Integrated ESG
Driving Sustainable Investment

IFC International Finance Corporation WORLD BANK GROUP
Creating Markets, Creating Opportunities

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

IN PARTNERSHIP WITH:

IFRS | Sustainable Stock Exchanges | Beyond the Balance Sheet | IFC International Finance Corporation WORLD BANK GROUP

Effective Implementation of IFRS Sustainability Disclosure Standards through Strategic Partnerships

October, 2024

Key outcomes:

1. **Convergence of Sustainability Reporting Standards:** The discussion highlighted the significant progress made in converging sustainability reporting frameworks, with the IFRS Sustainability Disclosure Standards (ISSB standards) emerging as a global baseline.

2. **Partnerships and Capacity Building:** The importance of partnerships between organizations like the IFRS Foundation, IFC, the State Secretariat for Economic Affairs of Switzerland (SECO), and the UN Sustainable Stock Exchanges Initiative (UN SSE) was emphasized in supporting the adoption and implementation of the ISSB standards, particularly in emerging markets.

3. **IFC's Commitment to Sustainability Reporting:** IFC is committed to disclosure and transparency, including reporting on climate and sustainability metrics. The IFRS Foundation, UNSSE and IFC has successfully implemented a training program, which has trained over 10,000 participants on ISSB standards so far. IFC's programs and tools like the Beyond the Balance Sheet, IFC's EDGE program, IFC's ESG Advisory Services and IFC's Financial Institutions Group, drive the enhancement of sustainability and climate reporting in emerging markets.

4. **Adoption of ISSB Standards:** At least 20 countries are currently on the adoption journey for the ISSB standards, with efforts underway to support the adoption in an additional 180 countries through collaborative initiatives.

5. **Interoperability and Alignment:** The IFRS Foundation works to ensure interoperability between the ISSB standards and other frameworks like the European Sustainability Reporting Standards (ESRS), especially on climate-related disclosure, providing a globally consistent reporting framework.

6. **Materiality and Proportionality:** The ISSB standards incorporate a materiality-based approach and proportionality mechanisms to account for the varying resources and capabilities of different companies, including small and medium-sized enterprises (SMEs).

7. **Assurance and Data Quality:** The importance of assurance and the accounting discipline built into the ISSB standards were emphasized to ensure the reliability and comparability of sustainability disclosures.

8. **Role of Financial Institutions:** Financial institutions were highlighted as playing a pivotal role as both users and preparers of sustainability information, with the need for capacity building and support to drive adoption across the value chain.

The meeting underscored the significant progress and collaborative efforts to drive the global adoption and implementation of the IFRS sustainability standards as a common language for sustainability reporting. It concluded with a commitment to continue collaborating and supporting the adoption of ISSB standards in emerging markets.

Key Speakers:

Beatrice Maser,
Swiss Ambassador and Executive Director, World Bank Group

Meaghan McGrath,
Acting Director Blended Finance & Partnerships, International Finance Corporation

Elizabeth Seeger,
Board Member, International Sustainability Standards Board

Arora Akanksha,
Director of Strategic Affairs (Multilateral Development Banks), IFRS Foundation

Anthony Miller,
Chief Coordinator, UN Sustainable Stock Exchanges Initiative

Chuck Canfield,
Acting Manager for Corporate Governance, International Finance Corporation

Laila Nordine,
Senior Manager, FIG Sustainable Finance, International Finance Corporation

Caroline Bright,
Regional ESG Advisory Lead Europe for the Middle East, Central Asia, Türkiye, Afghanistan, and Pakistan, International Finance Corporation

Michelle M. Farrell,
Senior Operations Officer, EDGE Green Building, International Finance Corporation

Lopa Rahman,
ESG Officer, South Asia, International Finance Corporation

Ralitza Germanova,
Corporate Governance Officer and Lead for IFC's Beyond the Balance Sheet Program, International Finance Corporation

Key Questions:

What are the key challenges and opportunities in implementing IFRS Sustainability Disclosure Standards in emerging markets?

Based on the discussion, here a few key challenges and opportunities in implementing IFRS Sustainability Disclosure Standards in emerging markets:

Challenges:

- Lack of understanding and capacity among companies, regulators, and stock exchanges on how to adopt and implement the new standards.
- Confusion among jurisdictions on how to align with the ISSB standards and with European sustainability reporting requirements and integrate them into local regulations.
- Gaps in ESG practices, data collection, and accounting discipline needed to report sustainability information with the rigor required by the standards.

Opportunities:

- Strong demand from regulators, companies, and investors for standardized, comparable sustainability reporting to enable better decision-making.
- Potential for partnerships and collaboration between organizations like IFC, IFRS, UN Sustainable Stock Exchanges, and local stakeholders to provide training, tools, and guidance to support implementation.
- Ability to leverage existing frameworks like TCFD and build on companies' prior experience with sustainability reporting to accelerate adoption.

The key is to take a tailored, phased approach that addresses the specific capacity building needs in each market, while fostering multi-stakeholder collaboration to drive the widespread adoption of these important sustainability disclosure standards.

What is the business case for companies to adopt the IFRS Sustainability Disclosure Standards (ISSB standards)?

1. Investor Demand:

- Investors and other stakeholders need relevant, reliable, and comparable sustainability information to assess investment opportunities and the overall investment climate.
- The ISSB standards aim to provide this decision-useful information for investors, which is a key driver for companies to adopt the standards.

2. Regulatory Alignment:

- Many jurisdictions are mandating the adoption of sustainability reporting standards, such as the ISSB standards or the European Sustainability Reporting Standards (ESRS).
- Compliance with these regulatory requirements is an important business case for companies to adopt the ISSB standards.

3. Access to Capital:

- The supply of "green" and sustainable finance products, such as green bonds, is increasing, and companies that can report according to recognized international standards like the ISSB standards are more likely to access this capital.

4. Reputational and Competitive Advantages:

- Adopting the ISSB standards can help companies demonstrate their commitment to sustainability and transparency, which can enhance their reputation and competitive positioning.
- This is particularly important for companies that are part of global value chains, as their customers and partners may require them to report according to recognized standards.

5. Risk Management:

- The ISSB standards focus on material sustainability-related risks and opportunities, which can help companies better identify, manage, and disclose these risks, improving their overall risk profile.

Overview of the IFRS Foundation and the ISSB standards:

IFRS Foundation:

- The IFRS Foundation is the organization that oversees two independent standard-setting boards: the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB).
- The IFRS Foundation's mission is to develop high-quality standards that bring transparency, accountability, and efficiency to the global financial markets.
- The IFRS accounting standards, developed by the IASB, are law in 140 countries around the world.

International Sustainability Standards Board (ISSB):

- The ISSB was established in 2021 to develop global sustainability reporting standards.
- The ISSB has published two key standards so far:
    1. S1 - General Requirements: Focuses on the disclosure of material sustainability-related risks and opportunities that may affect a company's prospects.
    2. S2 - Climate-related Disclosures: Builds on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
    3. ISSB commenced research projects about risks and opportunities related to biodiversity and human capital.
- The ISSB standards aim to create a "global passport" for sustainability reporting by converging existing frameworks like the Integrated Reporting Framework, SASB, and TCFD.
- The standards incorporate an "accounting discipline" approach, including requirements around scope, assumptions, methodologies, and connectivity between financial and sustainability disclosures.
- The materiality assessment in the ISSB standards is entity-specific and focused on providing decision-useful information for investors.
- The standards also recognize the importance of value chain-related sustainability risks and opportunities.
- The IFRS Foundation is working to drive the global adoption of the ISSB standards, similar to the widespread adoption of the IFRS accounting

standards, through partnerships and capacity-building initiatives.

- The International Organization of Securities Commissions (IOSCO), which represents over 130 securities regulators globally, endorsed the ISSB standards just two weeks after they were published in June 2023.
- This rapid endorsement by IOSCO was seen as a testament to the rigor and quality of the ISSB standards, as IOSCO deemed them fit for purpose and suitable for adoption by its member jurisdictions.
- IOSCO's rapid endorsement of the ISSB standards helps to facilitate regulatory alignment and adoption process across different markets.

Where are the ISSB standards have been adopted or are in the process of being adopted by a significant number of countries?

1. G7 Countries:

- Canada, Japan, and the United Kingdom are adopting the ISSB standards.
- France, Germany, and Italy are following the EU standards, which are aligned with the ISSB standards, particularly on climate-related disclosures.
- The United States has issued requirements that mention TCFD and SASB, which are incorporated into the ISSB standards.

2. G20 Countries:

- Australia, Brazil, China (including Taiwan and Hong Kong), South Korea, and Turkey are adopting the ISSB standards.

3. Other Countries:

- In total, 20 countries are on the adoption journey for the ISSB standards.
- Outside of these 20 countries, there are an additional 180 countries that the IFRS Foundation and its partners, such as IFC, are working to support in the adoption process through collaborative partnerships.
- The goal of the IFRS Foundation to achieve a similar level of global adoption for the ISSB sustainability standards as the IFRS accounting standards have achieved. IFRS accounting standards are law in 140 countries globally.

What is the relation between the European Sustainability Reporting Standards and the IFRS Sustainability Disclosure Standards?

The speakers discussed the importance of interoperability between the IFRS sustainability standards and other existing sustainability reporting frameworks and standards.

Here are the key points:

1. Alignment and Interoperability:

- The speakers emphasized the importance of interoperability between the ISSB standards and the ESRS, as many companies operate across multiple jurisdictions.
- IFRS Foundation has published an "interoperability guide" to help companies navigate between the ISSB standards and the European Sustainability Reporting Standards (ESRS) requirements.
- Interoperability is a critical issue, especially for companies operating in multiple jurisdictions, as they need to avoid a patchwork of different reporting requirements.

- IFC is working to support this interoperability and help its clients navigate the different reporting requirements.

2. Convergence of Standards:

- ISSB standards were developed with the goal of creating a "global passport" for sustainability reporting, building on existing frameworks like the Integrated Reporting Framework, SASB standards, and TCFD.
- Financial institutions, as both users and preparers of sustainability information, need the taxonomies and reporting frameworks to be interoperable to avoid confusion and the "alphabet soup" of different standards.

3. Adoption in the EU:

- The speakers noted that France, Germany, and Italy are following the EU standards, which are aligned with the ISSB standards, particularly on climate-related disclosures.
- This indicates that the ESRS are being developed in a way that is closely aligned with the ISSB standards, facilitating the adoption of the ISSB standards within the EU.

In summary, the IFRS Foundation and the ISSB work to ensure a high degree of alignment and interoperability between the ISSB standards and the European Sustainability Reporting Standards (ESRS), especially for the climate disclosure standards. This convergence of standards is intended to provide a globally consistent framework for sustainability reporting, making it easier for companies to navigate the reporting landscape, especially those operating across multiple jurisdictions.

Measuring greenhouse gas (GHG) emissions

1. Scope 1, 2, and 3 Emissions:

- Companies face challenges in measuring and reporting their Scope 3 (value chain) emissions, which can be more complex and data-intensive than Scope 1 (direct) and Scope 2 (indirect) emissions.
- Financial institutions, as both users and preparers of sustainability information, need to be able to calculate and report on their own GHG footprint, including Scope 3 emissions from their financing activities.

2. Capacity Building and Guidance:

- The speakers emphasized the importance of capacity building and providing practical guidance to help companies, especially small and medium-sized enterprises (SMEs), understand how to measure and report their GHG emissions.
- IFC's Beyond the Balance Sheet program and the training sessions conducted with the IFRS Foundation and the UN Sustainable Stock Exchanges Initiative were highlighted as efforts to support companies in this area.

3. Materiality and Proportionality:

- The ISSB standards recognize the concept of materiality, which means companies only need to report on the GHG emissions (including Scope 3) that are material to their business and investors.
- The ISSB standards take an entity-specific approach to materiality, focusing on sustainability-related risks and opportunities that may affect company's prospects and are relevant to its investors.

- The ISSB standards also incorporate "proportionality mechanisms" to account for the varying resources and capabilities of different companies, particularly smaller ones.

4. Alignment with Other Frameworks:

- The ISSB standards on climate-related disclosures (S2) are closely aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which are widely recognized and adopted.
- This alignment helps to provide a consistent global framework for companies to measure and report their GHG emissions.

The discussions highlighted the efforts by the IFRS Foundation, IFC, and other partners to provide capacity building, guidance, and a proportionate approach to help companies, including SMEs, navigate the requirements of the ISSB standards on GHG emissions measurement and disclosure.

What is the role of assurance of sustainability and climate-related information?

1. Importance of Assurance:

- One of the questions raised during the Q&A session was about the quality and credibility of the self-reported ESG information, and the need for third-party assurance.
- The speakers acknowledged the importance of assurance in ensuring the reliability and comparability of sustainability disclosures.

2. Assurance-Ready Standards:

- The ISSB standards do not mandate third-party assurance.
- Although the ISSB standards are "written to be assurance-ready," meaning they incorporate the necessary rigor and discipline to enable third-party assurance.
- The European Sustainability Reporting Standards require third-party assurance.

3. Regulatory Expectations:

- Some jurisdictions are introducing assurance requirements as part of their adoption of the ISSB standards, indicating that assurance will be an important aspect of the implementation.

4. Ongoing Developments:

- There are new standards on the assurance of sustainability information, ISSA 5000, that have recently been launched, which will help address the need for reliable and verifiable sustainability data.

What are the challenges and support needed for small and medium-sized enterprises (SMEs) to report according to the IFRS sustainability standards (ISSB standards)?

1. Challenges for SMEs:

- SMEs face unique challenges in reporting on sustainability information compared to larger companies, due to limited resources and capacity.

2. Proportionality in the Standards:

- ISSB emphasized that the standards incorporate "proportionality mechanisms" to account for the varying resources and capabilities of different companies, including SMEs.
- This means the reporting requirements are not a one-size-fits-all approach, but rather tailored to the specific circumstances of the reporting entity.

3. Capacity Building and Guidance:

- The speakers highlighted the importance of capacity building and providing practical guidance to help SMEs understand and implement the ISSB standards.
- IFC's Beyond the Balance Sheet program and the training sessions conducted with the IFRS Foundation and the UN Sustainable Stock Exchanges Initiative were mentioned as efforts to support companies, including SMEs, in this regard.

4. Collaboration and Partnerships:

- There is need for collaboration and partnerships between standard-setters, regulators, stock exchanges, and development finance institutions like IFC to ensure SMEs are adequately supported in their sustainability reporting journey.
- This collaborative approach can help address the specific challenges faced by SMEs and provide them with the necessary tools and resources.

5. Value Chain Considerations:

- The ISSB standards recognize the importance of value chain disclosures, which can be particularly relevant for SMEs that are part of larger supply chains.

Case Study: Bangladesh's Journey Towards ISSB Standards:

The discussion provided a detailed case study on Bangladesh's journey towards adopting the IFRS sustainability standards (ISSB standards):

1. Drivers for Adoption:

- Bangladesh was highlighted as one of the most climate-vulnerable countries, which prompted the government to increase its targets for emissions reduction and support mitigation measures through regulations.
- The IMF also made the development of sustainability and climate-related disclosure guidelines a condition for its budgetary lending operations in Bangladesh.

2. Collaboration with IFC:

- In May 2022, the Bangladesh Bank reached out to IFC for support in developing the sustainability and climate-related disclosure guidelines.
- IFC provided technical assistance, including capacity building for a 10-member working group at the Bangladesh Bank.

3. Alignment with ISSB Standards:

- Initially, the IMF had referenced the TCFD framework, but IFC and the Bangladesh Bank decided to align the guidelines with the ISSB standards (S1 and S2) instead.
- This was seen as more relevant and comprehensive than the TCFD framework alone.

4. Implementation Timeline:

- The guidelines were developed and issued by December 2023, within a tight 6-month timeline set by the IMF.
- IFC supported the training of the Bangladesh Bank staff, who then conducted training sessions for over 60 banks and 34 financial institutions, reaching 187 participants.

5. Ongoing Efforts:

- The Bangladesh Bank plans to incorporate the sustainability data into its core risk assessment and provide refinancing schemes to incentivize banks to improve their sustainability practices.
- The central bank also aims to support the national adoption of the ISSB standards beyond the banking sector.

The Bangladesh case study highlighted the important role of partnerships, capacity building, and alignment with globally recognized standards like the ISSB in driving the adoption of sustainability reporting requirements in emerging markets.

What is next: the IFRS Foundation's work on biodiversity and social standards.

Biodiversity:

- The IFRS Foundation has launched a new research project on "biodiversity and ecosystem services" as part of its two-year work plan.
- This indicates that the ISSB is looking to potentially develop standards related to biodiversity disclosures in the future, building on the work of other initiatives like the Taskforce on Nature-related Financial Disclosures (TNFD).

Human capital:

- The IFRS Foundation has launched a research project on "human capital, including any sort of labor-related issues in the supply chain."
- ISSB is exploring the development of social-related disclosure standards, potentially covering topics like human rights, labor practices, and social impacts within the value chain.

How can we streamline the sustainability disclosure landscape to enable more cost-effective and decision-useful ESG reporting?

Based on the discussion, here are a few key ways the panel suggested to streamline the sustainability disclosure landscape:

1. Promote the adoption and implementation of the IFRS sustainability standards (IFRS S1 and S2) as a global baseline. This helps converge the various reporting frameworks and reduces the "alphabet soup" of expectations.
2. Leverage partnerships and collaboration between organizations like IFRS, IFC, UN Sustainable Stock Exchanges, and others to provide training, capacity building, and technical assistance to regulators, stock exchanges, and companies in emerging markets. This helps demystify the standards and enable more consistent reporting.
3. Develop simplified reporting guidance and tools, including for SMEs, that can be more easily integrated into companies' existing processes and governance structures. This promotes more cost-effective and decision-useful ESG reporting.
4. Emphasize the importance of proportionality and phased approaches in the standards, recognizing that companies have varying levels of resources and capabilities, especially smaller enterprises.

The key is to create a streamlined, globally consistent sustainability reporting supported by partnerships and practical tools to enable widespread adoption and high-quality, comparable ESG data.