Future of reporting: Global alignment of sustainability reporting

Talking points for episode 131

In March 2022 the IFRS Foundation ("investor-focussed") and the Global Reporting Initiative 'GRI' ("broader stakeholder-focussed") agreed a Memorandum of Understanding ("MoU") to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures.

The GRI are an independent international organisation that have been setting principle-based global standards for sustainability reporting since 1997 and have historically worked closely with a number of other initiatives within the sustainability reporting space. GRI takes a multi-stakeholder approach which results in a broader definition of materiality encompassing aspects that reflect an entity's significant economic, environmental and social aspects; looking to factors that substantially influence the assessments and decisions of these broader stakeholders.

Global alignment is important because if regulatory fragmentation exists it will be expensive, companies and other stakeholders spend time and money on meeting duplicative regulatory requirements, resulting in additional burden and money spent on duplication of technical systems and/or teams and a potential loss of transparency and comparability for investors and other key stakeholders.

The MoU was signed to try to resolve the growing risk that multiple jurisdictions will develop their own sets of reporting standards – some focused on information useful to investors (enterprise value), and others focused on information useful to a wider group of stakeholders (impact value).

The collaboration provides two pillars of international sustainability reporting:

- Pillar 1: The IFRS sustainability disclosure standards developed by the International Sustainability Standards Board (ISSB), concentrating on information relevant to investors' enterprise value consisting of the entity's equity and net debt.(refer to EP:129).
- Pillar 2: The GRI standards, which are the globally consistent basis for sustainability reporting that highlights an organisation's impact on the economy, environment and people for a broader multi-stakeholder audience.

The management team is responsible for addressing their sustainability reporting strategy and should start considering the impact now, rather than waiting until the standards are final. For example, entities can start to:

- Engage with the board and stakeholders to understand their perspectives. This will help assess what the highest areas of priority in reporting are.
- Consider whether the entity's strategy is adequately documented taking into account sustainability issues. This is an ideal time to talk about ESG risks and opportunities and the governance around this, including laying out targets the business wants to achieve and important metrics to report on progress in meeting the strategy.
- Consider whether there are appropriate controls and governance structures around data, systems and outputs. Entities should also consider how to demonstrate the accuracy and completeness of the underlying data to ensure a suitable audit trail is available.
- Consider obtaining assurance on sustainability reporting and ESG metrics to build further trust in such metrics.

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