ICGN Seoul Conference – ***New Era for Sustainability Reporting Standards***
5th October 2022

- **Tom Seidenstein, Chair, International Auditing and Assurance Standards Board**
- **Mark Babington, Executive Director of Regulatory Standards, Financial Reporting Council**
- **Tae-Young Paik, Board Member, International Sustainability Standards Board**
- **Susanne Stormer, Partner, ESG & Sustainability Services Leader, PwC & Board Member, ICGN**

- **Chaired by Dr Yong Sik Ok, Chair and Program Director, Associations of Pacific Rim Universities (APRU) Sustainable Waste Management Program**

Dr Yong Sik Ok:
This session covers changes and trends of sustainability reporting indicating businesses' ESG performance. ISSB's ESG Reporting Standard draft is out, and many countries agree on including sustainability reporting in business reports. Korea, however, wants separate business and sustainability reporting. Recently, the Financial Supervisory Service and KRX had a joint discussion, in line with the ISSB's standard, they announced they will prepare a domestic reporting method. International standards are being set, but many international standards aren't directly applicable in Korea. The two bodies propose to help listed companies report by improving ESG disclosure guidance. I've been involved in recent meetings where Greenhouse Gas Emissions Scope 3 was a controversy, which requires further discussion.

Tom Seidenstein was IFR Foundation's COO from 2000-2011. It manages and controls the IASB and ISSB. From 2012-2019, he was Senior Vice President at Fannie Mae, and is now in a second three-year term as Chair of International Auditing and Assurance Standards Board.

Tom Seidenstein:
We write standards with investors in mind. The principle is ingrained in our ethos and governance. Our recently improved public interest framework specifically notes investors' interests, as one of our leading stakeholders. The desire for high quality, consistent, sustainability impact reporting offers the greatest opportunity and challenge in generations for the audit and assurance profession. Accountancy in audit always played a key role in driving trust in externally reported financial information. Today, capital providers and policymakers expect more than previously. Investors increasingly wish to understand corporate entity impact on environment and society.

As a standard setter, I feel we can't turn back on sustainability reporting. It will form part of the external reporting environment, but when exactly is unclear. The trend is happening globally. The consequences of the sustainability reporting architecture for standards, assurance and regulations will be felt well into the future. We must all work together to develop a well-reasoned, cohesive and accountable standards and regulation system for investors.

Adopting a reporting standards and assurance global baseline, with an ethics commitment, is essential to maximise sustainability reporting's potential. We mustn't create a fragmented jurisdictionally differentiated approach to reporting. With financial reporting, it was a struggle to galvanise around IFRS globally. We shouldn't do this at the outset of our ESG and sustainability reporting. We should seize the opportunity for a global basis for sustainability reporting and assurance now. Working together in ensuring reporting assurance and regulatory requirements fit together, we mean we're in much better shape.

Like financial reporting, IAASB's board believes market participants are best served when financial and other reporting information benefits from external assurance, provided by professionals committed to public interest and highest ethical standards. Therefore, the IAASB are working swiftly on advancing the existing performance standards requirements to meet new global requirements, which means significant co-operation with national standard setters, regulators and other stakeholders. IAASB's current standards are the most widely used worldwide for assurance. The enhanced standards will provide greater specificity to enable limited and reasonable assurance on all sustainability and ESG reporting standards. Our proposal for a new, overarching, standalone standard by next year takes into account current and proposed requirements in Europe, North America, Asia and elsewhere.

Ultimately, we will need a fuller suite of standards, similar to the financial audit. We need patience as the reporting, assurance and ethics standards mature. All stakeholders desire the efficient development of and performance against global standards, but it isn't straightforward. We must allow evolution of standards, expect some mistakes and perfect should not be the enemy of the good.

The success won't be possible without investor engagement. Our work must include willingness to collaborate with key stakeholders worldwide, not just standard-setting, regulatory and accountancy communities. We continually pursue new, straightforward, engagement prospects with investors, not simply through formal common periods. Demand for enhanced requirements and guidance is high, so the IAASB will act in a co-ordinated, responsive and urgent manner.

Dr Yong Sik Ok:
ESG auditing is in the early stages and it's a matter of time. Investors, businesses and accounting firms acknowledge the need for unified standards, but the road to implementation is long.

Mark Babington is currently Sustainability Team Leader at International Ethics Standards Board for Accountants.

Mark Babington:
As a regulatory, standard setter and Audit Committee Chair, my perspectives are mixed. Stakeholders say that increasingly, sustainability reporting and information is used by investors' capital allocation decisions, so it needs to be as reliable as

financial information, traditionally supporting such decisions. It's critical to the public that the information is trustworthy.

Over the past two years, stakeholders stressed the importance, post-pandemic, of engagement with companies who did the right thing. To meet the aspiration and support the information demand, we need high quality, consistent, comparable reporting, both jurisdictionally and globally. Capital is global, so reporting and assurance frameworks must match this.

In the UK, companies' sustainability disclosures are improving, but they struggle linking them to wider impacts on financial statements. This requires a robust reporting framework from the ISSB, alongside ethics, independence and assurance frameworks. The FRC have welcomed the ISSB development and commented on previous standards. FRC published reports on climate in reporting, TCFD reporting, mandatory in the UK, ESG data issues and the meaning of Net Zero, along with an ESG statement of intent to advance work. This is challenging and FRC's work shows ESG and sustainability data is often less mature, relying on less developed systems and internal controls than for financial reporting. It's critically important for companies to mature and develop systems to support high quality reporting and assurance, meaning reasonable, not limited, assurance.

In developing standards, we must respond to users' needs, by providing better information, not just more. How do we deliver decision useful information for those relying on it to make decisions in financial markets? We can't produce longer annual reports. We must consider what information is material for companies and make it available, and remove ambiguity of terms, as with the Net Zero challenge. Current sustainability reporting and assurance is implemented by more diverse providers than just Accountants and Auditors. Increasingly, regulators are aware that regardless who carries out the work, the same high standards of ethics, independence, reporting and assurance should apply to sustainability related engagements. There is no room for regulatory arbitrage. IAESB and IAASB work closely with IOSCO, national standard setters and other regulatory authorities to address this.

We must be realistic and ambitious. The SEC's consultation proposes changes to UK rules, recognising a series of steps to mature the reporting and assurance processes. We must advocate a flexible global baseline for the benefits of convergence for business, with different regulatory and political perspectives, bringing into focus the meaning of baseline.

The UK are awaiting a government consultation on the method to adopt ISSB standards, which will drive our work, improving underlying systems and maturity of processes, to take the benefits of the ISSB's guidance. IAESB's working group will transition to a taskforce next year, there is project plan for board discussion in late November/early December, and we will deliver an exposure draft in third quarter 2023.

To succeed, we must recognise the new delivery will take many steps, which will be enacted to meet the aspiration of consistent, high quality, comparable information, which can be used in many jurisdictions.

Dr Yong Sik Ok:
Professor Tae-Young Paik served as an Accounting Professor at Sungkyunkwan University, and recently completed the presidency of Korea Accounting Association.

He has an accounting PhD from UC Berkeley and a bachelor's and master's degree in economics at Seoul National University.

Professor Tae-Young Paik:
To avoid regional fragmentation, in many regions companies should voluntarily adopt the global baseline. Regulators in local jurisdictions should make it mandatory. To provide the baseline, ISSB works with IOSCO and EFRAG, SEC, and other global partners, and collaborates with national standard setters globally. To facilitate global baselines we have outreach activities, with currently two global standard drafts, outreach and comments being gathered. The consultation on the ISSB's two proposed standards received over 1,400 comment letters globally and many stakeholder groups: entities, businesses, regulators and individuals.

We've gathered feedback through comment letters and at over 400 outreach meetings, which will continue throughout November, so it's not too late to comment. The ISSB technical staff dedicated over 1,000 hours to analysing feedback, producing a high-quality review and a solid basis for further internal discussions. Overall, people were supportive of ISSB's direction, but had implementation concerns, with many suggestions. July and September board papers summarised the feedback, and a final decision has been taken on the elements to incorporate. The results were recorded three weeks before our annual meeting and are on the website.

Institutions in underdeveloped or developing countries have requirements. We must ensure these requirements are applied, i.e., scalability. For the scalability mechanism, among many details, we will continue reflecting in detail our discussions from the September meeting. The first point is to give more guidance. Secondly, requirements should be divided into basic and advanced, final decisions to be made by each country. Thirdly, when the standard is met, we may exempt businesses from the disclosure or reporting requirement, with specific instruments announced in two weeks, at our next meeting. The Foundation website will display the October board meeting paper soon. The next meeting will provide a decision regarding direction, with a determination on possible incorporation into the final decision in December or early next year.

How important is maturity in terms of incorporation? Financial maturity and impact materiality have been ongoing controversial issues. Europe has double maturity, quite different from Korea, so discussions are ongoing. For investors, financial maturity was the starting point. EFRAG wanted the final decision in November to align to this direction and meetings are ongoing.

With regard to the standard to follow, businesses must feel and recognise the need and must follow the mandated disclosure criteria or standard. If the customer is an institutional company, they will follow different standards and investors will request to follow certain criteria or standards.

Dr Yong Sik Ok:
Susanne Stormer is Vice President of Novo Group. She was a renowned expert at Davos 2012.

Susanne Stormer:
I previously represented a company faced with investor requests for information, whilst pushing the provision of more relevant sustainability, ESG performance information to investors, to give them a better value foundation for aiding

performance. I currently advise companies on investor and community engagement by building trust through quality reporting, which engenders assurance. Assurance has been integral throughout my 20 years in sustainability reporting. Better quality reporting can drive change in behaviours, perceptions and eventually, better performance, incorporating discussions on better governance and/or democratic institutions. It's the most effective tool in demonstrating to stakeholders, including providers of financial capital, how companies increase value creation and credible accounting of performance.

With the standards, information must be decision useful. We must not provide too much, but address the materiality, importance in the sustainability context and what should be defined differently from financial reporting. SASB is focusing on enterprise value creation and risk of enterprise value erosion, loss of value. Key sustainability matters, e.g., climate change and lack of talent access are examples of performance drivers. Human capital and other intangible assets are underappreciated in companies' performance. They must be highlighted for investors to include them in valuations.

The European Commission drives initiatives, supported by EFRAG, with the standards adding a materiality dimension. They apply the double materiality concept, which is difficult to grasp. It refers to companies' societal, environmental and human impact and enterprise value. Introducing this inspires and incentivises companies to maximise their positive societal impacts and eliminate negative impacts. We can discuss practical ways to do this and achieve Net Zero. Korea has a growth economy, with abundant consumables, as in Western economies, the impact of which can be beneficial, but can drive unintended negative consequences.

We must provide reliable, complete, comparable, consistent information, meeting all established financial reporting criteria, with formal board oversight and signoff. Independent assurance will be mandatory in Europe, including companies domiciled outside, dealing in Europe. This will ultimately, drive sustainability reporting to a situation where it is being considered for investor, company management, board and stakeholder decisions.

What does good look like? The standards and company dialogue with investors/constituents is essential. Look for Sustainability Reporting Standards. ISSB Standards are an important milestone, European standards will raise the bar a little, and international standards will be critical to success, building on four simple pillars: governance, strategy, risk management and key performance indicators. We should look for detail of key performance indicators, but it starts with good governance. Embrace new standards, contribute to them, to show reporting can make business more sustainable, which everyone wants, is successful for the long-term and effectively managing and accounting for sustainability matters material to businesses and society.

Lauren Compere:
As companies must focus more on managing intangible risk and opportunities, what must boards understand regarding sustainability standards and the maturity that's needed? Do they need training? What role must boards play to help drive the global baseline required in Asia?

Mark Babington:
Confidence is very important. Boards need a clear understanding that it can explain to stakeholders what's material to their company. UK regulation shows insufficient

focus on materiality. People include too much in order to be completely compliant. In US, companies are better at reporting only on that material to them. We need boards to take judgments and explain their decisions to stakeholders, rather than have universal requirements. ISSB's agenda will doubtless push this further as it evolves.

Ashraf Gamal Eldin:
Large companies in the Middle East utilise huge departments for sustainability. Medium-sized companies cannot afford to cover all requirements. How can this cost barrier be overcome?

Professor Tae-Young Paik:
From the outset, ISSB endeavoured to provide tools for small or limited resource companies to adopt the policy. Even though these companies in emerging markets aren't listed or large enough for regulation, they could be subject to requirement by consolidation and Scope 3, upstream or downstream. We're currently considering different scalability mechanisms, but nothing has been finalised. We published our board paper recently, considering relaxing requirements, especially Scope 3, climate-related disclosure, and additional consideration of gas emission requirements.

Dr Yong Sik Ok:
Tom, rather than focusing on reporting results, we're looking at the limited audit process. The process is fine, but the accuracy of the information, e.g., greenhouse gas emissions, waste, natural environment capital, is unknown. Assessing accuracy is crucial when identifying greenwashing issues. How can this be implemented?

Susan, on biodiversity standards in the TNFB Forum, the Scientists and regulators must all agree to the standard, a huge, time consuming, challenge. What can be done about this? During your time in Japan, were there any interesting discussions had?

Tom Seidenstein:
We have a lot of interdependence between standards. As reporting framework and data collection matures, higher quality assurance will be provided. Our comment letter to ISSB focused on these issues. Regarding assurance, we can go into greater detail, e.g., evaluation of evidence and information reliability. We must ask ourselves what encompasses sufficient appropriate evidence? How do you assess internal control systems and impact on the practitioner's ability to obtain sufficient, appropriate evidence? What can we take from what we're doing in audit, transferring this to assurance? We're currently implementing a fraud project. Not all greenwashing is fraud, but in terms of risk assessment, we'll transfer learnings to assurance. Improvements in reporting standards, data quality and process maturity are vital, along with enhanced depth and quality of assurance standards, particularly regarding evidence, and transferring learnings from financial reporting, especially fraud, to assess potential greenwashing risks.

Susanne Stormer:
Biodiversity and TNFD is a huge topic. Very few have experience here, but the standards and frameworks will prove helpful. As an early mover on climate action, prior to standards and taskforces, we delivered a strong statement in Novo Nordisk's 2004 Annual Report, to set an absolute reduction target. Once board approved, we had to implement it, without standards. We can now lean on standards, using TNFD as a framework, involving boards, and specifying material disclosures. Draft European standards already accommodate inspiration on biodiversity good practice.

For Japan, it’s a regret if sustainability information and financial information informing discussions between company management and investors is disassociated by time, channels and conversations. You lose important performance dimensions. I strongly encourage people to bring it together quickly, simultaneously and in one consistent document. Eventually Annual Reports will become sustainability reports, detailing financials, sustainability of business models, driving value.

Dr Yong Sik Ok:
Few institutional investors join the TNFD Biodiversity Forum, so we should do so voluntarily, along with the IPCC forum. There was also a 12-page article published on greenwashing, which used the term “plastic washing,” on 100% biodegradable plastic, but conducted in a restricted environment. This could be considered as a type of greenwashing.