INSTITUTE of INTERNATIONAL FINANCE

June 2020

Building a Global ESG Disclosure Framework: a Path Forward

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Overview

There is growing demand for better ESG disclosure across sectors. Voluntary disclosure of information on environmental, social and governance (ESG) issues has been taking place for decades. However, recent years have seen increased stakeholder demand for more consistent, granular, and comprehensive disclosure of information relevant to ESG factors. This has occurred across various industries, including the financial industry. Financial institutions, investors, regulatory authorities and the international institutions increasingly recognize that ESG factors can have a potentially significant impact on business value and risk, as well as systemic risk, leading to a heightened focus on ESG disclosure.

The frontier between voluntary and mandatory disclosure has become less clear-cut. Many firms face informal obligations and market expectations to disclose ESG information across various internationally recognized frameworks – including from investors, sustainability rating agencies, suppliers and customers. At the same time, regulatory approaches to ESG disclosures are evolving rapidly and deepening in scope. Certain jurisdictions are strengthening compliance structures and introducing new mandatory requirements, with a particular focus on climate-related risks at present.

There are multiple frameworks and expectations, with more on the way. This paper summarizes key internationally recognized ESG disclosure frameworks, as well as evolving regulatory approaches in major jurisdictions. There is currently a wide array of market-driven voluntary standards for sustainability-related disclosures. The independent evolution of such frameworks has resulted in a fragmented landscape, with multiple standards for similar ESG topics. Some of these frameworks are being referenced in the context of regulatory requirements. Examples include the EU Non-Financial Reporting Directive (NFRD), and consideration being given to making Task Force on Climate-Related Financial Disclosures (TCFD) mandatory for major listed companies by the UK Financial Conduct Authority. We estimate that there are already policy and regulatory measures pertaining to ESG disclosure in

[1] With thanks to Katherine Standbridge for excellent research assistance, and to ECOFACT for data input.

place in over 40 countries. Many jurisdictions are taking action to strengthen disclosure of ESG information or have recently introduced new measures.

While a proliferation of reporting frameworks in past decades has stimulated innovation in disclosure practices, the rapid mainstreaming of ESG issues in financial markets creates a pressing imperative for consolidation. The lack of a recognized and uniform framework makes it difficult to achieve comparability. Multiple frameworks can lead to confusion and a risk of greenwashing.[2] Furthermore, the landscape of ESG disclosures by corporates, upon which financial institutions must rely in order to comply with evolving regulatory requirements, is similarly inconsistent and fragmented.

To ensure consistency and comparability across markets and avoid regulatory fragmentation, steps should be taken to develop a harmonized cross-sectoral framework for ESG disclosure across jurisdictions. In the longer term, a durable global solution could be the emergence of a generally accepted international non-financial reporting standard for financial institutions and corporates. Several dimensions need to be specified when designing a harmonized global framework – such as materiality perspectives, metrics, governance, and other aspects – and should build upon voluntary ESG disclosure frameworks and firms' experience of ESG disclosures to date. Tailoring for different types of firms, including different types of financial institutions, is likely to elevate the quality and degree of comparability of reporting and enable quicker progress. Future non-financial reporting standards should ultimately cover the breadth of ESG topics and not only climate risk, to avoid fragmentation in scope of disclosures over time.

We strongly encourage the relevant international standard setting bodies to take practical steps in the coming months towards a harmonized cross-sectoral ESG disclosure framework. We recognize that steps are being taken to integrate voluntary frameworks, and intentions relating to harmonization have been communicated by accounting standards setters and regulators. Effective coordination will require a global solution. The IIF would therefore encourage the G20[3], FSB (building on the efforts of the TCFD), accounting standard setting bodies (International Accounting Standards Board, IASB, and Financial Accounting Standards Board, FASB) and those initiatives involved in the Corporate Reporting Dialogue[4] to work within their mandates to align and consolidate ESG disclosure frameworks for financial institutions and other corporates. Given the importance to and impact on financial institutions, we would recommend that the relevant prudential standard setting bodies (including the Basel Committee on Banking Supervision, BCBS, International Association of Insurance Supervisors, IAIS, and the International Organization of Securities Commissions, IOSCO) are also engaged in the process to help shape the framework for financial institutions.

Earlier processes to harmonize financial accounting standards – including the global adoption of IFRS – can be considered as an instructive model, although quicker progress is required for non-financial reporting. While prior harmonization processes took decades, significant progress on ESG disclosure is required within the next 12 to 18 months if financial

[2] "Greenwashing usually refers to practices aimed to mislead investors or to give them a false impression about how well an investment is aligned with its sustainability goals" from IOSCO 2020, *"Sustainable Finance and the Role of Securities Regulators and IOSCO: Final Report".*
[3] G20 leaders called for convergence of financial accounting standards at the 2009 Pittsburgh summit: https://www.oecd.org/g20/summits/pittsburgh/G20-Pittsburgh-Leaders-Declaration.pdf.
[4] The participants currently include the CDP, CDSB, GRI, ISO, IR, SASB, IFRS, and FASB as an observer.

markets are to respond effectively to the risks and opportunities arising from climate change and other sustainability factors.

A harmonized international framework would be a strong foundation for further jurisdiction-level building blocks. On top of a strong foundation in the form of an international framework, there is scope to accommodate regional or jurisdictional perspectives as additional building blocks through the regulatory or legislative process for implementation. Further, there is value in permitting a tier of ESG disclosures that is driven by the individual disclosing firm, to encourage ongoing innovation and enable firms to communicate in a manner most relevant to their specific context. While rapid consolidation at the global level is a pressing priority, the harmonization of expectations should be an iterative, phased process rather than a 'big bang'.

However, the formulation of a harmonized framework is only one element of the broader equation. Comprehensive and widespread ESG disclosure by financial institutions and corporates will require multiple efforts to build capacity, develop tools, and build consensus on approaches – much in the same way that the agenda on TCFD-aligned reporting is currently progressing. Close international dialogue between policymakers and with industry will be required to ensure that a harmonized framework is reflected in regulatory and policy instruments, and by firms in their planning processes.

The IIF can play a key role in facilitating engagement between regulators, standard setters, existing voluntary frameworks, and financial industry stakeholders to achieve this objective.

1. Introduction and Scope

The focus of this paper is on entity-level disclosures of ESG-relevant information by financial institutions. In this context, this paper also addresses non-financial reporting by other corporates, given the interlinkage between robust corporate ESG disclosure and financial institutions' own ESG disclosures and risk management. We consider disclosures that are corporate in nature (e.g. to inform investment and financing decisions) and those that are more regulatory/supervisory in nature. Such disclosures are often also referred to as non-financial reporting.

This paper reviews the spectrum of existing ESG disclosure frameworks and standards, ranging from voluntary frameworks (which many firms are, or feel, obliged to complete due to their stakeholders' expectations and requirements) to national and regional policy and regulatory requirements, which come in various forms and involve different compliance mechanisms. Although climate-related disclosures have been a key issue in recent years, not least due to the impact of the TCFD (and general awareness of and focus on climate-related risks within financial policymaking and regulation), this paper focuses on ESG disclosures more broadly to identify where consistency and fragmentation issues may arise. This is necessary, as some of the proposed mandatory disclosure frameworks (e.g. the EU NFRD, and other measures under consideration elsewhere) extend beyond climate risks to a range of sustainability factors. Similarly, views on materiality are expanding – considering both impacts on firms, and the impacts of firms on sustainability priorities. Going forward, as the sustainable finance policy agenda broadens, we expect further regulatory efforts to strengthen disclosure of ESG factors in multiple jurisdictions.

2. Summary of key ESG frameworks and regulatory approaches

2.1 Summary of major ESG disclosure frameworks

There are several conceptually distinct reporting frameworks and standards in existence. Table A (see end pages) summarizes features of some of the most widely used and influential.

Voluntary disclosure of environmental, social and governance issues has been taking place for decades. Since the late 1990s/early 2000s, voluntary frameworks have emerged to bring structure and conformity to corporate ESG reporting – notably starting with the Global Reporting Initiative (GRI) and CDP questionnaires. These frameworks have become extremely important in shaping firms' ESG disclosures. **In many cases they were designed to apply to several types of corporates, but many of the frameworks include a specific template or bespoke guidance for financial sector firms** (including GRI, CDP, International Integrated Reporting Council (IIRC), TCFD, Sustainability Accounting Standards Board (SASB)).[5]

The overarching objectives of the various frameworks are similar. Primarily, they aim to help firms measure, monitor and communicate their progress on varying indicators of sustainable or responsible practices, thereby helping to inform credit and investment decision making, and ultimately to direct capital towards more sustainable firms by providing decision-useful information. All the frameworks promote assurance and the disclosure of high quality, verifiable information, although they have not typically required independent assurance. Furthermore, as also observed by the International Organization of Securities Commissions (IOSCO), there is considerable alignment between different frameworks in terms of their high-level principles – including timelines of reporting and consistency, relevance and completeness, clarity and conciseness, and objectivity, reliability, and understandability.[6] The frameworks often include flexibility to accommodate smaller firms or those with different degrees of experience in ESG reporting, e.g. with simpler template options.

However, there are major differences between frameworks that affect what gets measured and how, including which environmental, social and governance factors they encompass. There is some distinction between frameworks that are more holistically 'ESG'-

[5] A note on Table A: where a financial sector-specific disclosure template or guidelines exist, the table seeks to summarize the details of the sector-specific framework.
[6] Noted by on IOSCO 2020 (April). '[Sustainable Finance and the Role of Securities Regulators and IOSCO: Final Report](#)'.

oriented (such as SASB and the World Economic Forum International Business Council (WEF/IBC) proposals) and those that are more environment-focused, perhaps covering social and/or governance information as it pertains to their environmental focus (for which the TCFD is a good example).

Similarly, materiality definitions and criteria differ across the frameworks. Some favor financial materiality criteria – i.e. what matters to investors in the company (e.g. SASB), while others use stakeholder materiality criteria – i.e. what matters to a broader set of stakeholders including society broadly (e.g. the GRI, which notably requires some disclosures that may not be material to the financial health of the firm). The more recent proposals by the WEF/IBC (2020) propose an overarching approach to materiality that overrides just financial or just stakeholder criteria and instead focuses on long-term value creation "grounded in a corporation's commercial and societal value".[7]

Relatedly, frameworks have different materiality perspectives – some are designed to evaluate the impact of the firm on certain ESG factors (e.g. GRI), while others are focused on measuring the impact of ESG factors on the firm (e.g. TCFD). There have been recent moves in the EU towards policy frameworks requiring accounting for impacts in both directions – a concept referred to as 'double materiality' in the EU context.

Within a given E, S or G factor, the specific information requested varies across the frameworks. This relates to the types of qualitative and quantitative information, prescriptiveness of the framework and the desired format of the disclosures, as demonstrated in Table A.

Over time, the frontier between voluntary and mandatory disclosures has become less clear-cut as many firms face informal obligations and market expectations to disclose ESG information. Several key stakeholders (including investors, ESG rating agencies, suppliers and customers) refer to the information and metrics that many large financial firms now disclose under one – and usually more – of these standards (see Box 2). Some stakeholders require firms to complete disclosures using these widely recognized frameworks because of the benefits of familiarity with the approaches, comparability across firms and over time, and a degree of embedded assurance.

The independent evolution of ESG disclosure frameworks has resulted in a fragmented landscape, with multiple standards for similar ESG topics. This has been acknowledged in recent years by the industry-led standard setters who have been working together to promote greater alignment. The Corporate Reporting Dialogue (CRD) has convened many of the industry-led standards[8] and acts as a "*platform to promote greater coherence, consistency, and comparability between corporate reporting framework, standards and related requirements"* and further integration between non-financial and financial reporting. CRD members have agreed to a set of common principles and in 2019 published a report assessing the degree of alignment to the TCFD recommendations. That report showed that the seven TCFD principles for effective disclosures are harmonious and complementary with those of the CRD

[7] World Economic Forum International Business Council, "Toward Common Metrics and Consistent Reporting of Sustainable Value Creation," (January 2020): http://www3.weforum.org/docs/WEF_IBC_ESG_Metrics_Discussion_Paper.pdf.

[8] The participants currently include the CDP, CDSB, GRI, ISO, IR, SASB, IFRS, and FASB as an observer.

participants' frameworks and standards, and 80% of the TCFD's 50 illustrative metrics are fully or reasonably covered by CDP, GRI and SASB indicators.[9]

While a very positive step forward, efforts to date have not yet been able to achieve harmonization, convergence or consolidation of reporting frameworks and firms continue to face expectations and obligations to disclose according to multiple frameworks. Efforts continue to promote alignment and a "systemic solution" to the problem, for example through the World Economic Forum International Business Council (WEF/IBC) proposal in early 2020.[10] The WEF/IBC proposal is notable because it is the most tangible attempt to date to propose a single standard synthesizing all relevant frameworks, and is not itself a brand-new framework. Notably, most of the proposed metrics refer to metrics defined in earlier standards such as the GRI, CDP or SASB. Further, the project is supported by the Big Four accounting firms which could lend significant momentum going forward.[11] The WEF/IBC proposes a *"generally accepted international accounting or other reporting standard in this respect"* as a long-term solution. This topic is further discussed in Section 3.3.

2.2 Summary of policy and regulatory developments

Action by public authorities to strengthen disclosure of ESG information has a long history that has both followed and, in certain jurisdictions, led the evolution of the broader sustainable finance agenda.

An Evolving Agenda

The evolution of the disclosure regimes pertaining to non-financial factors – starting in the 1990s – originated from a focus on corporate governance. Mirroring the beginnings of the socially responsible investment movement in the late 1990s, some of the first financial-sector specific ESG disclosure requirements pertained to consideration of ethical factors within investment policies, for instance exclusions from investment portfolios of holdings in firms involved in morally-sensitive economic areas. In parallel, and often through the introduction of environmental protection legislation, requirements for corporate disclosure of environmental information, including greenhouse gas (GHG) emissions, began to emerge in the late 1990s. Throughout the 2000s, policy frameworks for ESG disclosure evolved on two tracks:

- Corporate disclosure requirements, as codified in securities regulation, stock exchange listing rules, and other legislation; and
- Financial-sector specific requirements, through policies and regulations affecting banks, insurers and investors.

[9] Corporate Reporting Dialogue 'Better Alignment Project' report (September 2019): https://corporatereportingdialogue.com/wp-content/uploads/2019/09/CRD_BAP_Report_2019.pdf.
[10] World Economic Forum International Business Council, "Toward Common Metrics and Consistent Reporting of Sustainable Value Creation," (January 2020): http://www3.weforum.org/docs/WEF_IBC_ESG_Metrics_Discussion_Paper.pdf. "This report proposes a common, core set of metrics and recommended disclosures that IBC members could use to align their mainstream reporting and, in so doing, reduce fragmentation and encourage faster progress towards a systemic solution, perhaps to include a generally accepted international accounting standard."
[11] The project is chaired by Bank of America Chairman and CEO Brian Moynihan. The Big Four accounting firms are Deloitte, Ernst and Young (EY), KPMG and PricewaterhouseCoopers (PwC).

While ESG disclosure measures historically targeted large investors (for instance, in amendments to the UK pensions act in 2000 requiring pension funds to report on ESG[12]), the broadening of the sustainable finance agenda in the wake of the financial crisis led to the implementation of a range of requirements affecting banks, insurers and investors in different jurisdictions.

Following the Paris Agreement in late 2015, the prevalence, scope, and granularity of ESG disclosure measures increased in most markets around the world. There has been a shift in perspective from a high-level, holistic view of material ESG factors to a more granular view of specific risks and opportunities. A notable shift has been the introduction of disclosure requirements pertaining to climate-related risks, which are inherently forward-looking in nature. For instance, Article 173 of France's Energy Transition for Green Growth law[13] – the first comprehensive climate risk disclosure legislation globally – set mandatory requirements for listed companies to disclose financial risks related to the effects of climate change, mitigation measures taken, as well as consequences for a company's activities. This went above and beyond reporting on social and environmental impacts that was encoded in earlier legislation.

The recommendations and guidance of the TCFD, which sets expectations and guidance on disclosure of future climate-related risks, marked a paradigm shift in market and policy expectations for good disclosure by shifting from a backward-looking view on past performance to a forward-looking assessment of future risks and opportunities. Since its release, the TCFD framework has been applied by regulators to enhance disclosure of climate-related risks in different ways, including setting supervisory expectations,[14] conducting engagement with industry to develop best practices,[15] and being referenced within the regulatory framework in certain jurisdictions.[16]

[12]"The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999: http://www.legislation.gov.uk/uksi/1999/3259/pdfs/uksi_19993259_en.pdf.

[13] French Energy Transition Law (August 2015): https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000031044385&dateTexte=2018060. English Summary https://www.unpri.org/climate-change/french-energy-transition-law-global-investor-briefing-on-article-173/295.article.

[14] Prudential Regulation Authority, "Enhancing banks' and insurers' approaches to managing the financial risks from climate change," (April 2019) https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319.pdf?la=en&hash=7BA9824BAC5FB313F42C00889D4E3A6104881C44.

[15] The TCFD Consortium: https://tcfd-consortium.jp/en.

[16] The International Association of Insurance Supervisors: https://www.iaisweb.org/page/supervisory-material/issues-papers//file/88991/issues-paper-on-the-implementation-of-the-tcfd-recommendations.

Policy and Regulatory measures on ESG Disclosure: State of Play

As of June 2020, we estimate that there are nearly 200 policy and regulatory measures pertaining to ESG disclosure in place across jurisdictions, including non-binding guidance, mandatory requirements, and other measures (see Figure 1).[17] Disclosure considerations are reflected in approximately 50% of the stock of policy and regulatory measures on green and sustainable finance currently in place across the globe (see Box 1).[18]

ESG disclosure measures vary widely, in terms of the following aspects:

- **Issue-area scope:** Some ESG-relevant disclosure measures are high-level and holistic, for instance guidance for reporting of sustainability factors as a component of non-financial information, while others focus on a specific sustainability theme or factor, e.g. environmental performance (Figure 2). Recently, there has been an increase in measures with a tighter scope on climate-related risks and opportunities (Figure 3).
- **Target institutions:** Measures may set requirements for all entities above a given threshold, are applied to certain corporate sectors, or specifically focus on certain financial institutions (e.g. institutional investors such as pension funds).

Figure 1: ESG Disclosure Measures – By compliance structure

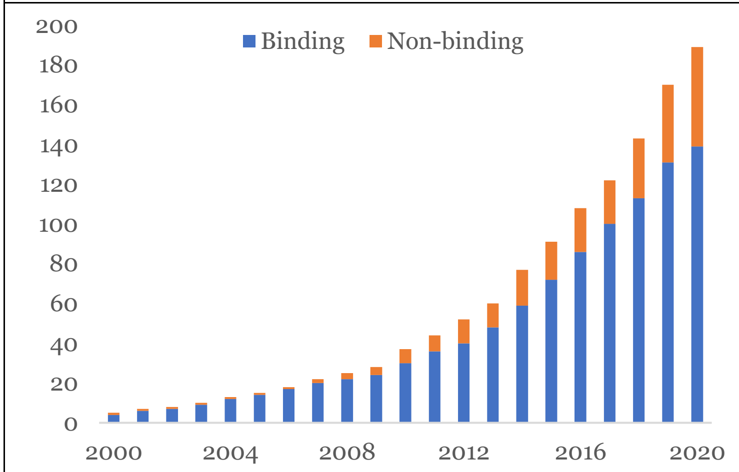


Figure 1 reflects national and sub-national level policy and regulatory measures relevant to disclosure of ESG information, implemented by public authorities (securities regulators, central banks, etc). Database captures measures specifically targeting financial institutions, and relevant measures targeting corporates.
Sources: ECOFACT Policy Database, UNEP, IIF.

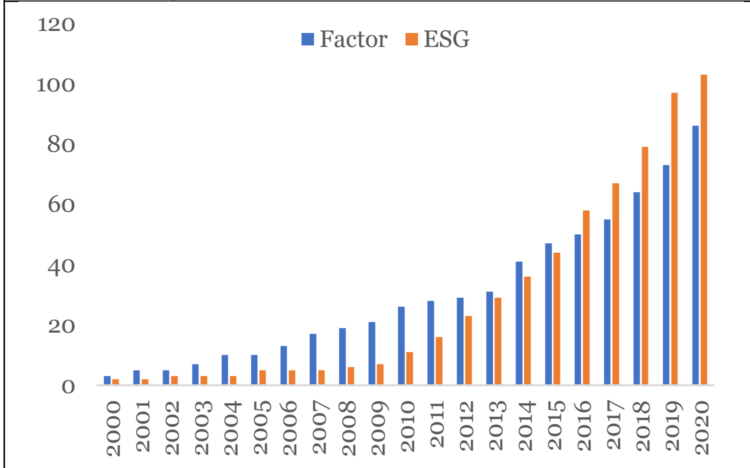
- **Implementation:** Official sector action on ESG disclosure can take many forms. Looking across jurisdictions, there are three main channels through which governments, central banks and regulators are taking action:[19]
  - Amendments to 'mainstream' disclosure requirements or legislation to clarify the relevance of ESG factors as a component of non-financial information;
  - Provision of non-binding guidance, often encouraging the application of voluntary market-based frameworks when preparing disclosures; and

[17] Data captures measures specifically targeting financial institutions, and relevant measures targeting corporates.
[18] According to ECOFACT Policy Outlook research. Policy Outlook is a continuously updated research package focusing on hard and soft law initiatives pertaining sustainable finance and corporate responsibility issues. For further information on the Policy Outlook, please contact policy@ecofact.com.
[19] In certain jurisdictions, stock exchanges have regulatory or quasi-regulatory functions pertaining to ESG disclosure, including through listing requirements. Stock exchanges are increasing their focus on ESG disclosure in many jurisdictions, including the release of guidance materials. For instance, the Japan Exchange Group released a Handbook on ESG Disclosures in March 2020. Measures taken by stock exchanges vary significantly across jurisdictions, including with respect to the relationship to securities regulation. As such, we do not focus on such measures here, and have not included them in the data underlying Figures 1 to 4. Further information on the role of stock exchanges in promoting ESG disclosure is available from the Sustainable Stock Exchange Initiative.

- Introduction of new binding disclosure requirements relevant to specific ESG factors, such as climate change risks.

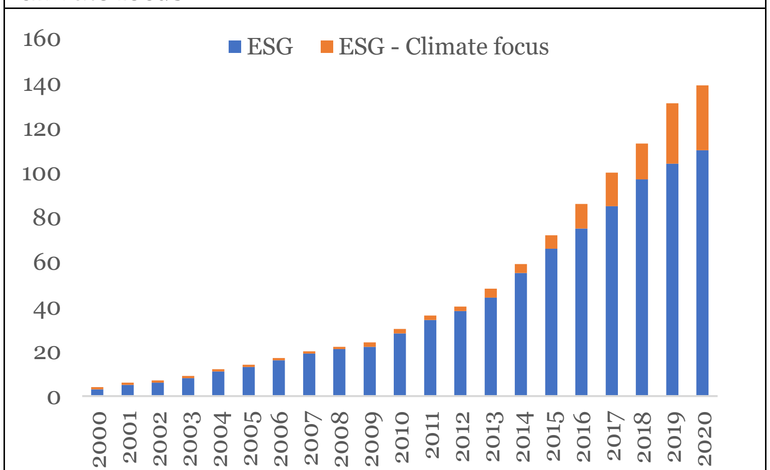
- **Compliance:** Reflecting a diversity of implementation routes, binding ESG disclosure measures have a range of compliance structures – such as 'comply or explain', phased implementation, or hybrid measures involving proportional requirements for different classes of firms. There is an emerging trend towards more stringent compliance structures. In addition, an increasing number of regulators and supervisors are clarifying that certain ESG factors (e.g. climate risks) should be considered within mainstream public and supervisory reporting as potentially material risks.
- **Relationship to voluntary standards:** In a growing number of jurisdictions, regulators are referencing voluntary frameworks and standards within ESG disclosure requirements. 48% of regulatory respondents to an IOSCO survey identified voluntary frameworks or international standards as being commonly used within their jurisdictions.[20] While only a few regulators have formally mandated the use of voluntary frameworks into regulatory requirements, many have issued guidelines referring to the application of such frameworks for disclosure of non-financial information.

Figure 2: Scope of ESG Disclosure Measures (Binding & Non-binding)



In Figure 2, the 'ESG' bars count measures that consider all ESG factors, while the 'Factor' bars count measures that consider one or two factors only (e.g. environmental only, or environmental and social issues). Database captures measures specifically targeting financial institutions, and relevant measures targeting corporates.
Sources: ECOFACT Policy Database, UNEP, IIF.

Figure 3: Proportion of Binding ESG measures with a climate focus



In Figure 3, the 'ESG' bars refers to measures that consider all ESG factors but do <u>not</u> refer to climate change, while the 'ESG – Climate focus' bars includes those ESG measures that explicitly refer to climate change. The sum of the two series is the same as the data shown in Figure 1 for binding measures. Database captures measures specifically targeting financial institutions, and relevant measures targeting corporates.
Sources: ECOFACT Policy Database, UNEP, IIF.

[20] IOSCO, Sustainable Finance and the Role of Securities Regulators and IOSCO, 2020.

Box 1 – Overview of National Regulatory Developments

We estimate that there are policy and regulatory measures pertaining to ESG disclosure in place in over 40 countries (those shaded blue in Figure 4), considering measures implemented by formal regulatory and supervisory authorities, central banks, and governments. Disclosure measures are a foundational component of policy action on sustainable finance – and in jurisdictions where the sustainable finance agenda is at an initial stage, disclosure measures are often implemented as a first step. At the time of writing, many jurisdictions are taking action to strengthen disclosure of ESG information or have recently introduced new instruments.

Figure 4: World Map of countries with ESG Disclosure Measures (Binding & Non-Binding)

Sources: ECOFACT Policy Database, UNEP, IIF. Shaded countries indicate that policy and regulatory measures have been implemented by public authorities, including central banks, regulators, and governments. Does not reflect measures introduced by stock exchanges in the absence of action by regulators. Map created with mapchart.net©

As of early 2020, more than 25 countries were working on sustainable finance roadmaps – many of which have disclosure components. Several jurisdictions (including Malaysia[21], Mexico[22] and the United Arab Emirates[23]) are considering the design and implementation of taxonomies for sustainable finance, with relevant disclosure expectations to be introduced as a supporting measure.

In the European Union, there are processes underway to formulate disclosure requirements for corporates and financial institutions under the revision of the NFRD, and the formulation

[21] Bank Negara Malaysia, "Climate change and Principle-based Taxonomy" (December 2019), https://www.bnm.gov.my/index.php?ch=57&pg=137&ac=892&bb=file.

[22] Banco de Mexico, "Climate and Environmental Risks and Opportunities in Mexico's Financial System," (February 2020), https://unepinquiry.org/wp-content/uploads/2020/05/Climate_and_environmental_risks_and_opportunities_in_Mexicos_Financial_System.pdf.

[23] Environmental Finance, "UAE eyes its own sustainability taxonomy," (January 2020), https://www.environmental-finance.com/content/news/uae-eyes-its-own-sustainability-taxonomy.html.

of new obligations for product-level disclosures under the EU Regulation on Sustainable Finance Disclosures (Disclosure Regulation)[24] and the forthcoming EU Sustainability Taxonomy Regulation.[25] In April 2020, a joint committee of the European Supervisory Authorities (ESAs) issued a consultation paper containing draft regulatory technical standards (RTS) to further elaborate the Disclosure Regulation's obligations, proposing a set of 27 metrics for adverse impact disclosures for investment firms.[26] In May 2020, the European Central Bank (ECB) issued a draft guide for consultation on supervisory expectations relating to risk management and disclosure in relation to climate-related risks and environmental risks.[27]

In May 2020, the Canadian government set out requirements for climate risk reporting as a necessary precondition for accessing the Large Employer Emergency Financing Facility (LEEFF)[28], a government financing facility designed to support economic recovery in the wake of the COVID-19 pandemic.

[24] "Regulation of the European Parliament and of the Council on sustainability related disclosures in the financial services sector" (November 2019), https://eur-lex.europa.eu/eli/reg/2019/2088/oj.
[25] Council of the European Union, "Position of the Council on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088)", (April 2020), https://data.consilium.europa.eu/doc/document/ST-5639-2020-INIT/en/pdf.
[26] *ESMA, EBA, EIOPA, Joint Committee of the European Supervisory Authorities*, "Joint Consultation Paper on ESG Disclosures," (April 2020), https://www.esma.europa.eu/sites/default/files/jc_2020_16_-_joint_consultation_paper_on_esg_disclosures.pdf.
[27] European Central Bank, "Guide on climate-related and environmental risks," (May 2020), https://www.bankingsupervision.europa.eu/legalframework/publiccons/pdf/climate-related_risks/ssm.202005_draft_guide_on_climate-related_and_environmental_risks.en.pdf.
[28] "Prime Minister announces additional support for businesses to help save Canadian jobs," (May 2020). https://pm.gc.ca/en/news/news-releases/2020/05/11/prime-minister-announces-additional-support-businesses-help-save.

Box 2 – *In brief: What ESG disclosures do financial firms already produce?*

At present, many large financial institutions already do the following in terms of non-mandatory entity-level ESG disclosure reporting (in no particular order):[29]

- *Produce a sustainability reporting following GRI or SASB standards, if not both*
- *Respond to the CDP questionnaire*
- *Produce TCFD-consistent disclosures, often in standalone reports*
- *Submit reporting under obligations of membership to market associations, such as the Principles for Responsible Investment (PRI), Principles for Sustainable Insurance (PSI), and Principles for Responsible Banking (PRB, forthcoming).*
- *Respond to surveys from sustainability rating agencies (e.g. Sustainalytics, MSCI, Vigeo Eiris, RobecoSAM, Oekom ISS, etc.)*
- *Respond to bespoke investor, client and supplier ESG questionnaires.*

In addition, firms are increasingly responding to regulatory disclosure requirements of varying subject matter and jurisdictional scope. For example, firms operating in the EU, must produce EU NFRD-aligned reports (which sometimes must cover specific entities in the overall corporate structure); the EU Disclosure Regulation for investment management activities,[30] Modern Slavery supply chain disclosures in the UK, Australia and elsewhere, Human Rights or other Due Diligence disclosures, etc.).

Many separate disclosures contain overlapping content that is expected to be organized in different ways, and disclosed in different formats. At best this is inefficient for firms as they struggle to keep up with all the similar yet different requirements or expectations. At worst, it is ineffective as reduces the usefulness of disclosures to the firms' stakeholders if it is hard to find information spread out and in different formats.

At present, companies publish detailed ESG data and information in different publications and in non-standard formats including some/all of annual reports, sustainability reports or supplements, webpages. In line with the principle of integrated reporting, some firms have begun to integrate their ESG disclosures into their main financial reports.

[29] Many firms produce distinct reporting documentation linked to the impact of financial products such as green bonds or social bonds. This type of reporting is also extremely important but beyond the scope of this paper.
[30] Regulation (EU) 2019/2088.

2.3 The case for a harmonized framework for ESG disclosures

While ESG disclosure is improving, progress is uneven and the levels and quality of disclosure vary significantly across industries and geographies (see Figure 5). This is discussed in various periodic studies, including by the TCFD Secretariat (June 2019)[31], IIF (August 2019)[32], EFRAG (February 2020)[33], and IIF/EBF (January 2020)[34].

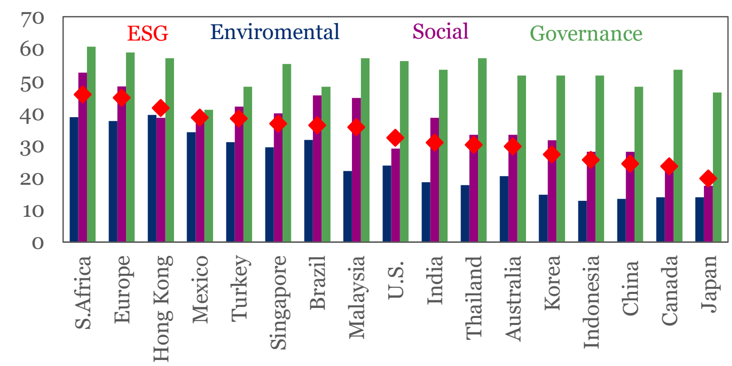
As discussed in Box 2, financial firms are subject to an increasingly wide range of formal disclosure requirements stemming from policy and regulatory measures, and informal obligations – which can be considered 'quasi-mandatory' from a competitive viewpoint – stemming from market-based or third parties (e.g. ESG rating agencies, non-governmental organizations).

The audience for (or users of) ESG disclosures is very broad; while each subset of the audience has different motivations and needs, there is growing appetite for robust and decision-useful information across user groups. This is reflected in the most recent ESG disclosure proposals and debate, such as the WEF/IBC (2020) proposals and others.[35] In addition, a wide variety of ESG information is used as inputs to ESG rating agencies' models and can, therefore, materially influence a broad base of investor decisions.

The desirability of a harmonized global framework for ESG disclosures is becoming widely recognized across many financial institutions, corporates, and public authorities. A unified framework, drawing together the range of existing voluntary standards, is necessary to enhance the quality,

Figure 5: ESG disclosure improving, but still incomplete

index, median, a score of 100 means that the firms disclose every data point collected by Bloomberg



*Sources: Bloomberg, IIF; *based on firms listed in the benchmark stock exchanges. As published in IIF "Green Weekly Insight: The Race for Better ESG Disclosure" (February 27, 2020).*

[31] TCFD "2019 Status Report" (June 2019), https://www.fsb-tcfd.org/publications/tcfd-2019-status-report/.
[32] IIF, "Climate-related Financial Disclosures: Examples of Leading Practices in TCFD Reporting by Financial Firms," (August 2019) https://www.iif.com/Publications/ID/3528/Climate-related-Financial-Disclosures-Examples-of-Leading-Practices-in-TCFD-Reporting-by-Financial-Firms.
[33] EFRAG, "How to improve climate-related reporting," (February 2020), http://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/European%20Lab%20PTF-CRR%20%28Main%20Report%29.pdf.
[34] "IIF-EBF Global Climate Finance Survey: A Look At How Financial Firms Are Approaching Climate Risk Analysis, Measurement and Disclosure" (January 28, 2020), https://www.iif.com/Publications/ID/3731/IIFEBF-Global-Climate-Finance-Survey-A-Look-At-How-Financial-Firms-Are-Approaching-Climate-Risk-Analysis-Measurement-And-Disclosure.
[35] As discussed by Accountancy Europe (2019) and Deloitte 2020 (April). Deloitte observe that '*There is an important connection between stakeholders and investors. The way our capital markets and eco-system operate means everyone is either a direct or an indirect 'investor' through savings, pension funds and insurance policies; and equally everyone is a stakeholder through employment, supply chain etc. As a result companies are increasingly seeking to pursue a broader objective: to deliver sustainable long-term value.*'

consistency and comparability of ESG data, reduce transaction costs associated with preparing and disclosing ESG information and, ultimately, increase transparency and strengthen sustainability decision making.

As discussed in the previous sections, the uncoordinated evolution of different voluntary frameworks has resulted in a wide dispersion of standards, frameworks, and indicators for similar types of ESG information. Even efforts to quantify the breadth of frameworks and instruments are divergent - estimates of the range of different ESG reporting indicators extend to the thousands.[36] This fragmented landscape creates a risk of confusion and potential for greenwashing, which defeats the objective of disclosures. IOSCO's recent survey of securities regulators relating to sustainable finance issues attests to the complexity of regulatory oversight on these challenges, including potential greenwashing where consistent disclosure standards are not in place; only 13% of 34 surveyed securities regulators reported that they specifically review products with sustainability branding or labels.[37] A multitude of requirements can leave some firms at a potentially unfair competitive disadvantage if they disclose using 'the wrong' framework for some of their stakeholders, and may be particularly challenging and costly for smaller firms and those that operate across jurisdictions.

Absent a global solution, numerous jurisdictions and authorities are moving ahead to implement (divergent) local requirements. Moves towards increased regulatory and supervisory oversight and mandatory disclosure requirements for ESG information must be aligned, otherwise they will result in costly globally fragmented approaches. There are indications that ESG disclosure requirements are likely to become more stringent, broaden in scope and deepen in granularity, potentially compounding issues of fragmentation. The introduction of new policy frameworks – such as taxonomies and classifications – may result in the introduction of additional disclosure obligations. Similarly, regulators may seek to strengthen provision of sustainability-related information for a broader range of user groups – including retail clients. Within jurisdictions, the successive implementation of disclosure and reporting requirements can create inconsistencies and duplication, further increasing compliance complexity for firms – a point noted by the ECB in relation to the EU framework (see Box 1 for a brief summary of the EU landscape).[38]

The COVID-19 crisis is bringing a wide range of ESG factors into sharp focus for investors – including employee treatment and working conditions, access to healthcare, and executive compensation.[39] As and when the pandemic abates, changes to the economic landscape, consumption patterns, supply chains and industrial organization are likely to influence investor and regulatory expectations for disclosure.

A single, harmonized framework for ESG disclosures by financial institutions would be a foundation for cross-jurisdictional comparability and recognition. This was one of the reasons for the emergence of the major financial accounting standards in the 1990s and a reason that IOSCO cooperated with the precursor to IASB[40] to ensure that there were

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[36] See for example Deloitte 2020 (April). *Integrated Approach to Corporate Reporting Standard-setting.* Referencing World Business Council for Sustainable Development Reporting Exchange data.

[37] IOSCO, Sustainable Finance and the Role of Securities Regulators and IOSCO, 2020.

[38] See Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive, June 2020: specifically, Section 2.7.

[39] Some of the press coverage on this issue is summarized in this AlphaSense article: https://www.alpha-sense.com/insights/esg-coronavirus. See also: https://www.ft.com/content/bc988e0e-687c-4c72-98eb-ae2595e29bee.

[40] The IASC, International Accounting Standards Committee, which operated between 1973 and 2000.

consistent financial disclosures across countries to enable cross-border offerings, listings and capital flows.[41] Regulators, including the European Securities and Markets Authority (ESMA)[42] and a technical committee of the US Securities and Exchange Commission (SEC),[43] have identified an increasing demand for reliable and relevant ESG information from investors as a potential basis for regulatory intervention. At the global level, IOSCO has recognized that inconsistencies between voluntary third-party standards create challenges for both investors and issuers, which could ultimately result in "sub-optimal capital allocation", limited diversification, constraints on cross-border capital flows, and investor protection concerns.[44]

However, it is evident that a broadening and deepening of disclosures by financial institutions will necessitate, and must go hand in hand with, similarly detailed disclosures from their corporate counterparties. For instance, the introduction of obligations considering 'double materiality' in the EU require financial institutions to gather corresponding inward- and outward-looking information from corporates. If followed by other jurisdictions, this trend would create an additional imperative for disclosure frameworks for financial and corporate sectors to be harmonized – considering the currently uneven comprehensiveness and quality of corporate disclosures. The International Monetary Fund (IMF) has recently called for *"global mandatory disclosures on material climate change risks"* to increase market participants' understanding of future physical risk and also *"help lenders, insurers and investors better grasp these risks"*.[45]

3. Reflections on the design of a harmonized ESG disclosure framework

In this section, we discuss different design elements of – and suggested ways to achieve – a harmonized ESG disclosure framework, offering perspectives from the global financial industry. We explore considerations for a harmonized global framework, with reference to leading voluntary ESG disclosure frameworks. We aim to provide perspectives from the financial industry, examining experiences of other harmonization processes and setting out a pathway towards a form of global standard setting. Ensuring industry-wide comparability and convergence of metrics, scenarios, and other reported information is crucial to enhancing transparency on financial institutions' exposures to climate-related risks and opportunities.

Any moves towards a single recognized and uniform disclosure framework should be made at an appropriate pace to allow firms to adapt as necessary. Ultimately, implementation is key to ensuring quality and comparability — and therefore decision-usefulness — of disclosures. Quality and comparability of disclosures across firms, and over time, is a critical success indicator for a harmonized disclosure regime.

[41] As discussed in "The Politics of Accounting Regulation: Organizing Transnational Standard Setting in Financial Reporting", Sebastian Botzem (2012). Also see IOSCO (May 2000): *"IASC Standards – Assessment Report"*.
[42] ESMA, "2019 report on enforcement of corporate disclosure," (April 2020), https://www.esma.europa.eu/press-news/esma-news/esma-publishes-2019-report-enforcement-corporate-disclosure.
[43] SEC, "Recommendation from the Investor-as-Owner Subcommittee of the SEC Investor Advisory Committee Relating to ESG Disclosure," (May 2020): https://www.sec.gov/spotlight/investor-advisory-committee-2012/recommendation-of-the-investor-as-owner-subcommittee-on-esg-disclosure.pdf.
[44] IOSCO, Sustainable Finance and the Role of Securities Regulators and IOSCO, 2020.
[45] IMF Global Financial Stability Report (April 2020). Chapter 5 "Climate Change: Physical Risks and Equity Prices": https://www.imf.org/en/Publications/GFSR/Issues/2020/04/14/global-financial-stability-report-april-2020#Chapter5.

Considerations for a harmonized framework

3.1 Foundations: Materiality, Metrics, Methodologies

Materiality principles and perspectives

A common first step taken in any ESG disclosure process is delineation of the scope of ESG risks, opportunities, or other factors which may be material to a firm's sustainable long-term value and competitive position, and thereby important for stakeholders and relevant for inclusion within public disclosures. As discussed above, different approaches to materiality currently exist and it will be important to align this going forward. Coming to a common view on materiality is not straightforward, and perspectives on what should be considered material are likely to evolve over time with experience.

As discussed, multiple possible materiality lenses can be used to view ESG issues. For example, depending on:

- How closely related to financial materiality, and whether omission or misstatement of the information could change or influence economic decision making by primary disclosure users (investors and creditors);
- The time horizon for assessing materiality, for example 'long-term value creation' (e.g. WEF/IBC proposals) or nearer-term relevance to decision makers;
- Whether the individual disclosing firm must make their own materiality assessment (e.g. in the GRI or the ECB's proposed supervisory guidance[46]) or whether a materiality assessment is embedded into the framework (e.g. SASB);
- The directions to assess material impact: whether the framework seeks to capture only the impact of ESG factors on the firm (sometimes referred to as 'outside in'), or also the impact of the firm on ESG topics ('inside out'), or both (as under the EU's double materiality approach).

Nor is there a clear line between the different approaches to materiality. For example, even if the guiding materiality disclosure principle is an 'outside in' approach focused on financial materiality, there is still an understanding that a firm's non-financial decisions can feed back through to their financial position if they have a significant external impact through channels such a reputational and conduct risk. Certain entities are proactively considering potential future climate risks as material and taking significant decisions with implications for their disclosed financial positions.[47]

There is an evolving debate within the accounting sphere on how ESG information may interact with financial materiality. The Australian Accounting Standards Board (AASB) has already issued guidance on the interpretation of financial materiality in relation to climate-related risks,[48] and the IFRS Board has confirmed that it is *"updating its non-mandatory*

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[46] European Central Bank, "Guide on climate-related and environmental risks," (May 2020).

[47] For instance, in late 2019, the Spanish fossil fuel company Repsol announced that it would assume a new oil and gas price scenario consistent with the Paris Agreement's climate goals, with material implications for asset values, implying a post-tax impairment charge of 4.8 billion euros. "Repsol will be a net zero emissions company by 2050," (December 2019), https://www.repsol.com/en/press-room/press-releases/2019/repsol-will-be-a-net-zero-emissions-company-by-2050.cshtml.

[48] See "Climate-related and other emerging risks disclosures," April 2019: https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASBJointBulletin.pdf.

guidance on management commentary, where it would expect companies to address material environmental and societal issues, complementing the information in financial statements."[49]

In any aligned ESG disclosure framework, a fundamental choice will be what materiality lens to use and precisely how it is defined, which must be clearly specified. It is also important to account for the principle of 'dynamic materiality': that views on the appropriate materiality lens may evolve over time, and what is in fact material within a given lens will also shift with changing external factors, as has been evidenced to some extent already during the COVID-19 pandemic. If so, it will be important to account for this in any future harmonized framework.[50]

Metrics and methodologies

Metrics are a core part of the existing disclosure frameworks. There is a significant demand for consistently calculable and widely applicable metrics.[51] At present, there is a multitude of metrics proposed across the many established and emerging ESG disclosure frameworks that attempt to measure different aspects of ESG information or use different measurement approaches.

In a harmonized disclosure framework, the choice of metrics and methodologies relates closely to how prescriptive or principles-based the framework is. Principles-based disclosure provides the flexibility to innovate in the current market environment, while rules-based disclosure helps address comparability – thus enhancing decision-usefulness for users. The evolution of ESG disclosures – in terms of market expectation and formal obligations – has reached a point where a movement to more prescriptive disclosures of certain core information may bring benefits (in terms of consistency, less duplication, greater utility to users, less opportunity for window dressing) that outweigh costs (in terms of narrowing the field of disclosures, costs of adjusting to new requirements). However, excessive prescriptiveness in requirements may be counterproductive, particularly in a field where common metrics and approaches are still evolving and where a range of practices across the industry are being tried and tested.

This suggests some principles to align metrics and methodologies:

- **The choice of specific metrics – and how much reliance there is on metrics – to summarize certain ESG information should be based on relevance to the specific ESG factors at hand.** There is a balance to be struck between backward-looking metrics – i.e. measuring impact of business and activities to date, for example GHG emissions, and forward-looking metrics – e.g. relating to scenario-based impact analysis or the firm's future targets, with accompanying qualitative information on how they intend to reach them. Both can be informative but have different associated methodological considerations. For example, on a topic such as climate risk analysis, which is highly uncertain, complex and long-term, scenario analysis and modelling will be important to perform and disclose. In order to be decision-useful, the explanatory text about data, modelling, assumptions and

[49] See "IFRS Standards and climate-related disclosures," November 2019: https://cdn.ifrs.org/-/media/feature/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en.
[50] For example, see Truvalue Labs (January 17, 2020), 'Dynamic Materiality: Measuring what Matters' https://insights.truvaluelabs.com/white-paper/dynamic-materiality-download.
[51] FCLT Global, "Measuring What Matters," (January 2020), https://www.fcltglobal.org/resource/measuring-metrics/.

caveats are extremely important. The greater consistency there is in terms of the presentation of such material across firms and over time, the better.

- **Metrics should be chosen for compatibility with existing, commonly used frameworks.** There is a strong case to build on tried and tested metrics in existing voluntary frameworks (such as those in Table A), with which ESG disclosure producers and users are already familiar.[52] Research has already shown that there is a large degree of alignment between climate-related indicators between some of the existing major voluntary disclosure frameworks.[53] Recent initiatives such as the WEF/IBC Common Metrics project have taken this approach and largely refer to known indicators.
- **There may be value in establishing a limited, core set of key metrics for the major environmental, social and governance factors for financial firms.** This should increase the quality of disclosed information and understanding of certain metrics and would also reduce the cost of preparing ESG disclosures and potentially reduce user confusion. For certain core indicators that are widely demanded by stakeholders and quantitative in nature, there would be value in reducing these to a single commonly used metric with supporting methodology. A good example of where this is already possible, and already consistent across various voluntary frameworks and some regulatory expectations, is GHG emissions given the existence of the Greenhouse Gas Protocol.[54,55] Common metrics should be accompanied by common supporting methodologies, or at least explanations in the case that firms deviate from the general approach. It may be possible to establish a limited, core set of key ESG metrics that apply more universally, beyond just financial institutions.
- **In order to go further and identify other core metrics where alignment of measurement and common disclosure could be achieved will likely require a sector-specific approach.[56]** Building on a limited, core set of key metrics for the major ESG factors, sectoral specificity could be very powerful to drive appropriate alignment within sectors, such as the financial industry, or even within groups of financial institutions (insurer, banks, etc.). The IIF, in conjunction with the United Nations Environment Programme Finance Initiative (UNEP-FI), is currently undertaking work to develop a template for TCFD disclosures, to facilitate industry consensus on disclosure models that are readily comparable and decision useful. Considering the complexity of other emerging sustainability issues (such as biodiversity loss), this type of effort might ultimately be required for a broader suite of ESG issues beyond climate risks.
- **But disclosure frameworks should not be maximum harmonizing:** firms should be able to provide additional ESG information that may be more relevant to their business model or strategy, or they know to be sought by certain users. On top of harmonized foundations, there is value in permitting a tier of ESG disclosures to driven by the individual disclosing firm to encourage ongoing innovation and allow the firm to communicate their own story.

There are generally advantages to making a consistently calculated set of core metrics broadly available to a firm's stakeholders, as this will produce rich data for general analysis over time

[52] As is the approach taken by WEF/IBC.
[53] As discussed earlier in the paper, 80% of the TCFD's 50 metrics are fully or reasonably covered by the indicators in the CDP, GRI and SASB frameworks. Corporate Reporting Dialogue 'Better Alignment Project' report (September 2019): https://corporatereportingdialogue.com/wp-content/uploads/2019/09/CRD_BAP_Report_2019.pdf.
[54] For example, referenced by the GRI, CDP, CDSB, SASB and the European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information.
[55] See https://ghgprotocol.org/about-us.
[56] This aligns with an observation by the CRD in their September 2019 report (ibid).

and should lean against a proliferation of bespoke and costly data requests to firms from individual stakeholders. The above said, qualitative information will also be an important component of an aligned ESG disclosure framework – particularly when articulating business strategy, risks and opportunities. Providing structure for common reporting on such issues will also be important, but the approach to the content need not be as prescriptive as for quantitative information. Specifically, for climate-related financial disclosures, the approach set forward in the TCFD could comprise a solid foundational component in a future harmonized framework to bring together the qualitative and quantitative elements of climate-related financial disclosures.

3.2 Other design considerations

Structure, location, and timing of disclosures

There may be scope at present to make the structure and location of ESG disclosures more standardized and aligned across firms globally. However, it may not be necessary or appropriate to condense disclosures into only one location, especially if it leads to more limited disclosures or slows down progress. For example, certain information could be disclosed alongside a firm's financial reporting if they meet financial materiality criteria, however defined (discussed above), and other information disclosed in a supplementary ESG report. The role of the supplementary report could be to provide additional context in greater detail, to disclose information that does not meet financial materiality criteria and to disclose information that meet other, non-financial materiality criteria (for example under the EU concept of double materiality). There may be value in coincidental timing of the annual financial reports (that may increasingly contain more ESG information to the extent that it is considered material) and any ESG supplemental document.

The frequency of ESG disclosures needs careful consideration, as is also the case for financial reporting where there is still some debate around the appropriate reporting frequency.[57] The benefits to users of providing more frequent updates on ESG factors (e.g. quarterly) must be weighed against the costs, which extend beyond merely computational costs. There could be risk of generating a short-sightedness regarding ESG matters, which generally move more slowly than financial issues and require a long-term approach and strategy. It is possible that choices over frequency of information could be a source of warranted difference between financial and non-financial disclosures, although this should be assessed in time.

Assurance requirements and internal governance

In many ways, it can be inherently more difficult to externally assure certain ESG information or compliance with ESG targets, for example in comparison with assuring certain financial information. That said, the various voluntary disclosure frameworks already contain certain expectations around verification and assurance, which many firms satisfy today.

In an aligned ESG disclosure framework it will be important to specify common expectations for reasonable assurance of ESG disclosures. These should include

[57] In 2018, the U.S. SEC requested public comments on whether reporting companies should have flexibility to reduce the frequency of reporting which is currently quarterly. Some of the debate and cross-country variation in frequency of financial reporting requirements are discussed in this 2018 article by FTI Consulting and this 2019 article by Accounting Professor Haresh Sapra at Chicago Booth.

expectations for internal governance which are likely to be akin to the processes for approving financial disclosures. In general, assurance and verification should become easier if there is general alignment around a common ESG framework and some common metrics, which should increase transparency and familiarity in a way that increases overall confidence in firms' disclosures.

Tailoring

There is growing recognition that enhanced tailoring of ESG disclosure expectations and guidance is likely to elevate the quality and degree of comparability of reporting – on specific issues and/or across firms in a given industry (such as the financial industry or even more specific sub-categories like banks, insurers, asset managers). While many of the existing voluntary frameworks envisage some tailoring via their industry-specific guidance (see Table A), it is necessarily an iterative process of gradual refinement. Arguably, some of the success in terms of uptake of the TCFD has been its specific and focused lens on the financial implications of climate change for a firm's business model; and some of the current challenges with TCFD reporting arise from the fairly generic guidance, despite the availability of supplemental guidance for different types of financial institutions and several non-financial industries.

In general, it is important to recognize that one size is unlikely to fit all financial institutions, which differ in business model, size, complexity, etc. More tailored ESG disclosure frameworks would better reflect what is relevant and material to a given type of financial institution. As one example, stress testing expectations for banks versus insurers may need to differ to account for the different structure and duration of institutions' assets and liabilities. Similarly, a degree of proportionality in expectations may be warranted to enable and encourage more financial institutions to produce ESG disclosures, including smaller institutions and those that have not before produced non-financial disclosures.

Voluntary or mandatory public disclosures

All the above considerations are important whether a future harmonized ESG framework is voluntary (but generally accepted and broadly used) or mandatory, for example as part of financial institutions' Pillar 3 disclosure or other regulatory requirements (e.g. exchange listing requirements). As discussed above, in many ways the various existing voluntary frameworks are becoming quasi-mandatory, through investor and other stakeholders demands, meaning that firms face significant market and competitive consequences if they do not disclose certain ESG information. It is possible that making the disclosure of certain information – such as a core set of ESG metrics – could be beneficial to drive progress on consistency and avoid 'first mover' challenges associated with voluntary disclosures. In any case, a phased path towards mandatory disclosures would be appropriate. And a move towards mandatory disclosures of certain information should be tempered to allow firms to provide additional ESG information that may be sought by certain users. Approaches and requirements that are sufficiently flexible can accommodate such evolution and at the same time provide useful guidance to narrow excessively disparate practices.

Where national authorities are already introducing mandatory ESG reporting requirements or expectations (see Box 1), it will be important that these adapt over time to reflect broader global developments and alignment efforts. This will help users of disclosures and, for example, cross-border groups that otherwise face a patchwork of requirements across their subsidiaries. A single, harmonized global framework would help public sector authorities, including prudential supervisors, to assess a financial group's compliance with expectations. Otherwise, a mechanism for assessing equivalence and mutual recognition of different types of ESG disclosures would be needed to reduce the impact of fragmentation in disclosure expectations for cross-border financial institutions.

3.3 Steps towards harmonization

Over the past 18 months, calls to harmonize ESG disclosure frameworks have grown louder. The chorus of institutions in favor of consolidation and integration is growing, including international organizations and private sector bodies.[58] Certain financial regulators[59] have made statements on the need for a single core set of standards for ESG disclosures. For example, the ECB recently remarked that *"internationally consistent standards on climate-related and environmental information disclosure would foster comparable high-quality information and provide greater clarity to the industry on how to align their reporting internationally"*.[60] At the international level, IOSCO has indicated that it will seek to address issues of inconsistent disclosures through a new task force on sustainable finance issues.[61] In the April 2020 Global Financial Stability Report, the IMF proposed that *"developing global mandatory disclosures on material climate change risks would be an important step to sustain financial stability. In the short term, mandatory climate change risk disclosure could be based on globally agreed principles. In the longer term, climate change risk disclosure standards could be incorporated into financial statements compliant with International Financial Reporting Standards"*.[62]

Recently, several entities have called for the establishment of a new body to develop non-financial reporting standards at the global level. In an October 2019 paper, the non-profit foundation Eumedion[63] made the case for the creation of an *"independent, authoritative International Non-financial reporting Standards Board (INSB)"*, with the aim of setting *"International Non-financial reporting Standards (INRS) on all material aspects of non-financial reporting for listed entities across the globe"*. This concept was advanced in a December 2019 paper from Accountancy Europe,[64] which elaborates four models for the establishment of such an entity, its relationship to mainstream standard setting bodies (specifically the IFRS foundation and IASB), and options for connectivity in reporting of financial and non-financial information.

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[58] For example, the International Federation of Accountants (February 18, 2020): https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/discussion/non-financial-disclosure-integrated-reporting, and Accountancy Europe (December 2019): https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/.
[59] ESMA, "Sustainable financial markets: translating changing risks and investor preferences into regulatory action," (February 2020), https://www.esma.europa.eu/sites/default/files/library/esma32-67-642_european_financial_forum_2020_-_12_february_2020_-_speech_steven.pdf.
[60] See Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive, June 2020.
[61] For more information, see IOSCO's "Sustainable Finance and the Role of Securities Regulators and IOSCO" report: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf.
[62] IMF Global Financial Stability Report (April 2020). Chapter 5 "Climate Change: Physical Risks and Equity Prices": https://www.imf.org/en/Publications/GFSR/Issues/2020/04/14/global-financial-stability-report-april-2020#Chapter5.
[63] EUMEDION, "Towards a global standard setter for non-financial reporting," (October 2019), https://en.eumedion.nl/clientdata/217/media/clientimages/2019-10-green-paper-international-non-financial-information-standard-setter3.pdf.
[64] Accountancy Europe, "Interconnected Standard Setting for Corporate Reporting," (December 2019), https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/.

Several different aiming to harmonize frameworks are currently underway. Entities including SASB, GRI, CDP, CDSB, and IIRC are collaborating bilaterally and multilaterally, with the WEF/IBC Common Metrics effort seeking to formulate a common standard for all corporate reporting, and conducting outreach at the international level. In parallel, initiatives such as the Impact Management Project (IMP) and UNEP-FI are working to develop frameworks for SDG impact reporting, addressing a suite of ESG-related risks and opportunities relevant for different types of firms.[65]

The success of these efforts, and durability of their outcomes, will likely be contingent on formal endorsement or adoption by international accounting standards setters. Entities such as the IASB have historically been cautious in this area, and have sought to clarify how existing tools (such as the Management Commentary Practice Statement[66]) can be relevant for disclosure of future non-financial risks, for instance risks arising from climate change. However, public statements indicate an increasing appetite for IFRS/IASB to engage in this area. In October 2019, IASB Chair Hans Hoogervorst remarked on the need for a *"convergence project"* in ESG reporting, and a *"consolidation among so many standard-setters"*.[67] In a recent speech, IFRS Trustee Teresa Ko remarked that "a compelling case can be made" for the IFRS Foundation to tackle the issue of consolidation, and the settling of *"globally comparable, high-quality and auditable standards of disclosure in sustainability reporting"*. [68] A small working group has been formed to explore how the Foundation can play a role, identifying climate-related risks as an initial priority.

Earlier processes to harmonize financial accounting standards – including the global adoption of IFRS – can be considered as an instructive model, although quicker progress is required for non-financial reporting. IOSCO has indicated that an approach to standard setting through the IFRS could build on the strong governance structure and transparent processes underlying financial disclosure standards, which has been key to their global adoption. However, the challenge is speed – developing global standards is often time consuming and complex. While prior harmonization processes took decades, significant progress on ESG disclosure is required within the next 12 to 18 months if financial markets are to respond effectively to the risks and opportunities arising from climate change and other sustainability factors.

However, the formulation of a harmonized framework, and eventual standard-setting, is only one element of the broader equation. Comprehensive and widespread ESG disclosure by financial institutions and corporates will require multiple efforts to build capacity, develop tools, and build consensus on approaches – much in the same way that the agenda on TCFD-aligned reporting is currently progressing. Close international dialogue between policymakers and with industry will be required to ensure that a harmonized framework is reflected in regulatory and policy instruments, and by firms in their planning processes.

[65] See https://impactmanagementproject.com/. Also discussed in Deloitte 2020 (April). Integrated Approach to Corporate Reporting Standard-setting.
[66] The IFRS has encouraged the use of management commentary to explain how these long-term challenges might affect future cash flows which are not (yet) captured by financial statements.
[67] Accounting Today, "Sustainability standards seen as too fragmented," (October 2019), https://www.accountingtoday.com/news/sustainability-standards-seen-as-too-fragmented.
[68] IFRS, "Sustainability reporting and its relevance to the IFRS Foundation," (May 2020), https://www.ifrs.org/news-and-events/2020/05/sustainability-reporting-and-its-relevance-to-the-ifrs-foundation/.

4. Conclusions and Recommendations

This paper has summarized the multiple and differing voluntary ESG disclosure frameworks and evolving regulatory approaches in this area. ESG disclosure lacks a single recognized and uniform disclosure framework, which makes it difficult to achieve comparability across firms, and can result in regulatory fragmentation. Multiple frameworks can lead to confusion and risk of greenwashing, and can generally inhibit the path to consistent and robust disclosure of ESG information and data.

While a proliferation of reporting frameworks in past decades has stimulated innovation in disclosure practices (including metrics and methodologies), the rapid mainstreaming of ESG issues in financial markets creates a pressing imperative for consolidation. Furthermore, it is evident that a broadening and deepening of disclosures by financial institutions will necessitate, and must go hand in hand with, similarly detailed disclosures from corporate counterparties. We consider this a critical precondition for progress on ESG disclosure by financial institutions, considering the currently uneven comprehensiveness and quality of corporate disclosures.

As a foundation for alignment across countries, steps should be taken to develop a harmonized global framework for ESG disclosure. In the longer term, a durable global solution could be the emergence of a generally accepted international non-financial reporting standard for financial institutions and corporates. Several dimensions need to be specified when designing a harmonized global framework: it will be important to build upon the thoughtful and tested voluntary ESG disclosure frameworks and the experience of firms' disclosures to date. Tailoring for different types of firms, including different types of financial institutions, is likely to elevate the quality and degree of comparability of reporting and enable quicker progress. Future non-financial reporting standards should ultimately cover the breadth of ESG topics and not only climate risk, to avoid fragmentation in scope of disclosures over time.

Building on a previous IIF staff paper on the case for greater international alignment in sustainable finance policy and regulation,[69] **we strongly encourage the relevant international standard setting bodies to take practical steps in the coming months towards a harmonized cross-sectoral ESG disclosure framework.** The IIF would encourage the G20, FSB (building on the efforts of the TCFD), accounting standard setting bodies (IASB and FASB) and those initiatives involved in the Corporate Reporting Dialogue[70] to work within their mandates to align and consolidate ESG disclosure frameworks for financial institutions and other corporates. Given the importance to and impact on financial institutions, we would recommend that the relevant prudential standard setting bodies (including the BCBS, IAIS and IOSCO) are also engaged in the process and help shape the framework for financial institutions.

Earlier processes to harmonize financial accounting standards – including the global adoption of IFRS – can be considered as an instructive model, although quicker progress is required for non-financial reporting. While prior harmonization processes took decades, significant progress on ESG disclosure is required within the next 12 to 18 months if financial

[69] IIF, "Sustainable Finance Policy & Regulation: The Case for Greater International Alignment," (March 2020), https://www.iif.com/Publications/ID/3782/Sustainable-Finance-Policy-Regulation-The-Case-for-Greater-International-Alignment.

[70] The participants currently include the CDP, CDSB, GRI, ISO, IR, SASB, IFRS, and FASB as an observer.

markets are to respond effectively to the risks and opportunities arising from climate change and other sustainability factors.

A harmonized international framework would be a strong foundation for further jurisdiction-level building blocks. On top of a strong foundation in the form of an international framework, there is scope to accommodate regional or jurisdictional perspectives as additional building blocks through the regulatory or legislative process for implementation. Further, there is value in permitting a tier of ESG disclosures that is driven by the individual disclosing firm to encourage ongoing innovation and enable firms to communicate in a manner most relevant to their specific context. While rapid consolidation at the global level is a pressing priority, the harmonization of expectations should be an iterative, phased process rather than a 'big bang'.

In doing so, we recommend that the official sector continues to build on and engage with industry-driven initiatives to date. The financial industry stands ready to continue to collaborate on this extremely important topic, on which many firms have been developing knowledge and perspectives for decades. The IIF can play a key role in facilitating engagement between regulators, standard setters, existing voluntary frameworks, and financial industry stakeholders to achieve this objective.

Abbreviations

AASB: Australian Accounting Standards Board

ASIFMA: Asia Securities Industry & Financial Markets Association

BCBS: Basel Committee on Banking Supervision

CDP: Formerly the Carbon Disclosure Project

CDSB: Climate Disclosure Standards Board

CRD: Corporate Reporting Dialogue

ECB: European Central Bank

EFRAG: European Financial Reporting Advisory Group

EBF: European Banking Federation

ESG: Environmental, Social and Governance

ESMA: European Securities and Markets Authority

FASB: Financial Accounting Standards Board

FSB: Financial Stability Board

GHG: Greenhouse Gas

GRI: Global Reporting Initiative

G20: Group of Twenty (international forum)

IAIS: International Association of Insurance Supervisors

IASB: International Accounting Standards Board

IFRS: International Financial Reporting Standards

IIRC: International Integrated Reporting Council

IMF: International Monetary Fund

IOSCO: International Organization of Securities Commissions

NFRD: (EU) Non-financial reporting directive

PRB: Principles for Responsible Banking

PRI: Principles for Responsible Investment

PSI: Principles for Sustainable Insurance

RTS: (EU) Regulatory Technical Standards

SASB: Sustainability Accounting Standards Board

SEC: U.S. Securities and Exchange Commission

TCFD: Task Force on Climate-related Financial Disclosures

UNEP-FI: United Nations Environment Programme Finance Initiative

WEF/IBC: World Economic Forum International Business Council

Table A

WEF/IBC proposal and EU NFRD are shaded to reflect a difference in nature to the other standards shown. Specifically, the EU NFRD relates to legislation applying (and under review) in one region and the WEF/IBC proposals are explicitly not intended to create a new framework but to draw on and amplify earlier ones, including many also shown in Table A. Grey shaded indicates 'not applicable'. The table is necessarily a simplification for summary presentational purposes. For fuller information about each standard or proposal, it is recommended to visit the sources, which are listed beneath the table.

Table A: Key features of internationally recognized ESG disclosure standards and proposals

Standard / Framework	Global Reporting Initiative (GRI) Standards	CDP Questionnaires	Principles for Responsible Investment (PRI) Reporting	International Integrated Reporting Council (IIRC) Framework ("<IR>")	Climate Disclosure Standards Board (CDSB) Framework	Task Force on Climate-related Disclosures (TCFD)	Sustainability Accounting Standards Board (SASB) Standards	WEF IBC proposal	EU NFRD
Date introduced	1997	2002	2013	2013	2015	June 2017	November 2018	2020, *under consultation*	2014, *currently under review*
Objective(s)	Measures impact of companies on environment and society	Focus investors, companies and cities on taking action to build a truly sustainable economy by measuring and understanding their environmental impact	Promote the application of the six Principles for Responsible Investment; Report on activities and progress toward implementing the principles	Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital	Setting out an approach to reporting environmental information in mainstream reports	Provide a framework for decision-useful, climate-related disclosures that provide information around the financial implications of climate-related aspects of an organization's business	Facilitating more effective disclosure of material sustainability information by issuers to investors	Intends to amplify earlier standards and harness their synergies (not create a new standard) to enable for companies to demonstrate their long-term sustainability	Improve companies' and financial institutions' disclosure of non-financial information under the European Green Deal
Target disclosure producers	"Any organization -- large or small, private or public, regardless of sector, location and reporting experience"	Companies; Cities/states/regions	Investment firms; PRI signatories	Primarily private sector, for-profit companies of any size; can be adapted for use by public sector and not-for-profit organizations	Companies	Companies	Public companies making disclosures on material sustainability factors in their public filings	International Business Council (IBC) members, across industry sectors	Large public interest companies with more than 500 employees (o/w there are appox. 6,000 across Europe); financials and non-financials.
Is there a targeted financial industry standard or guidance?	Yes, GRI Financial Sector Supplement	Yes, targeted questionnaire for financial services companies	Framework is targeted at investment firms by design	Yes, <IR> Banking Network	-	Yes, Supplemental guidance for the financial sector	Yes, SASB Financial Sector Standards	-	-
Target disclosure users	Investors, policymakers	Investors, policymakers	"Stakeholders"	"Providers of financial capital" (Investors)	Investors	Investors	Investors, companies, policymakers	Investors and all stakeholders	Investors, stakeholders, civil society organizations
Voluntary/ Mandatory	Voluntary	Voluntary	Mandatory for signatories of PRI	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary (but propose a 'comply or explain' approach to metrics for participants who opt in)	Mandatory ('Comply or Explain') for EU firms in scope
Stated approach to materiality	Materiality covers aspects that (i) reflect the organization's significant economic, environmental and social impacts; or (ii) substantively influence the assessments and decisions of stakeholders	Environmental information is material if (i) the environmental impacts are expected to have a signficant effect on the organization's financial condition; or (ii) omitting it could influence decisions that report users make about the organization	Based on an assessment of the exposure of an investment/portfolio to climate-related (both physical and transition) risks	Material information is that which will substantively affect the organization's ability to create value over the short, medium, and long term	Material information provides information necessary for an assessment of how the organization contributes to and is affected by relvant risks. Each organization will evaluate their own circumstances to identify material environmental information	Materiality decisions based on financial impacts to the organization: organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings	SASB standards are intended as guidance for companies as they perform their own determinations of materiality and disclosure obligations. Financially material issues are those that are reasonably likely to impact the financial condition or operating performance of a company and therefore are most important to investors.	Materiality to long-term value creation	Companies reporting must disclose (i) how sustainability issues may affect the position of the company; and (ii) how the company impacts society and the environment -- also called "double materiality"

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Any Environmental information captured? **What?** (metrics etc.)	Environmental Category: Materials, Energy, Water, Biodiversity, Emissions, Waste, Environmental Compliance	Separate CDP questionnaires on climate change, forests, water security Within climate change questionnaire -- Assessment of climate risk and opportunities, with specific guidance for banks, insurance companies, and asset managers; transition and physical risks, climate-related targets, Scope 1, 2, 3 GHG emissions, energy spend, consumption of fuel, waste, land usage	Climate Change Reporting Module: Climate-related risks and opportunities, climate resilience, climate strategy, Scope 1, 2, 3 GHG Emissions	While there are no specific environmental disclosure requirements, the report requires that companies consider their use of "natural capital" and its role in organizations' value chains	Required disclosures should explain the material current and anticipated enviornmental risks and opportunities affecting the organization: Financial impact of climate change on company accounts; environmental strategy and policy; material environmental risks and strategies; regulatory, physical, reputational, and litigation risks and opportunities; sources of environmental impacts; performance targets	The framework focuses on strategy, risk management, and metrics and targets around climate-related risks and opportunities. Specific disclosures include: Climate-related risks and opportunities, climate-related strategy, climate risk management, metrics used to assess climate risk and opportunity, scope 1-3 GHG emissions	Environmental information is included through the broader umbrella of incorporation of ESG factors into corporate activities. Corporate impacts on the environment; use of nonrenewable, natural resources as inputs or through harmful releases into the environment	Under the 'Planet' pillar Core quantitative metrics related to climate change (TCFD-aligned), nature loss and fresh water availability. Metrics commonly used in other frameworks (incl. CDP, GRI et al.) Additional set of expanded metrics/disclosures	Proposes climate-related disclosures for the five NFRD reporting areas: business model, policies and due diligence, outcome of policies, principal risks and risk management, and key performance indicators For each reporting area, the guidelines identify a number of recommended disclosures, including GHG emissions (scope 1-3), energy consumption, and energy efficiency targets
Any Social information captured? **What?** (metrics etc.)	Social Category: Metrics are divided into four sub-categories: labor practices, human rights, society and product responsibility. Specific metrics relating to: Employment, Labor Relations, Health and Safety, Training, Diversity, Human rights, Consumer Privacy, (and more)	-	-	While there are no specific social disclosure requirements, the framework requires companies to look at their relationship and social capital as it affects the organization's value	-	-	Two main categories define social disclosure requirements: Social capital (perceived role of the business in society) including human rights, local economic development, affordability; and Human capital (management of a company's human resources) including training, retention, diversity, and compensation	People and Prosperity pillars Core metrics contain several GRI and SASB indicators related to Gender pay equality, Diversity and inclusion, Wage levels, Child or forced labor, Health and safety and Training provided. Additional set of expanded metrics/disclosures	Expectations to disclose relevant information related to social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery
Any Governance information captured? **What?** (metrics etc.)	Governance Category: Governance structure, Executive level responsibility for ESG topics, Stakeholder consulting on ESG topics, Composition of highest governance body, Conflicts of interest, Evaluating governance body's performance, Identifying and managing ESG impacts, Risk management process The Governance category is the only category included in GRI's basic-level "General Disclosures" template.	Climate-related Governance issues: Does the organization have board-level oversight of climate issues?	Governance and Human Resources Module: Roles used by organization and their oversight of responsible investment; dedicated responsible investment staff; incorporation of responsible investment elements into employee performance management; membership of organizations that promote responsible invevstment	Governance Element: Leadership structre (including skills and diversity); strategic decision-making processes, how the organization's culture, ethics, and values are reflected in its use of capital	Required Governance Disclosures include: Describe Governance of environmental policies, strategy, and information in order to demonstrate transparency about and accountability for the organzation's oversight of environmental policies, strategy, and information.	Governance requirements are a subset of broader environmental and climate risk disclosures. Governance metrics relate to board oversight of climate-related risks and opportunities, and management's role in assessing and managing climate-related risks and opportunities.	Two main categories define governance disclosure requirements: Business Model and innovation (addressing the impact of sustainability issues on enviornmental, human, and social issues); and leadership and governance (management of issues that are in potential conflict with the interest of broade stakeholder groups)	Under the 'Principles of Governance' pillar Core metrics contain several GRI indicators and others (incl. SASB) covering Governing purpose, quality of governing body, stakeholder engagement, ethical behavior, risk and opportunity oversight Additional set of expanded metrics/disclosures	Expectations to disclose relevant information related to board diversity; company diversity policies - With respect to climate-related risks and opportunities, follows TCFD recommendations on disclosing board oversight and management's role in assessing and managing climate-related risks and opportunities

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Assurance/ Verification requirements	Recommends the use of external assurance for sustainability reports. GRI provides best practices for external assurance.	Encouraged and template provides space to report verification/assurance status e.g. of Scope 1-3 emissions.	Assurance of data is recommended on a yearly basis.	Independent, external assurance is recommended.	Encouraged by CDSB	Disclosures should be subject to internal governance processes that are the same or substantially similar to those used for financial reporting.	Independent assurance is encouraged: it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other informaton contained in SEC filings.	Disclosures should be capable of verification and assurance	Possible for Member States to require that the information included in the non-financial statement / the separate report be verified by an independent assurance services provider.
Other features	GRI's approach includes tiered levels of disclosures -- governance is included in the "100" level, while environment falls under "300" and social under "400"	There are 'Full' and 'Minimum' versions. Minimum is for first time reporters and small firms; it contains fewer questions and no sector-specific questions. CDP's climate change questionnaire for financial services firms is built on TCFD's recommendations for the financial sector	The framework has specific models for different asset classes, including listed equity, private equity, inclusive finance, hedge funds property, infrastructure, and fixed income	The report follows eight "content elements" with no specific element dedicated to environmental or social concerns	CDP provides the secretariat to CDSB and manages CDSB's global work program on behalf of the Board.	The TCFD provides a framework for climate-related, financially material disclosures; a number of other organizations either use the TCFD framework as a cornerstone of their own guidelines or provide implemention guides related to the TCFD, including CDSB, SASB, WEF/IBC	SASB's initial focus was on developing standards for US public companies; as such, the standards have been more broadly adopted in the US. SASB is now working toward alignment and synergy with other frameworks like the TCFD and CDSB.	Recommendation to disclose within mainstream corporate disclosures i.e. Annual Report Metrics are taken directly or adapted from existing disclosure frameworks, including GRI, SASB, TCFD, CDSB, and CDP	Firms have significant flexibility over how to disclose information: can use international, European or national guidelines to produce their statements. Companies are required to disclose which framework was used. Followed by 2017 and 2019 guidelines, which are not mandatory.

Table A sources:

- *GRI Standards: https://www.globalreporting.org/information/sustainability-reporting/Pages/gri-standards.aspx*
- *CDP Questionnaires: https://www.cdp.net/en/guidance*
- *PRI Reporting: https://www.unpri.org/signatories/reporting-for-signatories*
- *IIRC Framework: https://integratedreporting.org/resource/international-ir-framework/*
- *CDSB Framework: https://www.cdsb.net/what-we-do/reporting-frameworks/environmental-information-natural-capital*
- *TCFD resources: https://www.fsb-tcfd.org/*
- *SASB Standards: https://www.sasb.org/*
- *WEF/IBC Proposal: http://www3.weforum.org/docs/WEF_IBC_ESG_Metrics_Discussion_Paper.pdf*
- *EU NFRD resources: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en*