



United Nations Conference on Trade and Development

Distr.: General
8 August 2023

Original: English

Trade and Development Board Investment, Enterprise and Development Commission Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

Fortieth session

Abu Dhabi, 17–19 October 2023

Item 3 of the provisional agenda

Review of practical implementation of and recent developments in sustainability reporting requirements

Note by the UNCTAD secretariat

Summary

In the last few years, a set of key international developments has led to a strong push from voluntary to mandatory sustainability reporting. One of the main developments has been the establishment of the International Sustainability Standards Board (ISSB), which is responsible for developing a global baseline of sustainability reporting standards for listed companies, along with the aim of the International Organization of Securities Commissions to endorse the standards to be used for cross-border purposes. As a result, countries need to strengthen corporate reporting ecosystems to adopt or adapt these requirements and promote sustainability reporting by listed companies and others. However, many developing countries with weak reporting infrastructures need technical assistance to make the necessary changes, to be ready to produce high-quality sustainability reports.

To address this situation, UNCTAD, at the request of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, has been supporting countries in reinforcing sustainability reporting infrastructures, including through the regional partnerships for the promotion of sustainability reporting in Africa and Latin America, the development of a set of sustainability-related tools and the delivery of technical assistance activities.

The latest developments in the sustainability reporting landscape are reviewed in this note and key challenges faced in countries when strengthening sustainability reporting infrastructures are identified, featuring examples from different countries and regions. Issues for further discussion are proposed.



I. Introduction

1. Fully achieving the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals in less than seven years requires the significant deployment of financial resources across various sectors relevant to sustainable development, particularly in developing countries. One of the key challenges in directing resources towards Goals-related areas is the lack of comparable and reliable sustainability reports and data, to ensure that investors and businesses can make informed decisions with a positive impact on sustainable development. In addition, the operations of companies have economic, environmental and social impacts that can promote or hinder the achievement of the Goals; by measuring positive and negative impacts, companies can manage them and modify behaviours in order to advance sustainable development.

2. Several recent international developments have considerably changed the sustainability reporting landscape, leading to a strong push towards mandatory reporting. One such development has been the establishment of ISSB, announced in November 2021. ISSB will be in charge of developing a global baseline of sustainability reporting standards for listed companies, aimed at ensuring a high-quality, comprehensive global baseline of sustainability disclosures, focused on the needs of investors and financial markets. There has been a consolidation of sustainability-related corporate reporting standards through ISSB, including the standards and frameworks of the Climate Disclosure Standards Board and the Value Reporting Foundation (responsible for the Integrated Reporting Framework and the Sustainability Accounting Standards Board standards), as well as commitments made under the Task Force on Climate-related Financial Disclosures and the World Economic Forum to contribute materials to ISSB standards. In June 2023, ISSB published two standards, one on general requirements for the disclosure of sustainability-related financial information and one on climate-related disclosures. The International Organization of Securities Commissions will review ISSB standards, to endorse the standards to be used for cross-border purposes. As a result, countries need to strengthen corporate reporting ecosystems to adopt or adapt these requirements and promote sustainability reporting by listed companies and others. However, many developing countries with weak reporting infrastructures need technical assistance to make the necessary changes, to be ready to produce high-quality sustainability reports.

3. In November 2022, the Conference of the Parties to the United Nations Framework Convention on Climate Change, at its twenty-seventh session, highlighted that a global transformation to a low-carbon economy was expected to require an investment of at least \$4 trillion to \$6 trillion per year.¹ Delivering such funding will require the transformation of the financial system, a key element of which is sustainability reporting by companies, as the basis for sustainable investment. At the same session, ISSB launched a partnership framework for capacity-building, supported by public and private organizations worldwide, since achieving a truly global baseline necessitates focusing on supporting implementation across all economic settings and there is a need to consider the particular circumstances of emerging and developing economies, and smaller entities, many of which operate within global value chains.² UNCTAD has joined this initiative and is collaborating with ISSB to build capacity for sustainability reporting.

4. UNCTAD continues to provide technical assistance to Member States, and is implementing the Development Account project titled “Towards integrated national financing framework”, aimed at supporting countries in mobilizing and aligning funding with national sustainable development priorities and implemented in collaboration with several United Nations entities. UNCTAD supports capacity-building in sustainability reporting in Belarus, Kyrgyzstan and Zambia, and will also assist Indonesia and Pakistan.

¹ FCCC/CP/2022/10/Add.1.

² See <https://www.ifrs.org/news-and-events/news/2022/11/issb-cop27-progress-implementation-climate-related-disclosure-standards-in-2023>.

Note: All websites referred to in footnotes were accessed in July 2023.

5. UNCTAD, through the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, supports Member States in efforts towards the implementation of international standards of and best practices in accounting and reporting, to promote harmonization and facilitate financial stability, investment and social and economic progress. UNCTAD has been supporting countries in reinforcing regulations, institutions and human capacity to adopt or adapt international sustainability reporting standards and has, in this regard, gathered examples and lessons learned from different countries. UNCTAD has also identified challenges and needs in developing countries and conveyed them to ISSB, to ensure that they are taken into consideration.

6. A substantive item on the agenda of the thirty-ninth session of the Intergovernmental Working Group of Experts focused on good practices in and approaches to the practical implementation of sustainability reporting requirements and, in this regard, UNCTAD gathered lessons learned and good practices from countries in different regions, through technical assistance activities in Africa and Latin America, desktop research and inputs received from a consultative group.³ These were enhanced by feedback received during the session and used in the development of *Tackling the Sustainability Reporting Challenge: A Policy Guide*, which complements UNCTAD sustainability reporting-related tools comprised of the Accounting Development Tool; *Guidance on Core Indicators for Sustainability and [Sustainable Development Goals] Impact Reporting* and the related electronic learning courses; and *Core [Sustainable Development Goals] Indicators for Entity Reporting: Training Manual*.⁴

7. The Intergovernmental Working Group of Experts, at its thirty-ninth session, called upon UNCTAD to continue to identify lessons learned and best practices in strengthening national sustainability reporting infrastructures, with a view to providing member States with practical guidance on this topic, and noted that regional partnerships could play an important role in this process; commended the secretariat for the extensive work conducted during the intersessional period to support regional efforts and build partnerships in Africa and Latin America aimed at promoting a common approach to sustainability reporting and, in this context, welcomed the initiative by the secretariat to develop a brief guide to establishing such partnerships and maximizing their benefits, and encouraged other regions to form such partnerships; called upon the secretariat to convey to ISSB the views of members of the Intergovernmental Working Group of Experts and to explore ways to collaborate with ISSB for the purpose of supporting capacity-building and the strengthening of sustainability reporting infrastructures in developing countries; and called upon the secretariat to stay abreast of deliberations by the International Public Sector Accounting Standards Board on the development of sustainability reporting standards for public sector entities.⁵

8. To maximize progress in and support for developing countries, UNCTAD created the regional partnerships for the promotion of sustainability reporting in Africa (50 members from 26 countries) and Latin America (29 members from 14 countries), and has worked on the launch of two further partnerships, one in Asia and one in the Gulf region. During the intersessional period, UNCTAD continued to support the strengthening of the regional partnerships. A document on building partnerships and maximizing the benefits summarizes lessons learned during the establishment and early consolidation of the partnerships and provides a blueprint for building further partnerships and guidance on maximizing benefits.⁶

³ TD/B/C.II/ISAR/101.

⁴ UNCTAD, 2023, *Tackling the Sustainability Reporting Challenge: A Policy Guide* (United Nations publication, Geneva), available at <https://unctad.org/publication/tackling-sustainability-reporting-challenge-policy-guide>. See <https://unctad.org/publication/guidance-core-indicators-sustainability-and-sdg-impact-reporting>, <https://unctad.org/publication/core-sdg-indicators-entity-reporting-training-manual> and <https://isar.unctad.org/e-learning-courses/>.

⁵ TD/B/C.II/ISAR/103.

⁶ See <https://unctad.org/meeting/unctad-isar-workshop-regional-partnerships-blueprint-maximising-impact-strengthening>.

9. The latest developments in the sustainability reporting landscape in the public and private sectors are reviewed in this note and key challenges faced in countries when strengthening sustainability reporting infrastructures are identified, featuring examples from different countries and regions.

II. Recent developments in sustainability and Goals-related reporting requirements

A. International Sustainability Standards Board

10. ISSB has continued to consolidate its governance structure and promote engagement. The following two standards have been finalized: general requirements for the disclosure of sustainability-related financial information; and climate-related disclosures.⁷ A proposal for a two-year workplan has been put forward.

11. The Sustainability Standards Advisory Forum allows for engagement by ISSB with different countries and regions and for receiving feedback on technical standard-setting issues, to ensure that ISSB standards consider the challenges and needs of different countries and regions. The forum membership, announced in December 2022, includes representatives from Brazil, Canada, China, India, Japan, Mexico, the Republic of Korea, Saudi Arabia, Switzerland and the United Kingdom of Great Britain and Northern Ireland, as well as bodies representing the European Union, Africa and Latin America, along with observers representing the United States of America Securities and Exchange Commission, the European Commission and the International Organization of Securities Commissions, with a representative of the Global Reporting Initiative to be invited as an observer to selected meetings.⁸ The Forum held its inaugural meeting in April 2023, in Germany.

12. In May 2023, ISSB published a draft request for information on agenda priorities that is open for comments until 1 September.⁹ Feedback received will inform the two-year workplan, which includes research or standard-setting projects that will build on the first two published standards and will enter into force in 2024 following ISSB approval. The request for information includes four potential projects on biodiversity, ecosystems and ecosystem services; human capital; human rights; and integration in reporting. In addition, ISSB published the exposure draft, open for comments until 9 August, on the methodology for enhancing the international applicability of the Sustainability Accounting Standards Board standards and taxonomy updates for the standards.¹⁰

13. In June 2023, ISSB published the first two standards, together with documents containing the basis for conclusions, explaining the reasoning behind the standards; accompanying guidance for both standards; industry-based guidance on the standard on climate-related disclosures; effects analyses for both standards; and an overview of requirements under both standards. The standards will become effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted if both standards are applied at the same time and this fact is disclosed.

14. ISSB has decided to amend the first standard, to allow entities to consider the most recent pronouncements of other standard-setting bodies, the requirements of which are designed to meet the needs of users of general purpose financial reporting in identifying

⁷ See <https://www.ifrs.org/projects/completed-projects/2023/general-sustainability-related-disclosures/#published-documents> and <https://www.ifrs.org/projects/completed-projects/2023/climate-related-disclosures/#published-documents>.

⁸ See <https://www.ifrs.org/groups/ifrs-sustainability-standards-advisory-forum/#about> and <https://www.ifrs.org/news-and-events/news/2022/12/inaugural-membership-of-sustainability-standards-advisory-forum-announced/>.

⁹ See <https://www.ifrs.org/news-and-events/news/2023/05/issb-seeks-feedback-on-its-priorities-for-the-next-two-years/>.

¹⁰ See <https://www.ifrs.org/projects/work-plan/international-applicability-of-the-sasb-standards/> and <https://www.ifrs.org/content/dam/ifrs/project/international-applicability-sasb-standards/ed-issb-2023-1-international-applicability-sasb-standards.pdf>.

sustainability-related risks and opportunities and in identifying disclosures in relation to such risks and opportunities, but only in the absence of a relevant sustainability standard under the international financial reporting standards. ISSB has also decided to allow, in the first annual reporting period in which an entity applies the first two standards, relief from issuing sustainability-related financial disclosures at the same time as the related financial statements; relief from measuring scope 1, 2 and 3 greenhouse gas emissions in accordance with the greenhouse gas protocol if the entity uses a different measurement basis in the annual reporting period immediately preceding its initial application of the second standard; and relief from the disclosure of scope 3 emissions. In addition, ISSB has decided to include transition relief, allowing companies to begin disclosing only climate-related risks and opportunities in the first year of reporting and to delay disclosure of other risks and opportunities for the second year of application.¹¹

15. At an international conference on sustainability disclosures, held in Japan in March 2023, the Chair of ISSB noted that ISSB had removed the term “significant” from the reference to risks and opportunities, to avoid confusion regarding how far to go along global value chains, and was now using the notion of exploring value chains by referring to the term used in the international financial reporting standards, namely, “reasonable information without undue cost or effort”.¹²

B. United Nations Global Compact

16. The enhanced communication on progress platform of the Global Compact became effective in June 2023 and comprises a chief executive officer statement that publicly expresses ongoing commitment to the ten principles of the Global Compact and a standardized questionnaire focused on five disclosure areas (governance, human rights, labour, environment and anti-corruption), designed to help participating companies monitor performance across the ten principles.¹³ To maintain active status in the Global Compact, companies must submit a communication on progress during the universal submission period, which takes place from March through June annually.

C. Global Reporting Initiative

17. In November 2022, the Global Sustainability Standards Board of the Initiative published a draft work programme for 2023–2025 for comments from the public on views on the topics and sectors that the Initiative should prioritize.¹⁴ Consultations closed on 17 February 2023.

18. In December 2022, the Initiative published for comments a revised biodiversity standard.¹⁵ The main changes included reporting throughout a supply chain, new disclosures to connect with drivers of biodiversity loss and new requirements on biodiversity-related human rights impacts. The revision process involved engagement with other biodiversity frameworks and initiatives, to ensure alignment. Consultations closed on 28 February 2023; the standard is expected to be issued in the second half of 2023.

19. In February 2023, the Initiative published for comments a mining standard; consultations closed on 30 April and the standard is expected to be issued in the fourth quarter of 2023.¹⁶ The standard considers 25 topics that encompass the range of impacts by mining entities across the environmental, social and economic areas. In addition, the Global

¹¹ See footnote 7.

¹² See <https://www.ifrs.org/news-and-events/events/2023/march/japan-fsa-international-conference-on-sustainability-disclosure/>.

¹³ See <https://unglobalcompact.org/participation/report/cop>.

¹⁴ See

https://www.globalreporting.org/media/3p3mc1am/public_consultation_draft_gssb_work_program_2023-2025.pdf.

¹⁵ See <https://www.globalreporting.org/news/news-center/global-standard-for-biodiversity-impacts-one-step-closer/>.

¹⁶ See <https://www.globalreporting.org/news/news-center/unearthing-the-truth-about-mining-impacts/>.

Sustainability Standards Board announced a call for applicants to join the textiles and apparel working group to be in charge of developing a new sectoral standard.¹⁷ Finally, the Initiative has issued sectoral standards for oil and gas, coal, agriculture and fishing, and eventually aims to cover 40 sectors.¹⁸

D. Task Force on Nature-related Financial Disclosures

20. The Task Force aims to develop a risk management and disclosure framework for entities to report and act on changing nature-related risks in order to promote a shift in global financial flows towards nature-positive outcomes. In March 2023, the Task Force released for public consultation the fourth version of its beta framework, which is a prototype framework for assessing and disclosing nature-related risks and opportunities. The first full framework is expected to be issued for implementation in September 2023.¹⁹

E. International Public Sector Accounting Standards Board

21. The Board has existing guidance for reporting on programmes focused on climate change and the Sustainable Development Goals, contained in recommended practice guidance on reporting service performance information, which can be applied jointly with the recommended practice guidance on reporting on the long-term sustainability of an entity's finances.²⁰ In November 2022, the Board published for comments exposure draft 83 on reporting sustainability programme information, to show how the recommended practice guidance can be implemented in sustainability reporting.²¹

22. In May 2022, the Board published a consultation paper on advancing public sector sustainability reporting that proposed that the Board could serve as the standard setter for global public sector sustainability guidance and that it should develop initial guidance focused on general requirements for the disclosure of sustainability-related financial information and climate-related disclosures, building on private sector standards, with initial guidance to be issued by end-2023. In December 2022, in response to feedback received, the Board confirmed its role in advancing public sector sustainability reporting and decided to establish a sustainability task force to lead the first phase of research and scoping, focused on three topics, namely, general requirements for the disclosure of sustainability-related financial information, climate-related disclosures and non-financial disclosures related to natural resources. In March 2023, the Board discussed findings from the research and scoping activities conducted in the first quarter of 2023 whereby, based on available resources, the Board would focus initially on a climate-related disclosures project since, based on the feedback, this issue was the most urgent, and would continue to seek additional funding to support sustainability reporting standard-setting activities.²²

23. The Association of Chartered Certified Accountants organized round-table discussions to support the International Public Sector Accounting Standards Board in the development of sustainability reporting standards. Following a round table held in February 2023, the Association published a policy brief with six recommendations, as follows: the public sector needs a tailored framework for sustainability reporting; sustainability information for the public sector should include the needs of a broad list of users; such information should contain inside and outside perspectives; climate reporting requirements

¹⁷ See <https://www.globalreporting.org/news/news-center/the-need-to-understand-impacts-of-textiles-and-apparel/>.

¹⁸ See <https://www.globalreporting.org/news/news-center/priorities-for-gri-standards-development/>.

¹⁹ See <https://tnfd.global/about/> and <https://framework.tnfd.global/>.

²⁰ See <https://www.ipsasb.org/focus-areas/sustainability-reporting>.

²¹ See <https://www.ipsasb.org/publications/exposure-draft-ed-83-reporting-sustainability-program-information>.

²² See https://www.ipsasb.org/_flysystem/azure-private/publications/files/Sustainability-Reporting-CP-At-a-Glance.pdf, <https://www.ipsasb.org/news-events/2022-12/ipsasb-confirms-its-role-advancing-public-sector-sustainability-reporting> and https://www.ipsasb.org/news-events/2023-03/ipsasb-enews-march-2023#reporting_sustainability_program_information.

should be the first priority; the requirements should balance relevance and comparability; and the public sector should be ambitious in its approach to sustainability reporting. A second round table was held in April 2023, to discuss anchor frameworks, types of standards and how to facilitate and promote implementation globally; a recommendation was made that, in developing public sector standards, the Sustainable Development Goals should be considered, along with ISSB standards, the approach of the Task Force on Climate-related Financial Disclosures and the Global Reporting Initiative standards.²³

F. International Auditing and Assurance Standards Board

24. To ensure the reliability of sustainability reports, the Board is developing an overarching standard for sustainability reporting assurance suitable for all sustainability topics and reporting frameworks and implementable by all assurance practitioners, which will address limited assurance and reasonable assurance, the conduct of an assurance engagement in its entirety and areas of sustainability assurance engagements in which priority challenges have been identified. The standard will build on existing standards of the Board and guidance that address the issue in a broad manner, including international standard on assurance engagements 3000 on assurance engagements other than audits or reviews of historical information (revised); international standard on assurance engagements 3410 on assurance engagements on greenhouse gas statements; and non-authoritative guidance on applying international standard on assurance engagements 3000 (revised).²⁴ The Board envisages the need for a set of standards for sustainability reporting assurance, which will need to be framework-agnostic and principles-based, to work for all sustainability reporting frameworks.²⁵

G. International Federation of Accountants

25. Following the establishment of ISSB, the International Federation of Accountants stated that the accountancy profession should lead on sustainability reporting and the assurance of such information, highlighting the following four actions: advocate for smart sustainability-related policymaking and regulation; adopt an integrated mindset; be proactive on climate reporting; and demonstrate sustainability-related skills and competencies by positioning professional accountants as best placed to meet the sustainability-related needs of reporting entities.²⁶ In August 2022, the Federation, along with the Principles for Responsible Investment and the World Business Council for Sustainable Development, prepared a joint statement, signed by 65 companies, investors and professional accounting firms, stating that major players in the sustainability reporting field, including the United States Securities and Exchange Commission, the European Financial Reporting Advisory Group and ISSB, should continue to collaborate, to ensure the alignment of standard-setting efforts.²⁷ In *The State of Play: Sustainability Disclosure and Assurance – 2019–2020 Trends and Analysis*, the Federation notes that the international standard on assurance engagements 3000 (revised) remains the most used assurance standard and states that professional accountants are best positioned to undertake engagements that connect sustainability assurance with financial statement audits since they follow rigorous and generally accepted professional, quality management and ethical standards.²⁸

²³ See <https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2023/april/sustainability-reporting-public-sector.html>.

²⁴ See <https://www.iaasb.org/consultations-projects/sustainability-assurance>.

²⁵ See <https://www.linkedin.com/pulse/balancing-urgency-effectiveness-international-tom-seidenstein/>.

²⁶ See <https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/time-action-sustainability-next-steps-accountancy-profession>.

²⁷ See <https://www.ifac.org/news-events/2022-08/companies-investors-and-professional-accountants-add-their-voices-call-global-alignment-between>.

²⁸ See https://ifacweb.blob.core.windows.net/publicfiles/2023-02/IFAC-State-of-Play-Sustainability-Assurance-Disclosures_0.pdf.

H. International Ethics Standards Board of Accountants

26. In June 2022, the Board announced that it would develop globally applicable ethics and independence standards for sustainability reporting and assurance and, in December 2022, approved two new standard-setting projects, namely, a sustainability project to develop profession-agnostic independence standards for use by all sustainability assurance practitioners and ethics provisions for sustainability reporting and assurance; and an expert project to address the use of experts by organizations in relation to sustainability assurance. In 2023, the Board held four round tables to collect views and inputs to help inform the scope and development of these standards.²⁹

I. European Union

27. On 5 January 2023, the Corporate Sustainability Reporting Directive came into force in the European Union.³⁰ About 50,000 companies, including large companies and listed small and medium-sized enterprises, are required to report on sustainability; the first companies will start applying the new sustainability reporting standards for financial year 2024, to be reported on in 2025. In addition, companies are required to audit sustainability information. The standards are being developed by the European Financial Reporting Advisory Group; the draft was published for public comments in November 2022 and, in June 2023, the European Commission launched a four-week consultation period on the first set of sustainability reporting standards for companies.³¹ The standards have been revised by the European Financial Reporting Advisory Group to address concerns raised during the consultation period, including a significant reduction in the number of disclosure requirements and the phasing in of challenging disclosure requirements such as data on value chains over a period of three years, and the European Commission has made additional modifications to ensure proportionality and to facilitate the correct application of the standards, including on a materiality assessment for all standards and disclosure requirements except for those under the general disclosures standard; additional phased-in requirements such as the omission of scope 3 greenhouse gas emissions for companies with fewer than 750 employees; and the voluntary nature of some disclosures. Interoperability with ISSB and the Global Reporting Initiative was considered in the modifications, to avoid unnecessary double reporting. In accordance with the Corporate Sustainability Reporting Directive, listed small and medium-sized enterprises should report according to standards that are proportional to the complexity of their activities and their capacities and resources, and are required to start reporting in 2026; for a transitional period of two years after entry into force of the standards, such companies are permitted to opt out of reporting requirements by including an explanation in management reports as to why sustainability information is not provided.³² Non-listed small and medium-sized enterprises may choose to use the proportional standards on a voluntary basis.

28. The developments described in this chapter serve to highlight the dynamic and substantial changes being undertaken in the global sustainability reporting landscape in order to promote the harmonization, comparability and reliability of this type of information; and stress the need for countries to reinforce corporate reporting ecosystems, to be able to adopt or adapt these new requirements.

²⁹ See <https://www.ethicsboard.org/focus-areas/sustainability-reporting-and-assurance> and <https://www.ethicsboard.org/publications/briefing-note-global-sustainability-roundtables>.

³⁰ See https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en.

³¹ See https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13765-European-sustainability-reporting-standards-first-set_en.

³² See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022L2464>.

III. Practical implementation challenges faced by countries and examples of good practices

29. Regulators in developing countries may choose to develop sustainability reporting standards or adopt or adapt ISSB standards, to ensure the preparation of sustainability reports. However, when embarking on the sustainability reporting journey, countries may encounter difficulties in preparing a national sustainability reporting infrastructure and creating a dynamic reporting ecosystem able to keep up with the rapid and constantly evolving global sustainability reporting environment. The main challenges include the lack of a sound financial reporting infrastructure that serves as a foundation; poor coordination among key institutions; the absence of an entity responsible for sustainability reporting; the emergence of various national sustainability reporting regulations and policy measures in key markets besides the ISSB standards; insufficient human capacity among key players in the sustainability reporting value chain; the depth of changes brought about by the two new ISSB standards; the lack of a national infrastructure to produce publicly available and reliable data on sustainability, particularly regarding climate change; the lack of balanced, reliable and comparable information on environmental, social and governance-related issues, which can affect Goals-related investment; the need to raise awareness, build capacity and promote proportional small and medium-sized enterprise standards; and the absence of leadership positions on sustainability in companies. These challenges are discussed in this chapter.

30. A strong financial reporting infrastructure facilitates the establishment of sustainability reporting architecture; countries with weak financial reporting infrastructures may therefore find it more difficult to add sustainability reporting elements rather than starting from scratch.³³ For example, the responsibilities of regulator(s) could be extended to cover sustainability reporting; capacity-building for sustainability reporting could be achieved through existing relationships with universities and the existing continuing professional development systems of professional accountancy organization(s); and audit and assurance requirements could be extended from financial to sustainability disclosures, among other elements. If such elements are not in place, they need to be developed.

31. Given the multidimensional nature of sustainability reporting, it is critical to involve and promote the collaboration of key institutions in the public and private sectors and civil society from the start. Countries should decide whether they plan to require sustainability reporting for listed companies only or will also develop requirements or recommendations for non-listed companies, including small and medium-sized enterprises, and public sector entities. It is possible to opt for a phased or transitional approach, particularly as international requirements for entities outside of the listed category are not yet available. However, it is essential to begin strengthening the sustainability reporting infrastructure as early as possible.

32. One of the main elements needed in sustainability reporting architecture is an institution in charge of sustainability reporting. Countries can create a new standard setter for this purpose or extend the mandate of an existing body to include sustainability issues. Such an institution should be properly staffed and financed.

33. With the proliferation of national sustainability reporting regulations and policy measures, the lack of interoperability and consistency in national sustainability reporting requirements remains a challenge. For example, the United States Securities and Exchange Commission and the European Union are developing sustainability reporting requirements and working with ISSB to achieve interoperability (see table). The ISSB standards may therefore be aligned but not identical to requirements in some jurisdictions, and companies need to prepare information to comply with regulations in the markets in which they are listed. In this regard, countries can decide to issue sustainability standards, can choose to use a building blocks approach and implement ISSB requirements as a baseline (block 1), together with additional national requirements that satisfy local needs, or can use ISSB

³³ UNCTAD, 2023.

standards and, as block 2, existing and accepted standards, such as those developed by the Global Reporting Initiative, to provide information to a wider set of stakeholders.³⁴

Sustainability reporting requirements: Overview

	<i>ISSB</i>	<i>European Union</i>	<i>United States</i>
Type of standard	Global baseline; countries can add requirements to meet needs of other stakeholders	Comprehensive set of sustainability reporting standards with broader scope	Focused on climate-related disclosures only
Target users	Focused on needs of investors and creditors	Considers broader list of users, including investors and creditors, and other stakeholders (Governments, business partners, trade unions, employees, customers, suppliers, etc.)	Focused on investors
Scope	Applicable to listed companies	Applicable to large companies and listed small and medium-sized enterprises (proportional specific standards to be developed) in European Union	Applicable to domestic and foreign registrants; listed companies divided into four categories that determine when they start reporting and provide phase-in periods or exemptions
Effective date	In 2024	Applicable to first (large) companies as of 2024, for reports to be published in 2025	No definitive date but rules may become effective in 2023 (filed in 2024) or in 2024 for first companies
Materiality approach	Financial	Double	Financial
Areas covered	Standards cover general requirements on sustainability disclosures and climate-related financial disclosures; more standards will be developed	Forthcoming 12 standards, covering general requirements, climate, other environmental issues and social and governance-related issues	Forthcoming standards to require disclosures on climate-related risks and material impacts; company governance of climate-related risks; greenhouse gas emissions; climate metrics; information on targets and goals; and a transition plan
Content and basis	Based on Task Force on Climate-related Financial Disclosures and Sustainability Accounting Standards Board; also builds on framework and standards of Climate Disclosure Standards Board, Value Reporting Foundation and World Economic Forum	Developed by European Financial Reporting Advisory Group; includes sector-agnostic, sector-specific and entity-specific disclosures	Disclosures similar to those under Task Force on Climate-related Financial Disclosures and Greenhouse Gas Protocol
Connectivity	ISSB and the International	European Financial Reporting	The Securities and

³⁴ See <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/supporting-materials/issb-webinar-presentation-april-2022.pdf>.

	<i>ISSB</i>	<i>European Union</i>	<i>United States</i>
	Accounting Standards Board collaborate to ensure comprehensive and coherent general purpose financial reports, achieved through compatible concepts and by avoiding gaps or overlaps between the two sets of standards	Advisory Group recognizes importance of enhancing consistency and coherence between financial and sustainability information included in annual reports and suggests a research project to enhance connectivity in financial and sustainability requirements and reporting practices	Exchange Commission proposal requires disclosing information on material climate-related risks that affect financial statements, to be included in corresponding forms and audited financial statements
Assurance	Verifiability included as one of the characteristics of the information, but standards do not mention assurance directly	Gradual approach from limited assurance to reasonable assurance	Phase-in period for assurance from limited to reasonable

Source: UNCTAD. See <https://www.ifrs.org/groups/international-sustainability-standards-board/>, <https://www.ifrs.org/news-and-events/news/2023/03/connectivity-what-is-it-and-what-does-it-deliver/>, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464>, <https://www.efrag.org/lab6>, <https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting>, <https://efrag.org/Meetings/2208221445318810/EFrag-FRB--FR-TEG-Joint-Meeting-08-February-2023> (paper No. 09-01), <https://www.sec.gov/files/33-11042-fact-sheet.pdf> and <https://frv.kpmg.us/reference-library/2022/talkbook-sec-climate-disclosures.html>.

34. The lack of human capacity is a significant challenge faced in developing countries. Sustainability reporting creates a need for additional expertise and capacity. The preparation of sustainability reports encompasses many actors, including preparers, regulators, auditors, academics and trainers, all of whom need to embrace a long-term learning commitment to deal with a continuously growing set of standards, including international sustainability standards in different areas and for different entities such as the following: International Auditing and Assurance Standards Board assurance standards for sustainability reports; International Code of Ethics for Professional Accountants ethics and independence standards for sustainability reporting and assurance; International Public Sector Accounting Standards Board sustainability reporting standards for the public sector; and ISSB standards. Countries need to build capacity quickly to deal with changes and, in this regard, collaboration between professional accountancy organizations and universities is essential, to provide sustainability reporting courses and curricula covering the latest developments.

35. Another major challenge is with regard to the depth of the changes resulting from the new international requirements. Companies that have been reporting using the recommendations of the Task Force on Climate-related Financial Disclosures may find it easier to implement the ISSB climate-related disclosures standard. However, this standard requires reporting additional and more detailed information such as with regard to risk management and strategy disclosures and also requires the disclosure of industry-based metrics based on Sustainability Accounting Standards Board standards. In this regard, ISSB is introducing relief measures to ease the burden on companies.

36. Many countries lack the necessary infrastructure to issue publicly available and reliable data on sustainability, particularly information on climate change in the region in which an entity conducts its activities. Without such information, the disclosures provided by companies on climate-related risks and opportunities will not be of high quality.

37. The lack of reliable and comparable information on environmental, social and governance-related issues can hinder the mobilization of funds for investment in Sustainable Development Goals-related areas. The current focus of sustainability disclosures on climate change results in less information being available on other environmental, social and governance-related issues. A survey on sustainability reporting showed that, in 2022, among the largest companies, less than half reported on social and governance-related risks to business, except for in Europe, where disclosure requirements

include social and governance-related issues.³⁵ As the ISSB standards are developed, therefore, companies need to supplement sustainability reports, to cover environmental, social and governance-related issues such as those related to biodiversity, waste, water use, labour rights, human rights, corporate governance and anti-corruption activities.

38. Countries need to raise awareness, build capacity and promote proportional standards tailored to small and medium-sized enterprises in order to ensure that such enterprises remain competitive and continue to have access to global value chains. Such enterprises represent the majority of companies in developing countries and, although ISSB standards target listed companies, as suppliers of multinational companies, many small and medium-sized enterprises will be impacted by spillover effects. This means that such enterprises also need to begin providing some sustainability information, particularly on greenhouse gas emissions.

39. At the company level, an additional difficulty is due to the fact that leadership positions for sustainability reporting are not yet dominant. As shown in the sustainability survey, among the largest companies, less than half have leadership-level representation.³⁶ It is expected that as the sustainability strategies and practices of companies mature, the inclusion of these types of leadership positions will become the norm.

40. Finally, the International Organization of Securities Commissions will review ISSB standards for endorsement for cross-border purposes. The Chair of the Board of the Organization has highlighted four factors that are important for a global framework, namely, proportionality; the need for capacity-building; interoperability, to allow sufficient room for national requirements; and temporary relief with regard to some disclosure requirements.³⁷ In this context, the regional partnerships for the promotion of sustainability reporting are a key mechanism with which to support developing countries in fostering regulations and institutions and in building the technical skills needed to enable sustainability reporting. The partnerships facilitate the exchange of good practices and lessons learned in the implementation of sustainability reporting standards, help identify technical assistance needs and provide a regional voice in interactions with international standard setters.

Addressing sustainability reporting challenges: Examples from countries and regions

41. Brazil established the Sustainability Pronouncements Committee in 2022. The Committee is in charge of issuing sustainability standards, interpretations and guidance for companies in Brazil, with members appointed from the following: Brazil Stock Exchange; Federal Accounting Council; Financial and Accounting Research Institute Foundation; Institute of Independent Auditors; Listed Companies Association; and National Association of Capital Market Investment Professionals and Analysts.³⁸

42. Canada established the Sustainability Standards Board in June 2022.³⁹ The Board will collaborate with ISSB to develop and support the adoption of sustainability disclosure standards under the international financial reporting standards, to ensure that the perspective of Canada is reflected in international decision-making processes and to facilitate interoperability between ISSB standards and any standards issued by the Board, noting the need for collaboration and alignment between the Board and other standard setters in Canada. With regard to the public sector, various municipalities produce sustainability reports and information. For example, the City of Toronto is beginning to adopt the recommendations of the Task Force on Climate-related Financial Disclosures and

³⁵ See <https://kpmg.com/xx/en/home/insights/2022/09/survey-of-sustainability-reporting-2022.html>.

³⁶ Ibid.

³⁷ See <https://www.ifrs.org/news-and-events/events/2023/march/japan-fsa-international-conference-on-sustainability-disclosure/>.

³⁸ See http://static.cpc.aatb.com.br/Arquivos/173_CL_IFRSS2.pdf.

³⁹ See <https://www.frascanada.ca/en/cssb> and <https://www.newswire.ca/news-releases/accounting-audit-and-assurance-standards-oversight-councils-announce-canadian-sustainability-standards-board-826484041.html>.

prepare climate-related financial disclosures according to the recommendations; provides detailed information online on climate change actions; and is the first municipal government in Canada to issue an annual report for all stakeholders on environmental, social and governance-related issues, with content based on different standards and frameworks depending on applicability in the City of Toronto, such as those of the Global Reporting Initiative, the International Integrated Reporting Council, MSCI[Morgan Stanley Capital International] (environmental, social and governance-related government ratings methodology) and the Sustainability Accounting Standards Board, as well as the Sustainable Development Goals.⁴⁰ The City of Vancouver has included climate-related financial disclosures in its annual report since 2018, prepared according to the recommendations of the Task Force on Climate-related Financial Disclosures, with certain metrics or recommendations developed or adapted to account for the fact that the Task Force recommendations were developed for the private sector; further development by the City of Vancouver with regard to the four core elements of the Task Force recommendations is necessary.⁴¹

43. In China, the Ministry of Ecology and Environment published, in December 2021, measures for the administration of legal disclosure of enterprise environmental information.⁴² The measures, aimed at standardizing and mandating environmental, social and governance-related reporting for companies, became effective in February 2022 and are applicable to entities that engage in production with a high level of environmental impact and to entities that finance such projects. Under the measures, an annual report disclosing environmental information is required, including on greenhouse gas emissions, pollution control facilities, environmental violations and other matters.

44. In Colombia, the Superintendency of Finance issued sustainability reporting requirements in 2021, through Circular 31, which will become effective in January 2024. The circular was developed using a proportional and gradual approach that considered the needs of different types of listed companies and the requirements use financial materiality and are based on the standards of the Sustainability Accounting Standards Board and the recommendations of the Task Force on Climate-related Financial Disclosures, thereby taking into consideration alignment with international standards. The assurance of information disclosed will initially be voluntary.⁴³

45. In India, the Securities and Exchange Board introduced new reporting requirements in 2021 on environmental, social and governance-related issues under a business responsibility and sustainability report, the filing of which, for the leading 1,000 listed companies, was voluntary for financial year 2021–2022 and mandatory for financial year 2022–2023. The Sustainability Reporting Standards Board has issued a standard on sustainability assurance engagements, based on the international standard on assurance engagements 3000 (revised), which will be mandatory for assurance reports covering periods ending on or after 31 March 2024, with a voluntary application for the previous year. The Sustainability Reporting Standards Board was mandated by the Securities and Exchange Board to establish social audit standards and an oversight body for social audits, as well as to develop procedures for disciplinary action against non-compliant social auditors. The compendium of 16 social audit standards became effective in February 2023. To ensure that auditors have adequate capacity to implement the social audit standards, the Sustainability Reporting Standards Board held a training session and, along with the

⁴⁰ See <https://www.toronto.ca/wp-content/uploads/2022/08/8f03-City-of-Toronto-YE-2021-AFR-08-15-2022.pdf>, <https://www.toronto.ca/services-payments/water-environment/environmentally-friendly-city-initiatives/transformto/> and <https://www.toronto.ca/legdocs/mmis/2021/ex/bgrd/backgroundfile-159901.pdf>.

⁴¹ See <https://vancouver.ca/files/cov/2022-financial-statements.pdf>.

⁴² See <https://www.china-briefing.com/news/china-esg-reporting-disclosing-enterprise-environmental-information/>.

⁴³ Escobar M, 2022, Presentation, presented at the thirty-ninth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, Geneva, 2 November, available at <https://unctad.org/meeting/intergovernmental-working-group-experts-international-standards-accounting-and-reporting-24>.

Institute of Chartered Accountants, offers an online business responsibility and sustainability reporting certificate course.⁴⁴

46. In Japan, the corporate governance code requires companies under the prime segment of the stock exchange to disclose sustainability information according to the recommendations of the Task Force on Climate-related Financial Disclosures. In January 2023, Japan introduced a template for annual securities reports that includes a column on sustainability information, including with regard to climate change and human capital, which will come into effect for reports for the year ending in March 2023. However, there is no standard for disclosing this information and, in this regard, the Sustainability Standards Board will issue standards in alignment with ISSB, which are expected to be published in 2025.⁴⁵

47. In Mexico, in 2022, the Financial Reporting Standards Board modified its statutes to widen the scope of its mandate, to issue sustainability disclosure standards for non-listed companies, including small and medium-sized enterprises. The Board is developing sustainability disclosure standards that will be guided by ISSB and will also consider a simplified framework for small and medium-sized enterprises, based on *Guidance on Core Indicators for Sustainability and [Sustainable Development Goals] Impact Reporting*.

48. In Nigeria, the Financial Reporting Council will adopt ISSB standards when they are published, is collaborating with the Federal Ministry of Finance, other regulators and professional accountancy organizations to prepare a road map for implementation in Nigeria and has established a technical readiness working group.⁴⁶

49. The Russian Federation, in July 2021, issued a law on limiting greenhouse gas emissions in order to comply with the obligations under the Paris Agreement under the United Nations Framework Convention on Climate Change. As of 2023, regulated organizations are required to submit an annual report on greenhouse gas emissions.⁴⁷

50. In the United Kingdom, in November 2021, the Treasury issued sustainability reporting guidance applicable to reporting periods from 2021 to 2022, containing the principles and standards for sustainability reporting applicable to all central government bodies included within the scope of the greening government commitments, and including voluntary and best practice reporting for entities willing to go beyond minimum mandatory reporting.⁴⁸ The minimum requirements comprise the evaluation and disclosure of performance on various environmental matters; government entities need to account for scope 1, 2 and 3 greenhouse gas emissions and report on sustainable procurement and construction.

51. In the United States, the Securities and Exchange Commission conducted a consultation in 2022 on climate-related disclosures, and received 16,000 responses. The Commission has not yet set a date for when the new rules will be released that will help issuers prepare more consistent information and is considering, for example whether to include quantitative thresholds to trigger disclosures or whether to use materiality.

52. In Zimbabwe, the Public Accountants and Auditors Board has decided to undertake early adoption of the ISSB standards, given the potential to attract investment and boost

⁴⁴ See https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities_50096.html, <https://resource.cdn.icai.org/74134srsb60035.pdf>, <https://resource.cdn.icai.org/72628aasb58538.pdf>, https://www.icai.org/new_event.html?event=6863 and https://www.icai.org/new_event.html?event=6792.

⁴⁵ See https://www.asb.or.jp/en/fasf-asbj/list-ssbj_2.html.

⁴⁶ See <https://www.ifrs.org/news-and-events/news/2022/11/issb-at-cop27-frc-of-nigeria-to-adopt-ifrs-sustainability-disclosure-standards/> and <https://frcnigeria.gov.ng/2022/11/09/financial-reporting-council-of-nigeria-announces-its-intention-to-early-adopt-sustainability-reporting-standards-ifrs-s1-s2-by-international-sustainability-standards-board-2/>.

⁴⁷ See <https://cms-lawnow.com/en/ealerts/2021/07/russia-publishes-law-on-limitation-of-greenhouse-gas-emissions>.

⁴⁸ See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1030665/Sustainability_Reporting_Guidance_2021-22.pdf.

private sector development in the country, and the Board has requested advisory and capacity-building support from ISSB.⁴⁹

53. The European Commission is expected to adopt 12 sustainability reporting standards in 2023: two on cross-cutting issues, five on environmental issues, four on social issues and one on governance-related issues. The European Financial Reporting Advisory Group is working on the next set of draft standards. Companies in Europe have been reporting on sustainability for some years; however, the new Corporate Sustainability Reporting Directive and the new sustainability reporting standards imply significant changes in reporting, increasing the information provided by, for example, shifting from climate-related disclosures to a broader list of environmental issues, in addition to social and governance-related topics that will be included in more detail, and also considering global value chains. An assessment of Corporate Sustainability Reporting Directive readiness among 200 companies globally found, in most cases, areas in which companies were not prepared to comply with the new requirements.⁵⁰ To address this issue, the European Commission and the European Financial Reporting Advisory Group have proposed a series of changes to the standards and relief in some cases, to avoid posing an excessive burden on companies. The European Financial Reporting Advisory Group is collaborating with ISSB to seek alignment.

54. Additional examples and policy options for countries in reinforcing national regulations, institutions and human capacity are included in *Tackling the Sustainability Reporting Challenge: A Policy Guide*.⁵¹ UNCTAD, in partnership with the Finance Initiative of the United Nations Environment Programme and the Principles for Responsible Investment, has monitored the latest developments in sustainable finance policies and regulations in 35 economies and country groupings.⁵² The compilation is available through the United Nations Global Sustainable Finance Observatory, which promotes the full and effective integration of sustainable development into the global financial ecosystem by engaging all stakeholders along the investment value chain.⁵³

IV. Conclusion and issues for further discussion

55. The global sustainability reporting architecture continues to experience rapid and constant changes and is expected to remain in flux in the medium and long terms. There is movement towards mandatory sustainability reporting, as a first step for listed companies, yet changes are quickly permeating public sector requirements and will likely be extended to small and medium-sized enterprises in the coming years. Therefore, countries should strengthen sustainability reporting infrastructures as soon as possible, to be ready to adopt or adapt international sustainability reporting standards. Such infrastructure needs to be flexible, to incorporate constant updates and demands from requirements directed to companies and to all key players participating in the preparation, revision and supervision of sustainability reports. This includes not only ISSB standards (building block 1) and any other additional requirements (building block 2), but also international requirements and standards on ethics, assurance, sustainability reporting in the public sector and others.

56. In this regard, UNCTAD will continue to assist countries in reinforcing regulations, institutions and human capacity to adopt or adapt ISSB standards and other international requirements and will continue to collect best practices and lessons learned and share them with the network of the Intergovernmental Working Group of Experts. UNCTAD will also continue to identify challenges in and concerns of developing countries and convey them to

⁴⁹ See <https://zimetro.co.zw/zimbabwe-to-adopt-international-financial-reporting-standards/>.

⁵⁰ See <https://kpmg.com/xx/en/home/insights/2023/04/ifrs-blog-sustainability-reporting-challenges-corporate-leaders.html>.

⁵¹ UNCTAD, 2023.

⁵² Including the Group of 20 member States, including the European Union and Switzerland, as well as the Association of Southeast Asian Nations and the following 13 developing economies: Bangladesh, Chile, Colombia, Egypt, Kenya, Malaysia, Nigeria, the Philippines, Singapore, Thailand, the United Arab Emirates, Viet Nam and Hong Kong (China).

⁵³ See <https://gsfo.org/sustainable-finance-regulations-platform>.

ISSB. With a view to multiplying impacts and speeding up change, UNCTAD will work with the regional partnerships for the promotion of sustainability reporting. Finally, UNCTAD will continue to closely collaborate with ISSB and other key international organizations and institutions in the sustainability reporting arena, to facilitate capacity-building and promote the preparation of high-quality sustainability reports that enable responsible investment, to support the achievement of the Sustainable Development Goals.

57. In addition to the issues presented in this note, delegates at the fortieth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting may wish to consider the following questions:

- (a) What are the key elements that countries need to prepare for and, where appropriate, adopt or adapt ISSB standards?
 - (b) What is the best way to promote interoperability across sustainability reporting requirements at the national, regional and global levels such as those issued by the United States Securities and Exchange Commission, the European Union and ISSB?
 - (c) How can countries ensure that sustainability reports promote responsible investment?
 - (d) What kind of proportional requirements should be developed for small and medium-sized enterprises?
 - (e) How can UNCTAD best support countries in preparing small and medium-sized enterprises to be ready to issue sustainability reports?
 - (f) Which recommendations from private sector experiences can support and speed up the implementation of sustainability reporting in the public sector?
 - (g) What can UNCTAD do to accelerate the uptake of sustainability reporting in the public sector, particularly in developing countries?
 - (h) What should the regional partnerships for the promotion of sustainability reporting do to maximize experience-sharing and the identification and dissemination of best practices, to reinforce the sustainability reporting ecosystem for listed companies, non-listed companies and public sector entities?
-