

Harmonization of ESG Disclosure Requirements is Welcome News for Companies and Investors

The IFRS recently issued revised ESG disclosure requirements, including consolidation efforts and creating new standards as a clearinghouse for global sustainability disclosure reporting in financial markets.

The International Financial Reporting Standards (IFRS) Foundation announced three significant developments ahead of the 26th United Nations Climate Change conference (COP26), which took place from October 31 to November 12, 2021. These three developments include the following:

- creation of the new International Sustainability Standards Board (ISSB),
- consolidation of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF), and
- prototype climate disclosure requirements developed by the Technical Readiness Working Group (TRWG) and formed by the IFRS Foundation Trustees.

The IFRS Foundation Constitution was most recently revised and approved on October 21, 2021. Amendments to objectives and institutional arrangements were made to accommodate the formation and operation of the ISSB. Following the revised guidance, these new developments will set the precedent for global sustainability disclosure in financial markets.

The ISSB will sit alongside and work in close cooperation with the International Accounting Standards Board (IASB), ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB's standards to develop the IFRS Sustainability Disclosure Standards. This consolidation will reportedly occur by June 2022. Both boards will be overseen by the Trustees and will be independent of each other.

The International Sustainability Standards Board

Many investors and regulators have called for the IFRS Foundation to build upon market-led initiatives and use its experience creating accounting standards to bring globally comparable reporting on sustainability matters to the financial markets.

Additionally, the ISSB will receive guidance from several advisory groups, including a new Sustainability Consultative Committee, the IFRS Advisory Council, the International Integrated Reporting Council and a multi-jurisdiction standard-setting working group.

Consolidating and building on existing initiatives

Based on feedback, the ISSB will build on the work of existing investor-focused reporting initiatives with the intent to establish a comprehensive clearinghouse for the financial markets. Rather than a unified global sustainability standard, the ISSB plans to establish “a principles-based framework which is then tailored, translated, and adopted to varying degrees in different jurisdictions.”

To achieve this goal, the IFRS Foundation has reached an agreement with the CDSB and the VRF to consolidate technical expertise and other resources with the IFRS Foundation. The technical standards and frameworks of these groups, along with those of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Forum Stakeholder Capitalism Metrics, will provide a basis for the technical work of the new board. The Technical Readiness Working Group (TRWG), created by the IFRS Foundation Trustees, provides recommendations to the ISSB. The TRWG has concluded its work, publishing [two prototype documents](#) — one of which focuses on climate-related disclosures that build on the TCFD’s recommendations and includes industry-specific disclosures. The second sets out general sustainability disclosures. The ISSB will consider the prototypes as part of its initial program.

Next Steps

The Trustees are at advanced stages in appointing a chair and vice chair(s) to the ISSB. They will start to search for additional board positions, up to a total of 14 members.

The ISSB’s work is expected to begin as soon as the chair and vice chair(s) have been appointed. Public consultations will be the first step to inform the ISSB’s work plan and proposals informed by recommendations from the TRWG. Following these consultations, the ISSB’s work will follow the IFRS Foundation’s due process, including public discussions, consultations and possible improvements to the proposals prior to their finalization as standards. The entire process will be overseen by the Trustees’ Due Process Oversight Committee.

The IFRS Foundation’s offices in Frankfurt and Montreal will begin ISSB work in early 2022.

For questions about policy updates, their potential impact or other corporate governance inquiries, please write to humancapital@aon.com.

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