

Social Value International response to the creation of the International Sustainability Standards Board (ISSB).

In summary: Social Value International (SVI) recognise the significance of the International Financial Reporting Standard (IFRS) Foundation, one of the most influential standard setters for financial accounting and reporting, announcing their first steps in relation to sustainability information. During the November 2021 COP26 negotiations the IFRS confirmed the creation of a new International Sustainability Standards Board (ISSB). Read more details [here](#). This is a landmark moment in SVI's collective mission to *change the way society accounts for value*.

SVI believe that the ISSB will help to harmonise the metrics that some businesses use to report sustainability issues that pose a threat to the entity's future cash flows (enterprise value). Through the creation of the ISSB there will also be a consolidation of the work of Value Reporting Foundation (formerly Sustainability Accounting Standards Board and the International Integrated Reporting Council) and the Climate Disclosure Standards Board. These are some of the main standard setters that have been creating investor focussed metrics and this is likely to bring more consistency to the field often termed 'ESG' metrics.

However, the ISSB work does not completely solve the confusion in the corporate reporting arena because the ISSB's focus on information that matters for generating 'enterprise value', described as 'single materiality', is different to the approaches adopted by the EU's new Corporate Sustainability Reporting Directive¹ (CSRD) or the Global Reporting Initiative (GRI), both adopt a 'double materiality' position. Businesses will still need to navigate different sets of corporate reporting metrics that serve different purposes. The ISSB's purpose being to protect investor returns, the others being more focussed on increasing business accountability (for all impacts on people and planet) and progress towards sustainable development.

This importance nuance around materiality and purpose for reporting means that the ISSB, in its current structure and mandate, is only an incremental development, and that much more is needed to achieve SVI's vision of a world where social value accounts *support decisions to reduce inequality and optimise well-being (of people and planet)*.

SVI have been active in the IFRS consultations to date (read responses [here](#) and [here](#)) and will continue to work with relevant stakeholders to influence the future shape of the ISSB, the IFRS and the accounting and ESG practices more broadly. Below are three recommendations for the IFRS that should be addressed as soon as possible.

¹ https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

The main recommendations:

1. The ISSB should clarify how ‘enterprise value’ disclosures align to the SDG 2030 agenda and other corporate reporting that adopt ‘double materiality’ approaches.

SVI stand by our feedback to IFRS in July that the current use of the word ‘sustainability’ in the ISSB name is confusing. The purpose of the ISSB is to “*provide the global financial markets with high-quality disclosures on climate and other sustainability issues*”². This means reporting (only) the ‘sustainability issues’ that present a risk to the financial performance of a business. Any impacts that a business has on people or planet that do not affect the entity’s future cash flows are immaterial and do not need to be disclosed. SVI, along with many others, believe that a ‘double materiality’ approach is needed to increase accountability (of businesses to people and planet) and support decisions to achieve ‘sustainable development’ and the SDG 2030 agenda.

The ISSB should be applauded for consolidating the work of several reporting frameworks (Value Reporting Foundation and the Climate Disclosure Standards Board) however, with their current definition of materiality, this has not eliminated the confusion businesses face within corporate reporting.

SVI encourage the ISSB to provide guidance for businesses on how to align enterprise value reporting requirements with other widely used corporate reporting frameworks that adopt a double materiality approach such as the Global Reporting Initiative (GRI) and the European Union’s Corporate Sustainability Reporting Directive (CSRD).

2. The IFRS should integrate sustainability information within financial reporting by revising the *objective of general purpose financial accounting* in the IASB’s Conceptual Framework for Accounting.

The Conceptual Framework for Accounting was revised by the International Accounting Standards Board (IASB) in 2018. However, due to the extreme risks of climate change and rising inequality, SVI believe the IFRS should urgently revisit the ‘information needs’ of an investor to incorporate ‘*positive contribution towards sustainable development*’ into the main purpose of financial accounting (see appendix). This would allow the ‘bottom line’ of a business’s financial report to reflect overall performance that includes contribution towards sustainable development.

In SVI’s initial response to the IFRS in December 2020, we raised the risk that the creation of a new separate standards board (the ISSB) may not help with integration

² <https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/>

and is unlikely to change the status quo where decisions are ultimately driven by the financial 'bottom line'. SVI believe that decision making will only truly be transformed when sustainability information is subject to the same scrutiny and reporting requirements as financial information and fully integrated within one single report.

SVI encourage IFRS to publish guidance on how the work of the ISSB connects to the works of IASB and publish the next opportunity to review the *objective of general purpose financial reporting* in the Conceptual Framework for Financial Reporting³.

3. The IFRS must also look beyond reporting standards and support initiatives that develop a 'management approach' to sustainability issues.

Corporate reporting is important for transparency and has the potential to influence investor decision making. However, sustainability reporting alone, will not lead to the transformation in internal decision making to achieve SVI's vision (where decisions are made to reduce inequality and optimise wellbeing of people and planet).

Businesses need to underpin sustainability reporting with a culture and practice of impact management decision making that are driven by sustainability data that includes changes in wellbeing, valuation techniques and is supported by appropriate levels of assurance. The impact management project⁴ has been instrumental in developing convergence and consensus and SVI are committed to working closer with other structured network partners to accelerate this convergence.

SVI encourage the IFRS to accelerate the connectivity between sustainability reporting standards and other initiatives and standards for 'value accounting' and 'impact management'.

SVI will be updating members regularly on these developments and creating opportunities to work on solutions. Please contact us if you would like to be part of these discussions and workstreams.

³ <https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/>

⁴ <https://impactmanagementproject.com/>

Appendix A: A short note on the Conceptual Framework for Financial Reporting

The IFRS relies on the International Accounting Standards Board (IASB) to set accounting standards. These standards are based upon a Conceptual Framework for Financial Reporting (see more [here](#)). Below is a short description of the Conceptual Framework for Financial Reporting taken from the IFRS website⁵.

The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, to provide useful information for investors, lenders and other creditors.

The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards.

The 2018 revised Conceptual Framework sets out:

- *the objective of general purpose financial reporting;*
- *the qualitative characteristics of useful financial information;*
- *a description of the reporting entity and its boundary;*
- *definitions of an asset, a liability, equity, income and expenses and guidance supporting these definitions;*
- *criteria for including assets and liabilities in financial statements (recognition) and guidance on when to remove them (derecognition);*
- *measurement bases and guidance on when to use them;*
- *concepts and guidance on presentation and disclosure; and*
- *concepts relating to capital and capital maintenance.*

SVI Challenge:

SVI would like to review and challenge the current 'objective of general purpose financial reporting'. We must ask what is the purpose of financial accounts in the 21st century? We must all consider ourselves as 'investors' through our pensions, and considering also the urgency we feel during this 'decade of action', what information do we need?

⁵ <https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/>

With this context, the information needs of an 'investor' should be more comprehensively reviewed. SVI believe there is enough public support, political will and scientific evidence to support ***investment decisions that maximise financial returns whilst also contributing positively to sustainable development.***

SVI recommend an incredibly relevant paper produced by the Capitals Coalition titled: Disclosing Impacts on Natural, Social & Human Capital in Financial Statements. Read this [here](#).

Contact us (hello@socialvalueint.org) if you would like to be involved in further IFRS consultations and future exercises to review the Conceptual Framework for Financial Reporting

Appendix B: Opinion pieces on ESG and IFRS recommended for further reading:

- **Professor Carol Adams, Professor of Accounting at Durham University Business School, UK and Swinburne Business School, Australia.**

Can a private sector body (the IFRS) that has put itself forward to take an “investor perspective” be trusted to have a focus on sustainable development? I think not. Collaborating with GRI and seeking to support those standards also being mandatory would give the IFRS Foundation’s financial-related sustainability disclosure requirements credibility and context. And it would give governments and other stakeholders more confidence that companies were being held accountable for their impacts. The IFRS Foundation’s urgent priority should be to ensure sustainable development risks and opportunities are disclosed (something the IIRC did not explicitly address in its revision of the integrated reporting framework).

Read More – from “[A trial balance for sustainability reporting: reconciling the ISSB and the GSSB](#)”

- **Marcos Athias Neto, Director, UNDP SDG Finance Sector Hub**

To achieve the SDGs and to put the world on a more sustainable and equitable path, we need a transformational shift in mindset and decision-making. We need to recognize we cannot solve market failures purely with market-based solutions. We need all actors, including governments and regulators to create an even playing field and bring economic, social, and environmental impacts on people and the planet into the net of the primary economic system. We have a unique opportunity to create the new normal and build forward better. The magnitude of the challenges we face a humanity, need action today.

Read More – from “[why esg is failing sustainable development](#)”

- **Tariq Fancy, Former CIO of sustainable investing BlackRock**

If the COVID-19 pandemic has taught us one key lesson, it’s that we must listen to the scientific experts and address a systemic crisis with systemic solutions. Reacting instead with denial, loose half-measures, or overly rosy forecasts lulls us into a false sense of security, eventually prolonging and worsening the crisis. And yet Wall Street is doing just that to us today with the far more dangerous threat posed by climate change, craftily

greenwashing the economic system and delaying overdue systemic solutions, including those intended to combat rising inequality and the insidious political risks it creates. It's clear to me now that my work at BlackRock only made matters worse by leading the world into a dangerous mirage, an oasis in the middle of the desert that is burning valuable time. We will eventually come to regret this illusion.

Read More – from "[The Secret Diary of a 'Sustainable Investor' – Part 1](#)"