Major step towards reporting system for capital markets and society

At the end of March, the IFRS Foundation and Global Reporting Initiative (GRI) announced a collaboration agreement under which their sustainability standards boards will coordinate work programs and standard-setting activities. This marks the latest in efforts to create a two-pillar corporate reporting system, with financial and sustainability reporting on an equal footing. Moreover, the collaboration complements the work GRI is engaged with in the EU and improves the links with global developments.

By Peter Paul van de Wijs

Over the past years we see an increased push towards the creation of a global corporate reporting regime based on two pillars, in which financial and sustainability reporting are mandated on equal footing. This future system envisages these two key perspectives as interconnected by their respective underlying standard-setting mechanisms and managed with the same rigor.

One pillar addresses financial considerations through a strengthened financial report that includes sustainability disclosures, in the context of enterprise value creation, for the needs of investors and capital markets. But strengthening financial reporting alone is not enough.

Building a system of public accountability for organizations based on the information needs of one stakeholder is problematic both for the planet as well as for that stakeholder. Investors would be well advised to realize that there are no returns on a failed planet.

Furthermore, there is no reason why financial investors are more entitled to accountability and decision-making information than stakeholders who otherwise ‘invest’ in the organization. In fact, there are quite a few organizations where the other stakeholders have invested more in the organization than investors in the organization’s shares.

The world and sustainability would be the real losers if the development of a global system of comprehensive standards for financial and sustainability reporting at equal footing evolves into a competition between stakeholders and the two pillars being developed independently without the recognition of the need to address the connectivity.

The second pillar of corporate reporting addresses all external impacts that a company has on society and the environment, and hence their contributions towards the goal of sustainable development. We strongly believe that to achieve this aim, sustainability reporting standard setting needs to be multi-stakeholder, firmly rooted in the public interest and authoritative intergovernmental instruments on responsible business conduct – as achieved by the GRI Standards.

Underpinning this system is the principle of double materiality, as originally framed by the EU. When making reporting choices, it is not only about the financial effects for the company, but also about the impact on society and the environment. This principle does not simplify the reporting process but is the right route to relevant reporting for the future. A viewpoint that has become widely adopted. In his response to the launch of the agreement between the IFRS and GRI, Emmanuel Faber, Chair of the International Sustainability Standards Board, stated that “using both the standards set by the ISSB and GSSB will offer a complete and compatible suite of sustainability disclosures.”

It is worth pointing out that materiality is not limited to topics that address financial and impact related considerations. Each direction needs to be considered in its own right as well. Impacts on society and the environment cannot be deprioritized on the basis that they are not financially material, or vice versa. One of the key challenges for us as standard setters is to also address the connection between the two pillars.

And it is worth realizing that there is a sequencing needed in terms of gathering the information. To get a full picture and ensure no topics are missed, companies need to start by assessing their impacts on the economy, the environment, and people. Followed by an assessment how these impacts might affect the financial health of a company and its value creation.

When looking at the initiatives from the IFRS/ISSB and the European Union in parallel it becomes obvious that they are complementary in scope. The main difference lies in the focus, scope, and the speed of development and enforceability. In addition, the EU standards will be mandated, while the IFRS standards will be voluntary standards that need to be adopted by individual legislations before becoming enforceable.

Therefore, we were very pleased to be able to announce that GRI has entered into an agreement with the IFRS while we are also co-constructing the EU Standards with the European Financial Advisory Group (EFRAG) . All three organizations share a commitment to the global alignment of disclosure requirements. This is crucial if we are to enable consistent reporting by companies, which increases accountability and drives responsible business practices.

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The GRI Standards support companies to be accountable for their impacts on the world around them and consist of a modular system of interconnected standards.

- **The Universal Standards apply to all organizations and include the assessment of what topics are material for an organization to reports is contributions – positive or negative – towards sustainable development.**
- **The Sector Standards set out reporting requirements applicable to specific sectors to increase the quality, completeness and consistency of organizations operating in the same sector.**
- **The Topic Standards list disclosures relevant to specific topics.**