

# SUSTAINABILITY

## IFAC's Sustainability Dialogue

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### AAA / IAAER 2024 Midyear Meeting

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# BUILDING A GLOBAL SYSTEM - ISSB UPDATE



- ❑ IFRS S1 and IFRS S2 **published June 2023**.
  - IFRS S2 addresses climate-related disclosures.
  - IFRS S1 - how to prepare and report sustainability-related financial disclosures.
  - Also, addresses risks and opportunities beyond climate.
- ❑ IOSCO endorsement in July 2023.
- ❑ FSB has asked IFRS Foundation to take over the **monitoring of progress on companies' climate-related disclosures from the TCFD**.
- ❑ ISSB Agenda Consultation (September 2023).
  - 4 proposed topics - Biodiversity, human capital, human rights, integration in reporting.
  - IFAC letter focused on **successful implementation** of S1/S2, global baseline for holistic **narrative analysis**, **move with pace** to do more.

# BUILDING A GLOBAL SYSTEM - ISSB UPDATE



- ❑ COP28 Announcements:
  - **Emmanuel Faber** appointed to second term (2027).
  - 400 organizations sign declaration - advance ISSB climate global baseline.
  - IFRS Foundation launches **Knowledge Hub** with support of ISSB. Partnership Framework members.
- ❑ ISSB Adoption & Implementation:
  - **Nigeria and Zimbabwe** early adopters.
  - Followed by **Ghana and Kenya**.
  - **Singapore** to mandate climate-related disclosures from 2025.
  - Support from other **S.E. Asia (Indonesia, Malaysia, Philippines)**
  - **Brazil** to adopt ISSB requirements effective 2026.
  - **Chile and Colombia** mandate SASB Standards.
  - **UK** has published information on its framework for creating UK Sustainability Disclosure Standards (UK SDS) based on the ISSB standards by July 2024.
  - **Turkey** announced at COP28 progress to adopt S1 / S2.
  - **Australia** consultation builds on S2; hopefully broader reporting to follow.
  - Sustainability Standards Board of **Japan** plans to issue EDs in MAR 2024.  
*[I commend the SSBJ for its plan to incorporate ISSB Standards into Japanese requirements..., "Emmanuel Faber]*

# BUILDING A GLOBAL SYSTEM - EU UPDATE



- ❑ European Sustainability Reporting Standards (ESRS) finalized as “Delegated Acts” (July 31) - effective in 2024, *with assurance*.
  - 2 cross-cutting stds. + 10 topic standards = 1000 data points.
  - Covers PIEs, so SME standards needed (under development).
  - Includes non-EU entities with operations in EU.
  - Extraterritorial reach eventually requires consolidated reporting to EU.
- ❑ Last minute calls for reduction in reporting burden on companies.
  - Made most reporting **subject to materiality assessment**.
  - Agreed **financial materiality definition** with ISSB.
- ❑ Two sides to **alignment and “interoperability”**:
  - Companies should not have to report twice.
  - If an ESRS reporting company will comply with S2 on climate, what is ISSB role?
- ❑ IFAC PoV - “interoperability” applies to **ISSB global baseline** + additional jurisdiction requirements (i.e., the “building block” approach).
  - Building a network of “close enough” national requirements linked through multiple interoperability agreements / tables is not the goal.



# BUILDING A GLOBAL SYSTEM – USA UPDATE



- ❑ SEC Rules to Enhance and Standardize Climate-Related Disclosures for Investors (*March 21, 2022*).
- ❑ Context:
  - 16,000 comment letters.
  - It's about investors, not climate....*said SEC Chair Gensler*.
  - California law (October 2023) requires companies doing business in CA to disclose S1-2-3 GHG emissions + climate-related risks/opportunities.
    - ✓ Impacts 8000 reporting entities (revenue > \$500mIn) starting 2026.
- ❑ Lack of consensus in US on climate and ESG; S3 is an issue.
- ❑ Why US needs to pass SEC Rule:
  - No SEC rule, then US companies will be required to report under ESRS.
  - No SEC rule, then US companies will build systems for ESRS reporting.
  - No SEC rule, then no basis for discussions with EU/others about equivalency.
- ❑ Importance of US to ISSB—according to Emmanuel Faber:
  - US companies compete globally for capital, so need climate disclosure.
  - IASB/ISSB and FASB aligned on financial materiality.
  - “Market adoption” in US provides a role in building / shaping ISSB’s global baseline.
  - ISSB based on SASB and TCFD [SoP: 93% SASB / 88% TCFD]...so a “seamless transition” to ISSB reporting.

# BUILDING A GLOBAL SYSTEM – IFEA (INTERNATIONAL FOUNDATION FOR ETHICS AND AUDIT)



## ❑ IAASB

- ISSA 5000 exposed for comment August 2023 with extensive stakeholder outreach.
- Final standard targeted for December 2024.
- Key features include:
  - ✓ Replaces IESA 3000 (Revised) for sustainability-specific assurance engagements
  - ✓ Practitioner agnostic
  - ✓ All sustainability topics
  - ✓ All mechanisms for reporting (CSRs, annual reports, integrated reports)
  - ✓ All suitable standards and frameworks (i.e., ISSB, ESRS, GRI, etc.)
  - ✓ All intended users (i.e., investors or broader stakeholders)
  - ✓ Both limited and reasonable assurance engagements

## ❑ IESBA

- Two EDs to be released – *International Ethics Standards for Sustainability Assurance* (“IESSA”) and *Use of Experts* - following global outreach.
- Global standards on ethical considerations in sustainability reporting and assurance, including independence.
- Also practitioner agnostic – introducing a new section of the IESBA Code.

- ❑ Boards providing an integrated solution that supports high-quality sustainability disclosure, answering call from ISOCO/others.

# BUILDING A GLOBAL SYSTEM – IFAC’S POINT OF VIEW



## ❑ CONCLUSION

- **Harmonized, global system** for sustainability reporting—*that’s long-term goal*.
- State of Play research tells us *where we are and where we need to get to*.
- Voluntary reporting has taken us far—but **need mandatory reporting** for consistent, comparable, decision-useful, “*investor-grade*” information.
- Information must be subject to **mandatory, high-quality assurance** conducted in accordance with **ISSA 5000** and requirements for **ethics/independence and quality management**.
- Global system needs time to evolve, but still the goal to greatest extent possible.

## ❑ NEXT STEPS

- Reporting under ESRS begins, *including assurance*.
- ISSB to focus on adoption and implementation.
- Deliberations – biodiversity, human capital, human rights, integration in reporting.
- IFAC and Standard Setting Boards:
  - ✓ Proposed revisions to IESs to be published in April 2024.
  - ✓ IFAC statement encourages sustainability as part of annual CPD requirements and mutual recognition.
  - ✓ Continue research and advocacy on behalf of accountancy profession.



# THE STATE OF PLAY SERIES

<https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/state-play-sustainability-disclosure-assurance-2019-2021-trends-analysis>



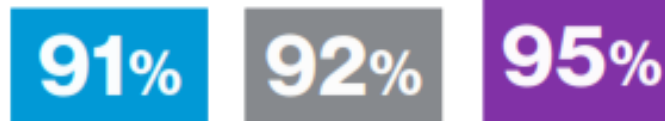


# MAPPING GLOBAL REPORTING AND ASSURANCE PRACTICES

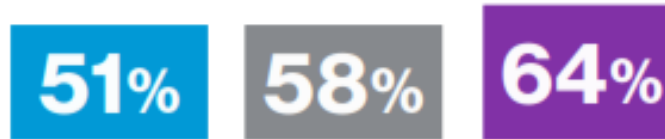
## G20 +

- 1400 largest companies
- 22 jurisdictions
- 3<sup>rd</sup> publication / 3-year trend
- ESG Reporting & assurance

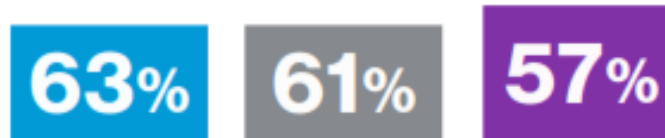
## KEY FINDINGS: 2019 | 2020 | 2021



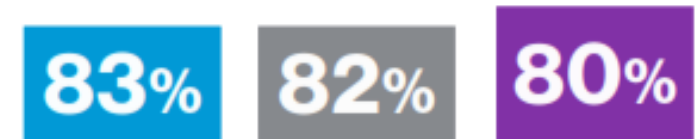
reported some ESG information



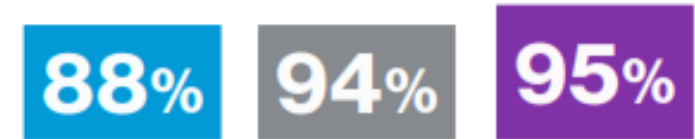
obtained some level of assurance



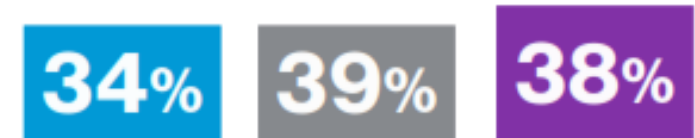
assurance engagements conducted by firms



of assurance was limited





of firms applied ISAE 3000 (Revised)\*



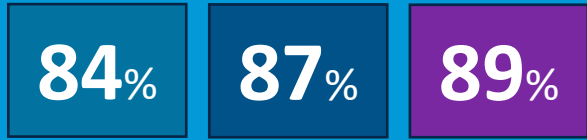
of other service providers applied ISAE 3000 (Revised)

# MAPPING ASSURANCE PRACTICE: BEYOND-G20

- ❑ Reporting rate  (6%) to 89%
- ❑ Assurance rate  (16%) to 48%
- ❑ More firm assurance (5%)
- ❑ More limited assurance (5%)
- ❑ Less use of ISAE 3000 (Revised)

500 companies from 20 jurisdictions

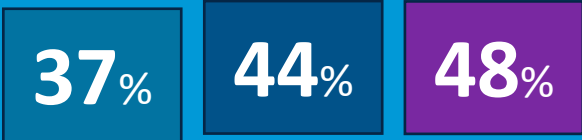
## 2021 Key Findings



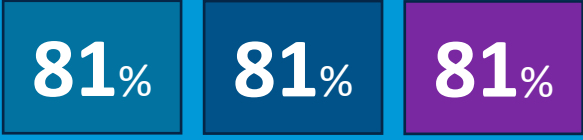
reported *some* ESG information



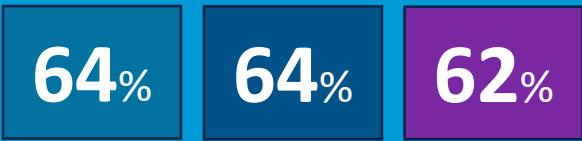
of assurance was limited



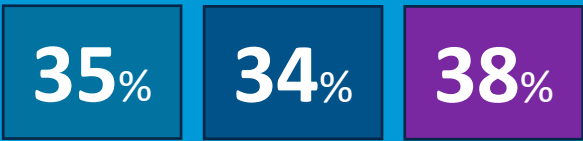
obtained *some* level of assurance



of firms applied ISAE 3000 (Revised)

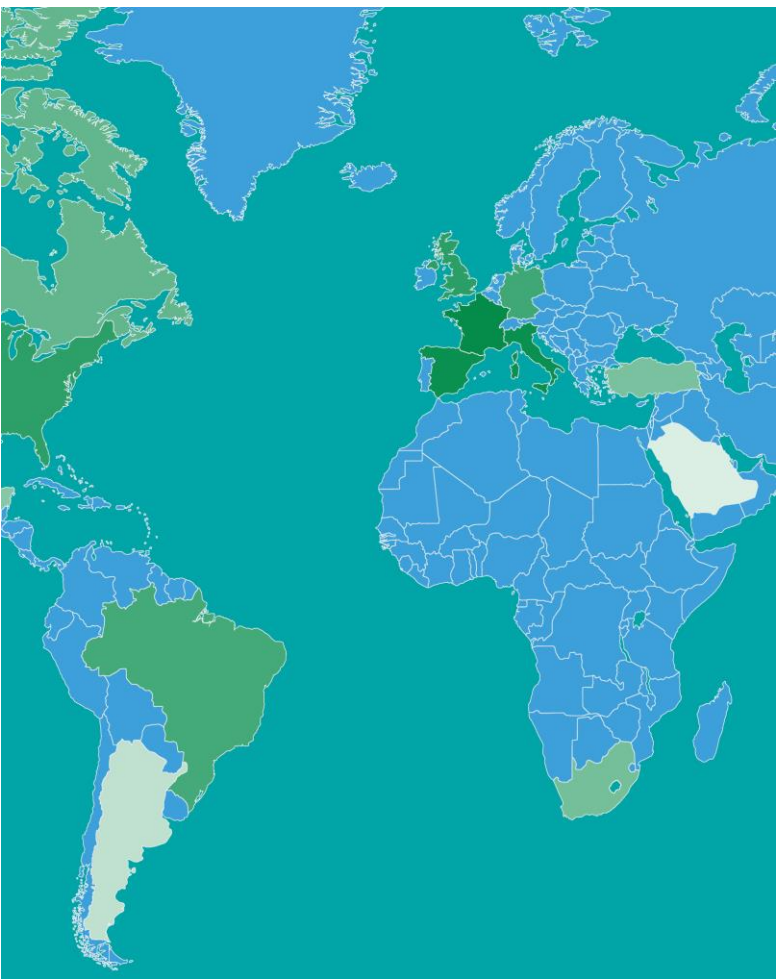


assurance engagements conducted by firms



of other service providers applied ISAE 3000 (Revised)

# MAPPING ASSURANCE PRACTICE: APPLICATION OF ISAE 3000 (REVISED)



	AUDIT FIRMS	OTHER SERVICE PROVIDERS
Percent of assurance reports that use <b>ISAE 3000(R)</b> .	95%	38%
Percent of assurance performed <b>“in accordance with”</b> ISAE 3000(R).	98%	53%
Percent of ISAE 3000(R) engagements that <b>apply IESBA Code</b> or other <b>international ethics code/std.</b>	93%	28%
Percent of ISAE 3000(R) engagements that apply ISQC 1 or other international <b>quality control standard.</b>	91%	38%

# A Deep Dive into Sustainability Assurance Engagements

- ❑ **APPLICATION:** This research identifies differences in the application of the IAASB's standard ISAE 3000 (Revised) between accountancy firm vs. other service provider engagements.
- ❑ **STANDARDS:** Accountancy firm engagements use IAASB assurance standards, while OSPs currently use different standards for different types of engagements.
- ❑ **LEVEL:** Current practice indicates that accountancy firm engagements result in limited assurance reports. Other service providers issue limited, modified, as well as reasonable reports.
- ❑ **SCOPE:** Accountancy firm engagements are generally broader in scope. Other service providers are observed to specialize in narrower scope engagements, especially related to greenhouse gas-related metrics.

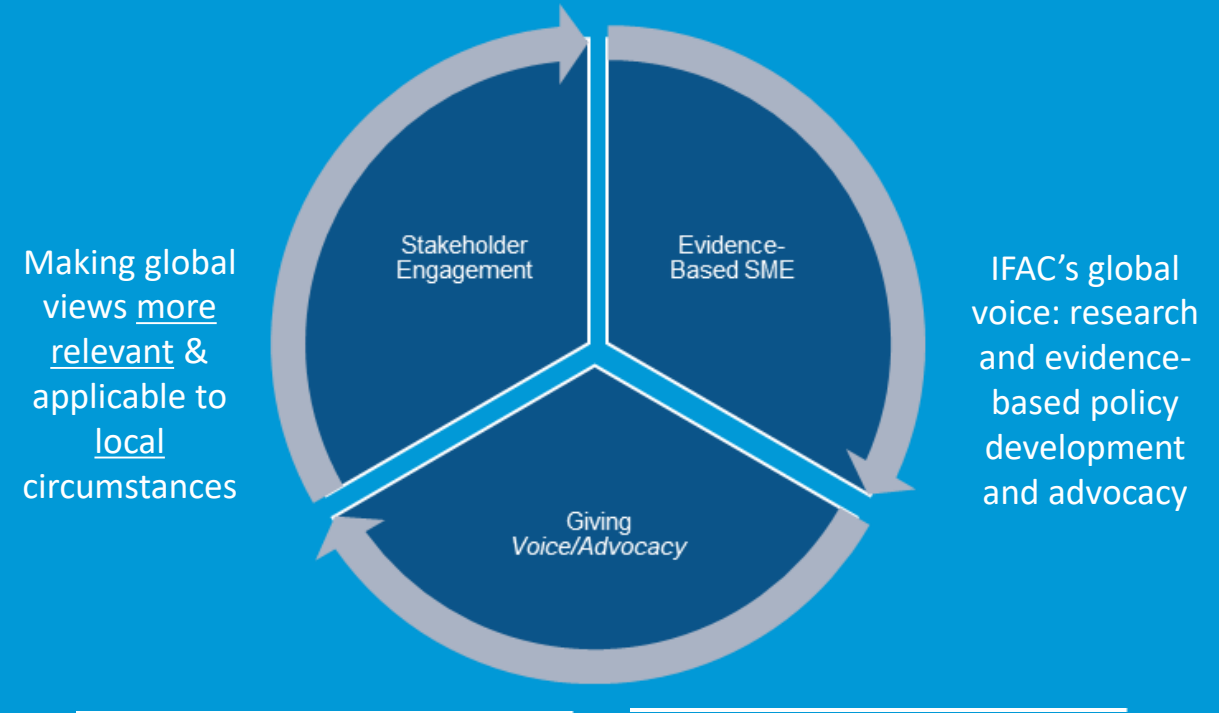




# IFAC POLICY & THOUGHT LEADERSHIP FRAMEWORK

1. **Research & evidence-based policy development / thought-leadership**
  - ❑ State of Play series is *foundational*
2. **Advocacy – bringing our research, messages and points of view to life**
3. **Make IFAC’s global voice more local and relevant through engagement**
  - ❑ Collaboration with IFAC RMs and PAOs/NPs—bringing local relationships and insights
  - ❑ Selectively develop jurisdiction-specific strategies and messaging
  - ❑ More with FoF (LATAM and Singapore in 2024)

## Model for Research, Policy Development, Advocacy & Engagement



# IFAC CROSS-FUNCTIONAL WORKSTREAMS & PROJECTS



Most recent priorities in green typeface

# 4 KEY CHALLENGES FOR OUR PROFESSION....

## AND ONE KEY 'ASK'

### 1. INTEGRATED MINDSET

- Sustainability starts inside of companies
- Bridging information silos
- Connectivity/Integration in sustainability/financial reporting

### 2. GLOBAL REPORTING SYSTEM

- Global Baseline
- Building Blocks approach
- Alignment / Interoperability

### 3. CAPACITY BUILDING

- Awareness raising
- Education / training / skills
- Research – State of Play series
- Sustainability reporting begins inside of companies

### 4. ASSURANCE & ETHICS

- ISSA 5000 as *the* general purpose assurance standard
- ESG-specific IESBA Code
- Level playing field/consistent oversight for *all* practitioners

### SMART REGULATION

- Prudential/“improvement” regulatory approach
- Safe harbors / limited liability
- Opinion qualifications and disclaimers