Position Paper – Collaboration with Standard Setters

Introduction

The business environment has fundamentally changed over the past several decades – sustainability, ESG, and impact have emerged as mainstream frameworks used by companies for better business steering and portfolio development and by investors and other stakeholders to evaluate successful corporate performance as a supplement to financial analysis. Increasingly, many types of investors integrate ESG considerations into investment decision-making for numerous reasons such as to more effectively price risk and achieve risk adjusted returns. A 2019 survey from BNP Paribas, which solicited responses from institutional investors and asset managers, found that over 50% of respondents are seeking to integrate ESG into investment decisions due to improved long-term returns and bolstered firm reputation [1]. Impact investors, on the other hand, aim to achieve specific societal impacts along with returns. The size of the impact investing market currently stands at USD 1.164 trillion in assets under management, with impact investing strategies showing significant momentum and impact investors increasing their assets under management[2]. As a result of this investor pressure and resulting increased capital availability to companies with good ESG performance, there is increasing disparity between the book and market value of companies with strong vs weak performance on these measures. This makes it clear that expectations for the role businesses play in society has changed and that businesses are increasingly seen as important solution providers.

As a consequence, companies are being asked to provide transparency about their ESG or sustainability performance including aspects like employment practices, environmental protection, social cohesion, and the overall impact of their activities on societies. For this purpose, reporting frameworks and standards have been developed and introduced with different scopes and target audiences, e.g., the Global Reporting Initiative (GRI) for stakeholder information since 1997, the Sustainability Accounting Standards Board (SASB) for investors since 2011, or even topic-specific standards such as the Climate Disclosure Standards Board (CDSB) since 2007. The number of sustainability reporting frameworks and standards including different metrics has increased tremendously over the last years – leading to inconsistencies, non-comparable data in the market, and a lack of trust in provided information.

Data users are calling for high quality, transparent, reliable, and comparable reporting to make better decisions towards achieving a more sustainable economy. This requires a consistent set of reporting standards and metrics, but also tailored, auditable accounting systems to collect the right and trustworthy data.

Consolidation and Harmonization of Sustainability Reporting

In September 2020, five organizations— Climate Disclosure Project (CDP), CDSB, GRI, the International Integrated Reporting Council (IIRC), and SASB—announced a common vision for a comprehensive corporate reporting system using a *building blocks* approach that recognizes the importance of structural connectivity between several types of reporting.

In November 2021, the IFRS Foundation announced the creation of a new standard-setting board—the International Sustainability Standards Board (ISSB). This included a consolidation of standard setting organizations such as the Value Reporting Foundation (the merger of IIRC and SASB) and CDSB as well as a cooperation agreement with GRI. The ISSB standards aim to provide decision-useful information for investors focused on 'financial materiality' (sustainability-related matters that financially affect the reporting entity), while the GRI Standards address 'impact materiality' (external impacts of the company and its value chain) to satisfy on top the information needs of the broader stakeholder community. Together, these organizations (ISSB & GRI) build a comprehensive *global baseline* for sustainability reporting while standard-setters such as EFRAG (European Financial Reporting Advisory Group) build on the global baseline and enhance requirements for their respective jurisdictions.

The Link to Impact Valuation

The Value Balancing Alliance (VBA) and The International Foundation for Valuing Impacts (IFVI) just announced their close partnership to develop an internationally accepted impact valuation methodology. The ambition is: 1) to enable data preparers to collect the right information to comply with sustainability reporting requirements based on auditable processes and data, 2) building on the work of ISSB, GRI, and EFRAG developing the next level of sustainability information: the monetary valuation of impacts, 3) providing relevant data for corporate, financial market, and regulatory decision makers to account for the true value contribution of business models to society and to enterprise value, and 4) enabling businesses and investors to incorporate impact valuation into strategic decision-making and management accounting.

The common vision here is to establish a comprehensive, globally accepted baseline for sustainability reporting and building blocks to serve the needs of different jurisdictions and stakeholder groups – including globally accepted disclosure standards and an accepted impact valuation methodology. Rigorous governance, consultation, and piloting processes will be used to drive this acceptance.

Organizations such as ISSB, GRI, EFRAG, VBA, and IFVI intend to work closely together to achieve this vision. The work of ISSB, GRI, and EFRAG provides the global disclosure standards that result in the pre-conditional data inputs for valuation methodologies developed by VBA and IFVI. In turn, the VBA and IFVI work could provide valuable input into the development of disclosure standards.

ISSB, GRI, EFRAG, VBA, IFVI and their affiliated partners are closely coordinating their work, guided by their respective due processes, to ensure the provision of consistent, high quality, transparent, reliable, and comparable information that can enhance business and investment decision making – today and in the future.

By Abhishek Kumar (VBA), Christian Heller (VBA), and T. Robert Zochowski (IFVI)

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References

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[2] D. Hand, B. Ringel and A. Danel, "Sizing the Impact Investing Market: 2022," The Global Impact Investing Network (GIIN), New York.