

ICI VIEWPOINTS

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ISSB: A Strong Foundation for Global Reporting Standards

By Michael Pedroni

Like physical architecture, regulatory architecture can vary across different parts of the world to reflect local preferences and needs. But regardless of geography, physical buildings always share one basic feature—a strong foundation of building blocks to support the overall structure. Regulation—including sustainable finance rules—should also be permitted to vary across regions depending on preferences and needs. But the foundation upon which U.S., European, and Asian sustainable finance regulation is constructed must share the same basic underpinning if global efforts around climate are to succeed.

I am worried that the European Union, through a standard-setting body called the European Financial Reporting Advisory Group (EFRAG), is going its own way and will not adopt the foundational building blocks for sustainable finance regulation that many other major jurisdictions are likely to use. If my fears are correct, the EU will stunt the global progress on sustainable finance—something we can ill afford right now.

Policymakers everywhere are considering how corporate reporting standards on exposure to climate risks can facilitate investors' ability to understand the sustainability of the companies in which they invest capital.

Comparable information across companies, regardless of whether they are headquartered in Europe, the United States, or elsewhere is key. To that end, the International Sustainability Standards Board (ISSB) proposed a set of standards to serve as an overarching framework for global reporting requirements. Several jurisdictions have already committed to adopt the ISSB approach. The architecture that the ISSB is setting up relies on the “building blocks” approach to craft a baseline of international reporting standards for the globe. Jurisdictions should adopt or otherwise align their basic disclosure framework with the global standards, and then each jurisdiction can choose to build upon the strong, shared foundation set by ISSB.

The problem is that Brussels, through its EFRAG body, is sending signals that it will not recognize the ISSB foundation as a global baseline for purposes of corporate disclosure.

ICI recently sent a [letter to EFRAG](#) encouraging them to follow the ISSB's building blocks approach to integrate and build directly on the global baseline standards. The EU's concern is that the ISSB standards do not include double materiality, a measure of a company's potential impact on society and the environment. We strongly believe that the ISSB will facilitate the EU to build upon the global foundational baseline and to add double materiality as a requirement for EU companies—reflecting the preferences and needs of the EU.

There are three areas in particular where EFRAG can do better to follow the global standards that ISSB sets out:

1. European standards should be designed around the four widely-agreed pillars endorsed by the G-20 and set up by the Task Force on Climate-related Financial Disclosures (TCFD). The pillars include governance, strategy, risk management and metrics/targets. We are concerned that EFRAG wants to cut the pillars up and insert them in fragments across the EFRAG-designed framework. This would lead to confusion and make the disclosures of EU companies hard to compare with companies from other parts of the world;
2. EFRAG should adapt its definition of financial “materiality” to be consistent with the ISSB standards; and
3. EFRAG should adopt methodologies for calculating sustainability metrics that are compatible with the ISSB standards.

If EFRAG does not adopt the foundation set up by ISSB, the EU risks fragmenting global understanding of key sustainability and reporting concepts, which will create difficulties for investors when comparing metrics across jurisdictions. The ISSB has proposed a robust set of sustainability standards that should ensure investors have the consistent, reliable, and comparable information they need to make informed investment decisions. It's now on EFRAG to take the baseline developed by ISSB and add the blocks they need on top of that existing framework. Different architectural styles are desirable, but the foundational building blocks for sustainable finance must be the same everywhere, so the global community can come together to prepare for a more sustainable future.

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