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UPDATES ON ISSB AND GRI COORDINATION

The global business landscape is undergoing a profound transformation as sustainability considerations become increasingly central to decision-making. On June 26, 2023, the International Sustainability Standards Board (ISSB) achieved a significant milestone with the issuance of the inaugural IFRS Sustainability Disclosure Standards – IFRS S1 and IFRS S2 – also known as ISSB Standards. These standards aim to create a single, global standard for sustainability disclosures aiming for capital market participants, facilitating better-informed economic decisions. Let's explore the key matters of these ground-breaking standards, as seen in Figure 1. The ISSB Standards represent a pivotal moment in the journey toward sustainable and transparent business practices, offering a structured framework that benefits companies, investors, and the broader global community.

- 1 Global Disclosure Standards**
ISSB Standards provide a unified, global baseline for sustainability disclosures in capital markets, simplifying the reporting landscape. This standardization allows for additional jurisdiction-specific requirements to be built upon this foundation.
- 2 International Support**
ISSB has garnered strong backing from a diverse array of stakeholders, including investors, companies, policymakers, market regulators, IOSCO, FSB, G20, and G7 Leaders.
- 3 Material Information Focus**
ISSB Standards are crafted to prioritize material, proportionate, and decision-useful information for investors. It ensures sustainability disclosures are relevant to investment decision-making.
- 4 Building on Existing Initiatives**
ISSB Standards are rooted in and streamline several established sustainability frameworks, such as the TCFD recommendations, SASB Standards, CDSB Framework, Integrated Reporting Framework, and World Economic Forum metrics.
- 5 Reducing Duplicative Reporting**
The baseline approach fosters global comparability in financial markets while allowing jurisdictions to enhance requirements based on public policy or stakeholder needs. This strategy significantly reduces the burden of reporting for companies operating under multiple jurisdictional rules.
- 6 Cost-effective Global Communication**
ISSB Standards are designed to enable companies to effectively communicate how they identify and manage sustainability-related risks and opportunities across various timeframes, aiding investors in making informed decisions.
- 7 Integration with Financial Statements**
ISSB Standards are intended to be presented alongside financial statements, facilitating a comprehensive view of a company's financial and sustainability performance.
- 8 Rigorous Consultation Process**
The development of ISSB Standards follows an inclusive and transparent due process similar to that of IFRS Accounting Standards. With more than 1,400 responses to ISSB proposals, the process ensures broad input and accountability.
- 9 Interoperability with GRI Standards**
The ISSB collaborates with the Global Reporting Initiative (GRI) to ensure the interoperability of their standards. This partnership streamlines reporting for companies using both ISSB and GRI Standards.
- 10 Capacity Building Partnership**
Beyond standard-setting, the ISSB is committed to a capacity building partnership program. This initiative aims to foster high-quality, consistent reporting across developed and emerging economies, reinforcing the global sustainability reporting ecosystem.

Figure 1. Ten Matters to Know about ISSB Standards
(Source: modified from IFRS Foundation, 2023)

The objective of the two ISSB Standards is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to users of general-purpose financial reports in making decisions relating to providing resources to the entity. Most respondents to the Exposure Draft agreed with the focus of ISSB Standards on users and their information needs.

There is a widespread and strong demand for interoperability with jurisdictional requirements, which refers to the capability to integrate and be compatible with the law or regulation in the jurisdictions where entities operate, including law or regulation that specifies the documents, formats and structures for disclosing information. Therefore, ISSB responds those demands by maintaining its collaborative efforts within the global sustainability reporting realm. Some decisions made by the ISSB to achieve interoperability included:

- confirming that the structure of the disclosure requirements proposed in the Exposure Draft aligns with TCFD recommendations on governance, strategy, risk management, and metrics and targets
- removing the definition of ‘enterprise value’ and the words ‘to assess enterprise value’ from the objective of IFRS S1 and the description of the assessment of materiality
- confirming that information is required for short-, medium- and long- term time horizons, but that those horizons are not defined
- confirming the definition of ‘value chain’ proposed in the Exposure Draft
- introducing a requirement to permit, but not require, entities to consider the GRI Standards and the European Sustainability Reporting Standards (ESRS) in identifying information to provide about sustainability-related risks and opportunities

Other important decision related to interoperability is building partnership with the GRI, as outlined in the Memorandum of Understanding (MoU) signed in March 2022. This MoU delineates the intent of the ISSB and the Global Sustainability Standards Board (GSSB) to synchronize their work agendas and activities related to setting standards. Through this collaboration, the IFRS Foundation and GRI will address two crucial dimensions of international sustainability reporting: ISSB’s focus on standards for capital markets, centred on investors, and GSSB’s emphasis on comprehensive sustainability reporting requirements, encompassing multi-stakeholders.

Acknowledging the necessity for enhanced alignment in the global sustainability reporting landscape, both the IFRS Foundation and GRI recognize the potential for the ISSB Standards and GRI Standards to function as interconnected reporting pillars. These pillars cater to distinct viewpoints and, when combined, can establish a comprehensive framework for corporate reporting that encompasses the disclosure of sustainability-related information.

“The **ISSB** is committed to **creating a global baseline** of reporting standards that **meet the needs of investors**. Our collaboration with GRI will bring clarity to the market on how our **two sets of standards can interact** to provide a comprehensive and seamless suite of reporting standards that meet the needs of broader stakeholders while streamlining the process for companies.”

Emmanuel Faber, Chair of the ISSB, 2022

“The collaboration between GRI and the ISSB is significant because it reflects that both organisations value the importance of **working together to align our sustainability-related standards**. I believe this will not only give companies greater clarity on reporting expectations, it can ultimately improve the quality and relevance of reporting data. I therefore welcome the progress achieved under our MoU so far

Elco van der Enden, CEO of GRI, 2022

The ISSB acknowledges that a subset of disclosures within the GRI Standards may be useful to these users, but the focus of the IFRS Sustainability Disclosure Standards is to provide specific, material, and decision-useful information for investors, in alignment with the objectives of IFRS S1. Figure 2 below illustrates this explanation.



Figure 2. Sustainability Information Tailored to Audience Needs
(Source: IFRS Foundation, 2023)

Regarding the ISSB Standards, Figure 3 illustrates the process of utilizing sources of guidance for developing sustainability disclosures. It highlights differences in the application of this guidance for identifying risks and opportunities and for determining metrics.

The Basis for Conclusions on IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information outlines the ISSB’s considerations and decisions regarding the interoperability of the GRI Standards within the IFRS Sustainability Disclosure Standards. The objective is to strike a balance between improving interoperability with existing sustainability reporting requirements, reducing the reporting burden on entities, and ensuring that the information disclosed aligns with the interests of users of general-purpose financial reports. Basis For Conclusion IFRS S1 Par. BC138 states that the ISSB noted that referencing the GRI Standards and ESRS in the sources of guidance could help improve interoperability with other sustainability-reporting requirements and reduce the burden for entities, especially entities that are already using the GRI Standards to provide metrics or other information or those who are mandated to comply with ESRS. The MoU between the ISSB and GRI underscores the importance of this collaboration.



Figure 3. Guidance for developing sustainability disclosures
(Source: IFRS Foundation, 2023)

Additionally, according to PwC (2023), it's essential to note that the ISSB and GRI standards have distinct focuses when it comes to materiality. While IFRS Foundation and ISSB never explicitly stated the difference in the materiality concept between the ISSB Standards and GRI, PwC (2023) views that the ISSB Standards emphasize financial aspects, while the GRI primarily considers impact.

Furthermore, PwC (2023) states that given this difference in materiality focus, companies should carefully evaluate the implications of transitioning from impact materiality, which the GRI emphasizes, to finance materiality, which the ISSB emphasizes. This shift can have significant consequences for how a company assesses and communicates its sustainability-related matters.

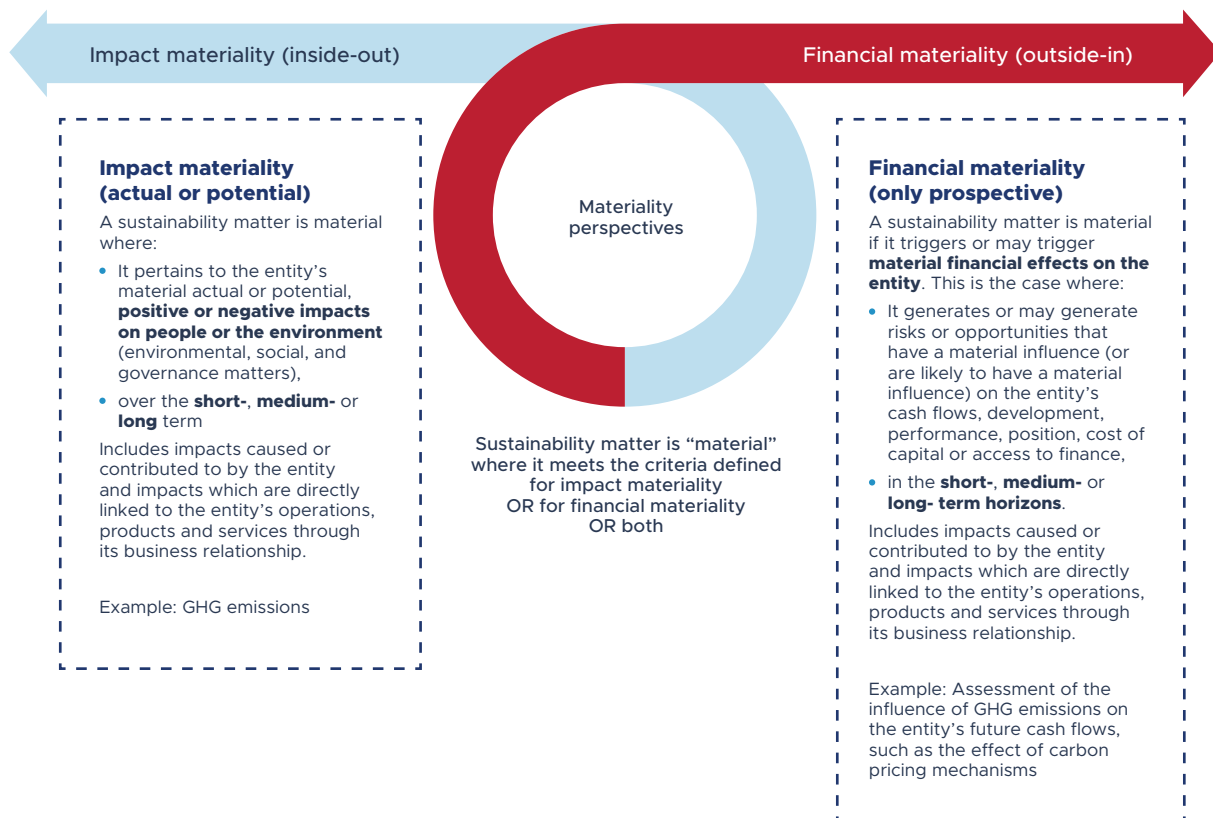


Figure 4. Sustainability Information Tailored to Audience Needs
(Source: PwC, 2023)

GRI establishes the Sustainability Innovation Lab in coordination with the IFRS Foundation

Collaboration between GRI and ISSB has been significant since the collaboration agreement in March 2022. It has sought to achieve coordination in its sustainability-related work programs and standard-setting activities. In November 2023, GRI launched the Sustainability Innovation Lab (SIL) in partnership with the IFRS Foundation, serving as its Convening Partner. This initiative aims to assist companies in meeting evolving sustainability disclosure requirements by providing a platform for professional development, training, practical solutions, and innovative thinking. The SIL endeavours to unite global and local partners to enhance reporting capabilities using both the GRI Standards and the IFRS Sustainability Disclosure Standards. Its overarching goal is to aid stakeholders and market participants in navigating the complexities of sustainability reporting, fostering global harmonization while facilitating streamlined reporting processes for multi-stakeholder companies.



CEO of ISSB and GRI in SIL Launch Event
(Source: GRI, 2023)

The SIL was launched at a conference in Singapore on 20 November 2023, with a worldwide audience participating virtually. Eelco van der Enden and Emmanuel Faber outline the objectives and intentions of the SIL, engaging in a moderated discussion. IAI was also involved as one of the distinguished panellists in a panel discussion alongside representatives from City Developments Limited (CDL), PwC, and the Sustainable Finance Institute Asia (SFIA). Rosita Uli Sinaga, representing IAI, discussed the roles of accountants in sustainability reporting.



Rosita Uli Sinaga as Representative from IAI in SIL Launch Event
(Source: GRI, 2023)

Interoperability considerations for GHG emissions when applying GRI Standards and ISSB Standards

In January 2024, GRI and the IFRS Foundation jointly published an analysis and mapping document titled 'Interoperability Considerations for GHG Emissions when Applying GRI Standards and ISSB Standards'. This publication delineates the key areas of interoperability for companies to consider when measuring and disclosing Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions in compliance with both GRI 305: Emissions and IFRS S2 Climate-related Disclosures. This resource aims to support more efficient reporting for companies using both the ISSB Standards and the GRI Standards. Please note that this resource is not a comprehensive assessment of the requirements in GRI 305 and IFRS S2. When applying GRI or ISSB Standards, preparers must refer to the GRI and ISSB Standards respectively, including their respective definitions of materiality.

“ We all tried to achieve a healthier, happier world for all of us, and how we can contribute to that and then we started with a wonderful three letters MOU. ... No one saw this one twas coming and I got quite a lot of responses. ... responses were very positive indeed but there were some responses not that positive. ... and I think that is exactly what we have achieved to breakdown perceptions. ... There is not something like a competition between ISSB and GRI. Not at all. There's clear cooperation.”

CEO GRI, Eelco van der Enden (November 2023)

Despite being distinct entities, GRI and ISSB demonstrate that they are not competitors but rather collaborators, pooling their expertise to drive progress towards a more sustainable future. The MOU between these two organizations in March 2022 marked the beginning of their collaborative efforts followed by SIL launched in November 2023, which signified a significant step forward in advancing sustainability reporting practices. Fast forward to January 2024, the GRI and ISSB jointly released a ground breaking publication titled 'Interoperability Considerations for GHG Emissions when Applying GRI Standards and ISSB Standards.' This document underscores their commitment to harmonizing standards and promoting interoperability in greenhouse gas emissions reporting. Despite the diverse approaches taken by organizations worldwide, they all share a common goal: to enhance reporting standards for the benefit of all stakeholders. Despite differing methodologies, their unified aim remains to foster improved reporting practices that serve the needs of stakeholders comprehensively.

Reference:

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