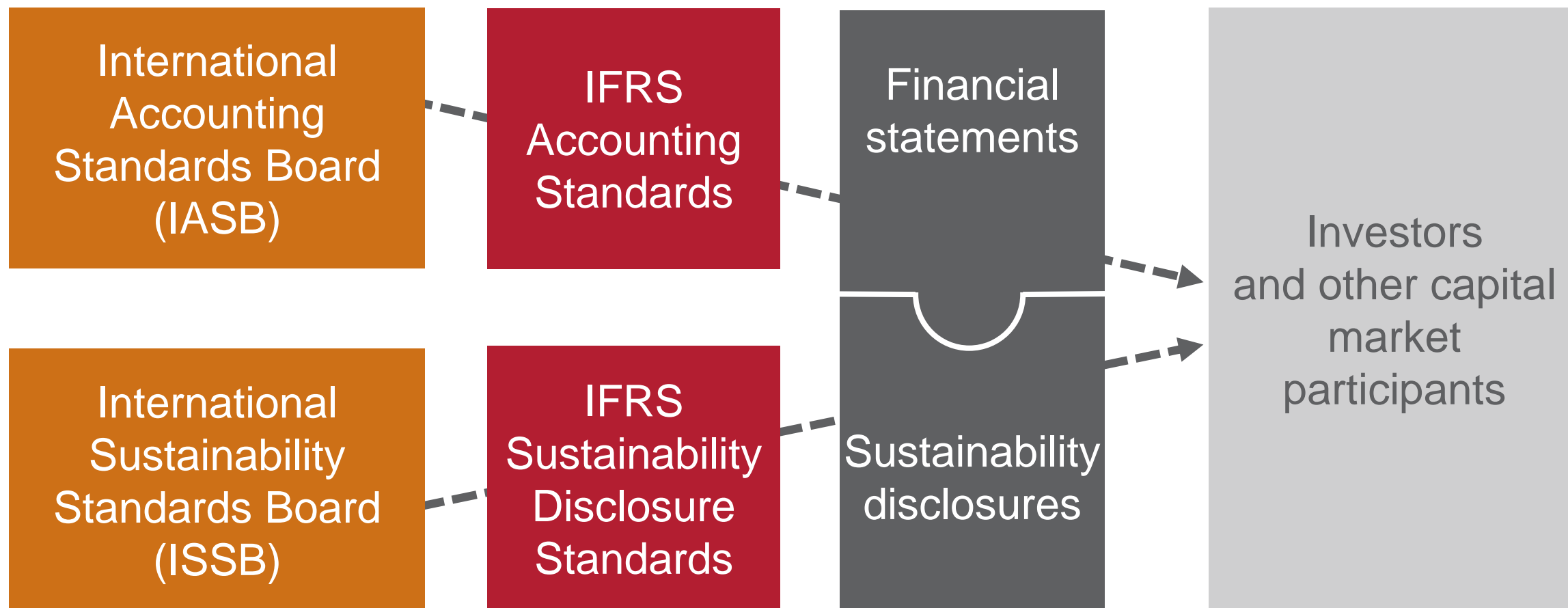
- Recommendations – Technical Readiness Working Group to ISSB
- ISSB to consider as part of initial work programme

ISSB within IFRS Foundation Governance structure



ISSB will be informed by expert advice

Compatible standards to meet investors' needs



ISSB composition



14 board
members



Majority
full-time



Diversity in
expertise and
experience



Geographical
balance

ISSB locations

Global footprint through multi-location presence

Coverage across the Americas, Asia-Oceania and EMEA (Europe, the Middle-East & Africa)

- Frankfurt & Montreal to host key functions, cooperation with regional stakeholders
- Frankfurt to serve as seat of the board and office of the Chair
- San Francisco & London to provide technical support and platforms for market engagement
- Further discussions with Beijing and Tokyo to finalise Asia-Oceania footprint

Engagement with developing and emerging economies a priority

Steps to achieving global capital market standards

ISSB



Comprehensive
global baseline
of standards

IOSCO



Assess
standards with
a view to
recommend
adoption

Audit standard-setters



Develop
assurance
standards

Jurisdictions



Require by
adopting or
incorporating
standards

A few thoughts

- Climate is a global challenge and requires a global solution
- A “watershed” moment and a “game changer”
- “Essential plumbing to move climate change from the fringes to the forefront of finance so that every financial decision takes climate change into account”
- Sustainability, especially impact, opportunities and risks of climate change should become an integrated part of every aspect of business operations
- It’s coming to the real economy, and it’s coming to our financial statements
- A tipping point – requiring mindset change
- Our young people demand it, our investors require it, and our world depends on it

Thank you



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