



Purpose-driven Business Reporting in Focus

New Prototype Climate-related Financial Disclosure Standard – accelerating progress towards global sustainability standards

Purpose-driven Business Reporting in Focus is a partner publication to Deloitte's *IFRS in Focus*. It provides updates on developments in purpose-driven business practices that are impacting corporate reporting, including progress towards sustainability standards. This publication is aimed at preparers of corporate reports, as well as their users and auditors.

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- A new [Prototype Climate-related Financial Disclosure Standard](#) has been published by the leading international sustainability standard-setters. The prototype shows how the relevant components of the frameworks and standards of these organisations could form the basis for the development of a climate-related financial disclosure standard.
- The International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) have [announced](#) their intention to merge into the Value Reporting Foundation, a unified organisation providing investors and corporates with a comprehensive corporate reporting framework across the full range of enterprise value drivers and standards.
- The IFRS Foundation (IFRSF) has received several early responses to its Trustees' [consultation paper](#) that was published in September 2020 to assess demand for global sustainability standards and what role the Foundation might play in the development of such standards:
 - Deloitte [supports](#) the proposals, and urges the IFRSF to move with urgency to respond to the overwhelming need to create the global baseline for reporting on sustainability factors relevant to long-term value creation.
 - Mark Carney, the United Nations Special Envoy on Climate Action and Finance, [commented](#) that the Trustees are responding to the need for 'comprehensive disclosure of climate financial risk' which is 'foundational to finance driving a successful transition to net zero.'
 - Academics at [Saïd Business School, University of Oxford](#) have written in their response that the Sustainability Standards Board (SSB) under the umbrella of the IFRSF 'would be the most effective way to provide global sustainability reporting standards, so filling a critical information gap in the capital markets.'
- Erik Thedéen, Chair of the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO), released an [open response](#) to a letter received by the five leading sustainability standard-setters. In the letter, he notes that IOSCO is looking to play an important role in the area of sustainability reporting, just as they did 20 years ago for financial reporting.

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New Prototype Climate-related Financial Disclosure Standard

A new [Prototype Climate-related Financial Disclosure Standard](#) has been published by the leading international sustainability standard-setters: CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB). It is an important step to accelerate progress towards a global standards solution.

The prototype shows how the relevant components of the frameworks and standards of these organisations could form the basis for the development of a climate-related financial disclosure standard. It is based on the Taskforce on Climate-related Financial Disclosures (TCFD) [recommendations](#) and adopts the same investor focus.

The climate prototype is accompanied by a prototype conceptual framework and presentation standard for sustainability disclosure.

The prototype conceptual framework adopts the IASB *Conceptual Framework for Financial Reporting*, but includes adaptation for sustainability-related financial disclosure. This recognises the need for such disclosures to provide insight into drivers of long-term enterprise value, including drivers of intangible value that may not be recognised in financial accounting and disclosure.

The points of adaptation include:

- **Enterprise value:** sustainability-related financial information is intended to provide a more robust information set to provide insight into the entity's future performance and future value.
- **Time horizon:** some sustainability matters may translate into financial outcomes at a much later time. They may not therefore currently be captured in the financial statements. Adaptation allows disclosure on how sustainability-related matters may in the long-term affect enterprise value.
- **Boundary:** the boundary for sustainability-related financial disclosures extends beyond the traditional financial reporting boundary to include risks and opportunities in the supply or value chain that have a significant effect on the ability of the reporting entity to create value over time.
- **Application of relevance:** sustainability-related financial disclosures will in many cases be industry-specific. Metrics need to represent business model levers that are actionable by companies to improve performance, and therefore improve enterprise value. Such metrics are linked to the strategic and operational decisions made by a representative company in an industry.

The report as a whole is intended to act as an input for the IFRS Foundation Trustees as they consult on establishing a Sustainability Standards Board and to provide a running start to the new standard-setter. This work demonstrates that financial accounting standards and sustainability-related financial disclosure standards share many common features and highlights how connectivity between sustainability and financial information can be enhanced.

This development is consistent with the vision set out by the leading sustainability standard-setters in their [Statement of Intent](#) to work together towards a comprehensive corporate reporting system. Deloitte is delighted to have acted as facilitator to this effort, which illustrates that speedy progress towards global sustainability standards can be made, building on what we already have.

This initiative follows a number of notable recent developments that are consistent with the move towards a comprehensive corporate reporting system.

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The Value Reporting Foundation

IIRC and SASB have [announced](#) their intention to merge into the Value Reporting Foundation, a unified organisation providing investors and corporates with a comprehensive corporate reporting framework across the full range of enterprise value drivers and standards. The Value Reporting Foundation will facilitate the use of the IIRC's International <IR> Framework that describes all relevant value creation topics and the approach to integrating them in corporate reporting, alongside the SASB Standards, which provide metrics that should be reported for these topics in specific industries.

The merger seeks to accelerate progress toward a global corporate reporting system. In their announcement, IIRC and SASB stress that the Value Reporting Foundation stands ready to work with the IFRS Foundation (IFRSF), the International Organization of Securities Commissions (IOSCO), the European Financial Reporting Advisory Group (EFRAG), CDP, CDSB, GRI and others to work towards a set of globally accepted standards.

Moves to global sustainability standards

The IFRSF has received several early responses to the Trustees' [consultation paper](#) (published in September 2020, as referenced above).

Among others, Deloitte has submitted its [response](#). We support the proposals, and urge the IFRSF to move with urgency to respond to the overwhelming need to create the global baseline for reporting on sustainability factors relevant to long-term value creation. Connection to financial reporting is key if coherence and consistency is to be achieved between the claims made by companies and the judgements and assumptions in the financial statements. Investors and regulators have been calling for this consistency, most recently in respect of climate reporting, amidst concerns about greenwashing.

Deloitte's view resonates with other leading voices.

- The UK government and regulators have issued a [statement of support](#) for the proposals.
- In his [letter](#), Mark Carney, the United Nations Special Envoy on Climate Action and Finance, writes that the Trustees are responding to the need for 'comprehensive disclosure of climate financial risk' which is 'foundational to finance driving a successful transition to net zero.'
- This is echoed by academics at [Saïd Business School, University of Oxford](#) who have written in their response that the Sustainability Standards Board (SSB) under the umbrella of the IFRSF 'would be the most effective way to provide global sustainability reporting standards, so filling a critical information gap in the capital markets.'

Both Mark Carney and the Oxford academics believe that IFRSF is the appropriate body to make this next step towards global sustainability standards. Mark Carney stresses that the IFRSF has the 'credibility and trust of global financial markets participants and deep expertise in delivering robust, reliable and transparent information that serve the public interest, with an established governance and standard-setting architecture for doing so.' The move also enables connectivity with financial information: sustainability information 'must be connected with financial reporting, because the evaluation of prospective sustainability performance is inseparable from that of prospective financial return and risk,' write the Oxford academics.

Achieving standards for capital markets is an important milestone, but not the end of the journey. Mark Carney has noted that, 'Once this foundational layer is set, we can explore mechanisms for global convergence on wider impact reporting.' A similar point is also made by the UK government and regulators, who write that the IFRSF proposal would facilitate reporting on sustainability factors relevant to investors and others 'in the first instance, and reporting of wider sustainability impacts in the longer term'.

Consistent with that view, Deloitte's comment letter proposes that further blocks should be developed to address the wider impacts of companies on the economy, environment and people, and to reflect regional and local public policy priorities, e.g., those of the EU Green Deal. This approach, based on building blocks, has been suggested by the five leading sustainability standard-setters in their [Statement of Intent](#), and [endorsed](#) by the International Federation of Accountants.

All agree that progress to establish the SSB is needed urgently. Deloitte believes that the scale of the challenges and the increasing momentum from all stakeholders for a global solution make the undeniable case for immediate action.

IOSCO stands ready to accelerate the progress towards global sustainability standards

IOSCO has confirmed its unique position to help in the process towards global sustainability standards, 'just as we did 20 years ago when we endorsed IFRS for use in cross-border offerings and listings and set the foundations of the current three-tier governance structure that the IFRS Foundation enjoys today.'

This was set out by Erik Thedéen, Chair of IOSCO's Task Force on Sustainable Finance, in an [open response](#) to the [open letter](#) sent to IOSCO by the five leading sustainability standard-setters, as reported in an earlier edition of [Purpose-driven Business Reporting in Focus](#).

In the letter, Eric Thedéen concludes that there is 'an urgent need to improve the completeness, consistency and comparability of sustainability reporting.' He notes: 'Together your joint initiative and that of the IFRS Foundation [...] can set the foundations of a global system architecture that will deliver a more coherent and comprehensive corporate reporting system. [...] We look forward to continuing and deepening our collaboration with your organisations and the IFRS Foundation.'

Further information

If you have any questions about the contents of this newsletter please speak to your usual Deloitte contact or get in touch with Veronica Poole (vepoole@deloitte.co.uk) or Kristen Sullivan (ksullivan@deloitte.com).

The [Deloitte climate change website](#) provides resources on the challenges of climate change and the business response, through learning, interviews and resources.



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