



What is sustainability reporting, and how does it differ from ‘traditional’ financial reporting and the related disclosure standards?

Traditionally, corporate reporting has focused on reporting an entity’s financial position, performance, cash flows and changes in equity. Accounting requirements have developed and matured significantly with the development of many national requirements during the 20th century, followed by the widespread adoption and acceptance of International Financial Reporting Standards (IFRS) in the first part of the 21st century. While accounting requirements still differ worldwide (e.g., IFRS, US GAAP, etc.), there is a great deal of consistency in the fundamental requirements. This type of reporting has traditionally been used as a means of measuring an entity’s enterprise value.

Other factors also impact enterprise value, which may not be entirely captured in traditional financial reporting, and link to the sustainability of an entity’s business model in a wider sense. As noted in Question 2, although environmental factors may affect an entity, this may not always be reflected in the measurement of its assets, liabilities, revenue, and expenses.

As the terminology used to describe this type of sustainability information has varied, this publication refers to ‘sustainability reporting’ broadly. Various frameworks generally incorporate the following categories of information:

Sustainability category	Examples of information
Environmental	Climate change, pollution, water use, resource availability.
Social	Diversity, equity and inclusion, supply chain accountability, human rights and fair labour standards.
Governance	Governing purpose, anti-bribery and corruption, executive compensation, ethical behaviour, tax transparency.



Various frameworks then take different approaches in how entities disclose information about these categories. For example, the Task Force on Climate-Related Financial Disclosures (TCFD) requires disclosure about the effects of climate change on an entity under four ‘pillars’:

Pillar	Explanation	Example of information
Governance	The organisation’s governance around climate-related risks and opportunities.	The board’s oversight of climate-related risks and opportunities, such as a sub-committee of the board which monitors management’s progress in implementing carbon reduction targets.
Strategy	The actual and potential impacts of climate-related risks and opportunities on the organisation’s business, strategy and financial planning.	Short, medium and long-term risks and opportunities identified. For example, the short- and medium-term risks of climate change on a seaside resort may be minimal, however, the long-term risks may be significant if rising sea levels and heat would introduce physical risks to the resort’s continued operation.
Risk Management	The process used by the organisation to assess, manage and report on climate-related risks.	The organization’s processes for managing climate-related risks. For example, identifying the aspects of its supply chain that are most sensitive to the effects of climate change and mitigating those risks by altering procurement procedures to consider the risks of climate change in vendor selection.
Metrics and Targets	The metrics and targets used to assess, manage and report relevant climate-related risks and opportunities.	Scope 1, 2 and 3 emissions. For example, scope 1 emissions refer to all direct greenhouse gas emissions, which would include emissions generated by an airline operating its aircrafts.





IFRS Sustainability Disclosure Standards will be issued by the International Sustainability Standards Board. While exposure drafts have not been issued to date.

A Technical Readiness Working Group (TRWG) was formed in 2021 to provide a 'running start' for the new board by building on the well-established work of other standard setters. This culminated in the release of four documents in 2021:

1. General Requirements for Disclosure of Sustainability-related Financial Information Prototype (General Requirements Prototype)
2. Climate-related Disclosures Prototype (Climate Prototype)
3. Conceptual guidelines for standard setting
4. Architecture of standard

Items 1 and 2 are prototypes of standards, which will form the basis for exposure drafts to be published in the first half of 2022.

While only the General Requirements and Climate Prototype have been issued, additional IFRS Sustainability Disclosure Standards are expected to be developed in the near future on other topics (e.g., social, human capital management, and governance topics).

