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A commentary on the "new" institutional actors in sustainability reporting standard-setting: a European perspective

Begoña Giner
Department of Accountancy, University of Valencia, Valencia, Spain, and
Mercedes Luque-Vílchez
Department of Agricultural Economics, Finance and Accounting, University of Cordoba, Cordoba, Spain

Abstract

Purpose – The purpose of this paper is to discuss the progress and future prospects of two relatively "new" institutions in this field: the European Commission (EC), together with the European Financial Reporting Advisory Group (EFRAG), and the International Financial Reporting Standards (IFRS) Foundation.

Design/methodology/approach – This paper reflexively analyses the recent events that characterise the European Union (EU) regulatory standard-setting landscape in the sustainability field. It is mainly based on publicly available documents.

Findings – After analysing the different routes followed to enter the field, this paper shows how the EC/EFRAG takes a wider view than the IFRS Foundation on certain key reporting aspects, that is, target audience, materiality and reporting boundary. As for the reporting scope, although it seems that the IFRS Foundation has a more restrictive vision, it is working to broaden it.

Practical implications – This paper provides some ideas about the potential cooperation between the two institutions. This paper also highlights some potential problems stemming not only from their intrinsic characteristics but also from the routes they have taken to enter the field.

Social implications – By envisioning how the EU sustainability reporting standard-setting landscape might evolve, this paper sheds light on how companies might need to approach sustainability reporting to adapt to the new institutional demands. Suggestions for collaboration between the two institutions could help them reach common ground and, thus, prevent misunderstandings for companies and stakeholders.

Originality/value – The reflections and takeaways benefit from the authors' first-hand information, as both are involved in the EU process. The authors could, therefore, feed into further discussions on the developments and challenges facing the EU in this domain.

Keywords Sustainability reporting, Proposals, Standard-setting process, EC, EFRAG, IFRS Foundation

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1. Introduction

This paper documents and reflects on recent breakthroughs in the sustainability reporting standard-setting process by relatively "new" institutions in this field. With what has been described as a growing "sustainability reporting momentum" (EFRAG, 2021a), 2020 and 2021 have been extremely active years, particularly in the European Union (EU). Until then, sustainability reporting standard-setting had been developed and spearheaded by private institutions such as the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB), the World Resources Institute and the World Business Council for Sustainable Development, among others.

However, in 2020, two institutions burst into the sustainability reporting field, positioning themselves alongside the pioneering institutions: the European Commission (EC) in collaboration with the European Financial Reporting Advisory Group (EFRAG) and the International Financial Reporting Standards (IFRS) Foundation, which in 2021 announced its consolidation with some of the aforementioned sustainability reporting bodies. Recent developments in the USA may have prompted the two institutions to play an active role and be "ahead of the game". Thus, in 2020, the Investor Advisory Committee of the US Securities and Exchange Commission (SEC) approved recommendations to update reporting requirements for issuers to include environmental, social and governance (ESG) factors (SEC, 2020), and in 2021, its staff published guidance about disclosure related to climate change (SEC, 2021). However, because IFRS related to financial reporting, despite having been accepted worldwide, are not allowed in the USA, it seems unlikely that anything different will happen with the IFRS disclosure sustainability standards, as both are within the domain of the same institution: the IFRS Foundation.

With regard to the main focus of our analysis, the EU sustainability reporting standard-setting landscape, we argue that, based on the developments discussed in this piece, the role of the EC/EFRAG [1] and the IFRS Foundation will probably grow. In some way, the harmonisation process and the discussion on the convergence of sustainability reporting standards mimics the process that started more than 40 years ago in the financial reporting field, although it is occurring more rapidly. Accounting harmonisation aims to improve the comparability of reporting practices by reducing the degree of variation between different local standards (Nobes, 1991). In the EU, this was achieved through the EC accounting directives issued around the 1980s but was later taken a step further by the introduction of IFRS in 2005. The literature in the field of sustainability reporting attributes a multitude of benefits to harmonisation, such as providing clarity in reporting practices and reducing diversity between countries (Einwiller *et al.*, 2016; Fortanier *et al.*, 2011; Tschopp and Nastanski, 2014). This has led some authors to suggest that some kind of public intervention in sustainability information is needed to improve the quality of such disclosure (Deegan, 2002). Thus, public institutions or private ones with strong public support could be expected to be at the forefront of regulating sustainability reporting. In this respect, no one would deny the legitimacy of the EC in setting such rules at the EU level, but the position of the IFRS Foundation may be more problematic because it is not a public institution, although it has made important efforts to establish its legitimacy through a strong due process of standard-setting, as well as changes in its governance and accountability (Botzem, 2014; Danjou and Walton, 2012; Richardson and Eberlein, 2011). Besides, the IFRS Foundation has traditionally been active in the field of financial reporting but not in sustainability reporting.

When reflecting on the entry of the EC/EFRAG and the IFRS Foundation into the sustainability reporting field, we note how different their perspectives are. The EC/EFRAG's decision to establish sustainability reporting standards is aligned with the

European Green Deal objectives (European Commission, 2019); as far as encouraging a shift in firms' behaviour towards achieving sustainable development is concerned, it thus takes a proactive attitude. However, the IFRS Foundation has been adopting a more reactive attitude, as its entry into the field was in response to calls for them to do so (IFRS Foundation, 2020). In addition, unlike the EC/EFRAG's aim, the Foundation has so far not sought to change firms' behaviour with IFRS but to establish standards that portray economic reality rather than shaping it (Hoogervorst and Prada, 2015). To the extent that future sustainability reporting standards also focus on investors' needs, they might be seen as technical tools to help companies' reporting irrespective of their context (as it is understood that the market works the same everywhere). In this way, the potential of reporting to produce changes in behaviour could be ignored when issuing standards, although, as has happened with IFRS, they could have unintended or unanticipated consequences (Brüggemann *et al.*, 2013; Goncharov and van Triest, 2014). Moreover, given the very sensitive information that characterises sustainability issues, these unintended consequences might be significant (Elliott *et al.*, 2014).

Against this backdrop, we conduct a reflexive analysis of two key documents published recently by the two aforementioned institutions: the proposal for *Corporate Sustainability Reporting Directive* (CSRD) issued by the EC in April 2021 (European Commission, 2021a) and the *Consultation Paper on Sustainability Reporting* (CPSR) issued by the IFRS Foundation in September 2020 (IFRS Foundation, 2020). In particular, we explore how crucial aspects of sustainability reporting are considered in both proposals, such as the target audience, scope, materiality and reporting boundary. It should be noted that under the CSRD proposal, EU companies are mandated to apply a set of EU Sustainability Reporting Standards (ESRS) to be designed with the support of EFRAG, the aim of which is to not merely foster comparability but also guide companies in preparing their sustainability reports. The CPSR, on the other hand, proposes the involvement of the IFRS Foundation in the sustainability reporting arena to produce globally accepted standards on the matter and facilitate investors' decision-making.

This research is based primarily on recent public sources on the EU sustainability reporting standard-setting process (i.e. press, consultation documents, comments and webinars), similarly to Botzem (2014) and Pelger (2020), for example. It benefits from the authors' experience of participating in the European sustainability reporting standard-setting process. Although for confidentiality reasons the authors cannot discuss specific information to which they have had access, their participation in this process has provided them with detailed and timely knowledge, which has facilitated the monitoring of the abundant information that has been publicly issued on the subject, among other aspects. Moreover, this participation has helped the authors to select key reporting aspects in the comparison of the EC/EFRAG and IFRS reporting proposals and to offer the reflections set out in this paper.

This piece, thus, aims to contribute to the debate about sustainability reporting standard-setting from a *practice-informed* perspective. Academic research on sustainability reporting abounds, and while it dates back to the 1980s, it has grown significantly in recent years (Andrew and Baker, 2020). Despite the increasing number of papers on harmonisation and sustainability reporting standard-setting (Adams and Abhayawansa, 2021; Christensen *et al.*, 2021; Einwiller *et al.*, 2016; Fortanier *et al.*, 2011; Larrinaga and Bebbington, 2021; Levy *et al.*, 2010; Tschopp and Nastanski, 2014), this field of research is still very recent and limited compared to corresponding financial reporting-related research (Ball, 2006; Barth *et al.*, 2008; D'Arcy, 2001; Daske *et al.*, 2008, 2013; Nobes, 1983; Van der Tas, 1988; among others). Besides, existing academic sustainability reporting research has centred mostly on the study of organisations, such as the GRI (Einwiller *et al.*, 2016; Fortanier *et al.*, 2011; Larrinaga and Bebbington, 2021; Levy *et al.*, 2010; Tschopp and Nastanski, 2014). With a few exceptions (Adams and Abhayawansa, 2021), the "new" institutions – the EC/EFRAG and the IFRS Foundation – remain underexplored, probably because of their novelty in the field. Thus, the present paper delves into and analyses the harmonisation of sustainability reporting through these institutions. In doing so, it responds to the recent call to conduct policy-relevant research informed by the direct engagement of the academic community with policy-making processes (Garcia-Torea *et al.*, 2020). To a certain extent, this research also updates the comprehensive historical summary of sustainability reporting harmonisation provided by Tschopp and Nastanski (2014) and provides an overview of the status of current actions by the "new" institutional actors in the European sustainability reporting standard-setting. This overview can help scholars to become familiar with, and to advance research on, sustainability reporting standard-setting processes.

The piece is structured in a fairly conventional way. After this introduction, Section 2 details the routes followed by the EC/EFRAG and the IFRS Foundation to enter the "new" sustainability reporting field. Section 3 documents the major differences between the two proposals in terms of reporting aspects. Section 4 concludes with some reflections and takeaways and provides future research proposals.

2. The European Commission/European Financial Reporting Advisory Group and the International Financial Reporting Standards foundation in the European Union sustainability reporting standard-setting landscape

In this section, we provide a recent historical review of the process by which both institutions, the EC/EFRAG and the IFRS Foundation, entered the sustainability reporting field. For the sake of clarity, we present the routes followed by each institution separately.

2.1 The European Commission and European Financial Reporting Advisory Group

For more than 40 years, the EC has intervened in the financial accounting reporting domain. Firstly, by issuing directives to harmonise the accounting standards used in Member States, particularly the Fourth Council Directive 78/660/EEC on annual accounts and the Seventh Council Directive 83/349/EEC on consolidated accounts (which were repealed by the new accounting Directive 2013/34/EU of the European Parliament and the Council) and, secondly, by mandating IFRS [International Accounting Standards (IAS) at the time], through Regulation (EC) 1606/2002 of the European Parliament and the Council [2], as well as subsequent regulations. In this case, it should be highlighted that EFRAG plays (and played at the start) a key role via the endorsement advice to be delivered to the Commission before the final decision is made to adopt any new or revised IFRS. In fact, EFRAG, a private non-profit association, was created in 2001 under the auspices of the Commission to intervene in the IFRS adoption process (Van Mourik and Walton, 2018). It is worth noting that although EFRAG was initially funded entirely by private institutions, it has received financial support from the EC since 2011 (Walton, 2015).

The EC's interest in the sustainability field dates back to the beginning of this century with the EU Green Paper, published in 2001, which obliged Member State governments to actively develop public policies that stimulate corporate social responsibility (CSR) and corporate accountability. Nevertheless, the main milestone in the field is Directive 2014/95/EU of the European Parliament and the Council. This Directive amended accounting Directive 2013/34/EU by making (for the first time) non-financial disclosure mandatory for large companies. However, as stated in a report prepared by the Commission (European Commission, 2021b), the non-financial Directive has not sufficiently improved the quality of the information disclosed by companies, which creates an accountability gap. In this context, the EC was committed to proposing a revised version of the Directive (European Commission, 2019).

The revision of Directive 2014/95/EU has been accompanied by a fairly new approach in which EFRAG plays a different and major role. In June 2020, Mr Dombrovskis, the Vice-President of the EC, invited Mr Gauzès, the EFRAG President, to establish a task force dedicated to preparing technical advice on potential European non-financial reporting standards. Immediately, EFRAG sent out a call for nominations to establish the Task Force [3], which got to work in September. In parallel, Mr Dombrovskis wrote to Mr Gauzès personally to ask for his recommendations on possible changes in EFRAG's governance should EFRAG be appointed to develop such standards [4]. On 1 October 2020, EFRAG issued a request for comments about the changes in its governance structure.

The EFRAG Task Force, which was made up of a large group of about 35 people from different backgrounds (Footnote 3), submitted the report to the EC in February 2021. It contains 54 detailed recommendations for the future EU sustainability reporting standard-setter that will be in charge of producing ESRS. Some days later, on 8 March 2021, these recommendations were made public on the EFRAG website [5]. To understand how this work was done so quickly, it should be borne in mind that since its inception, EFRAG has advocated working in the field but without "reinventing the wheel". Thus, once invited to prepare ESRS, it sought to establish close cooperation arrangements with other leading European and international standard-setters and initiatives (EFRAG, 2021b). It chose the GRI as the first "co-constructor" of ESRS after both institutions signed the first statement of cooperation on 8 July 2021 (EFRAG, 2021b). Insofar as the GRI designs its guidelines and standards in close collaboration with different stakeholders for the purpose of making "collective efforts to accelerate progress in the 2030 Agenda for Sustainable Development" (GRI, 2021a), we argue that it makes sense that EFRAG has taken the GRI as a reference for future ESRS. Indeed, both institutions pursue the same objectives: to serve the public interest and to promote sustainable development.

In relation to EFRAG's new governance structure, Mr Gauzès sent a report to Mr Dombrovskis in March 2021 (EFRAG, 2021c). The new structure includes a Financial Reporting Board, whose main task is to endorse IFRS, and a Non-financial Reporting Board (later named the Sustainability Reporting Board), which will be responsible for developing ESRS that, once accepted by the EC, will be published as delegated acts and, therefore, be compulsory in the EU. In January 2022, the EFRAG General Assembly approved the integration of the new sustainability pillar in its structure (EFRAG, 2022a), and in March 2022, the members of the board in charge of this new pillar (Sustainability Reporting Board) were published (EFRAG, 2022b). Moreover, a Task Force is already working on the development of ESRS, with the very tight deadline of October 2022 [6], as the roadmap is pushing to have the 2023 reports based on ESRS (published in 2024).

In parallel with these activities, the revision of Directive 2014/95/EU was underway and, immediately after EFRAG sent the recommendations (EFRAG, 2021a), it came into effect on 21 April 2021 under its new name of the Corporate Sustainable Reporting Directive (CSRD) (European Commission, 2021a). Not surprisingly, the CSRD proposal is closely aligned with the EFRAG Task Force's recommendations issued a couple of months earlier and clearly refers to EFRAG's role in developing sustainability standards.

Figure 1 provides a timeline of the described events.

2.2 The International Financial Reporting Standards foundation

The IFRS Foundation is a private non-profit organisation based on an independent standard-setting board that is governed and overseen by Trustees, who are accountable to a Monitoring Board of public authorities. This organisation was created in 2001 to develop and promote accounting standards that endow financial markets around the world with transparency and economic efficiency [7], but it has its origins in the International Accounting Standards Committee (IASC), which dates back to 1973. Since its origin, the IFRS Foundation has focused on financial information (only) and has issued IFRS through its IASB. These standards have been introduced into more than 140 jurisdictions [8], with the EU being one of the first to make them mandatory in 2005, as stated in the abovementioned Regulation (EC) 1606/2002. As in the case of EFRAG, the EC also provides funding to the IFRS Foundation (Walton, 2015).

Since 2020, the IFRS Foundation has been very active in the sustainability reporting field. As it has been doing in the field of financial reporting, the Foundation seeks to contribute to the field of sustainability reporting for the general public, albeit from a different perspective than that of EFRAG, keeping investors and creditors in the capital markets at the centre of its focus. To fully understand the IFRS Foundation's entry in the field and the issuance of the CPSR in September 2020 (IFRS Foundation, 2020), it is worth looking at some position papers published a few years earlier (Accountancy Europe, 2019, 2020; Barker and Eccles, 2018, 2019; Eumedion, 2020; Impact Management Project, 2020; International Federation of Accountants, 2020; World Economic Forum, 2020a). By highlighting the need to harmonise sustainability reporting and make it easier for investors to compare companies, these papers sought to put pressure on the IFRS Foundation to act and remedy the "complexity" in sustainability standard-setting (in line with its approach to serving the public interest). These calls aimed to bring an end to what some had rather pejoratively called the "Alphabet Soup" of standard-setters (Tett, 2020).

The IFRS Foundation has taken the pressure from the business community very seriously and has continued to take further steps in the sustainability field. Thus, in line with the consultation launched in September 2020, other documents followed in April 2021. One of those is the feedback statement that contains matters raised in the 577 comment letters sent to the Foundation about the CPSR. According to the IFRS Foundation:

> The responses indicated a growing demand to improve the global consistency and comparability of sustainability reporting, as well as a recognition that there is a need for action [. . .] widespread support for the IFRS Foundation to play a role in sustainability reporting [. . .] continuing their work to create a new board to set IFRS sustainability standards (IFRS Foundation, 2021a, p. 1).

Source: Own work

Figure 1.
Timeline of major EC/EFRAG events related to its entry into the sustainability reporting field

This led the Foundation Trustees to immediately publish an Exposure Draft asking for comments on changes in its Constitution to accommodate the new International Sustainability Standards Board (ISSB), which will be made up of 14 majority full-time members (IFRS Foundation, 2021b). As stated in Agenda Paper 3 prepared for the IFRS Advisory Council, held in September 2021 (IFRS Foundation, 2021c), the 175 responses received provide ample support for the proposed changes in its constitution and suggest focusing more on the interconnectivity between the two boards (IASB and ISSB).

Regarding the desired interconnectivity, some months before, in June 2021, the previous IASB Chair in his farewell speech stated that IFRS Practice Statement 1 *Management Commentary*, whose Exposure Draft had just been issued (IFRS Foundation, 2021d), represented "one of the links between the IASB and the potential future ISSB" (Hoogervorst, 2021). This document had been in the hands of the IASB for a number of years (from 2007 to 2021) and might now be seen as an opportunity to connect the two reporting areas (financial and non-financial/sustainability) by bringing together information that investors need to assess a company's long-term prospects, including intangible assets and sustainability matters (IFRS Foundation, 2021d). To have the ISSB ready in November 2021 to coincide with the COP26 Climate Summit, a call for nominations for the Chair and Vice-Chair of the proposed new board was also launched in June 2021 (IFRS Foundation, 2021e).

It is worth mentioning that, unlike the EC/EFRAG, the IFRS Foundation did not initially name any "co-constructor" for the new standards. That said, in the feedback statement on the CPSR (IFRS Foundation, 2021a), the Foundation states that, although the new board will rely on its own standards, it will build on the work of the Task Force on Climate-related Financial Disclosures (TCFD) and leading institutions that focus on enterprise value, including the Value Reporting Foundation (VRF) (the result of the merger of IIRC and SASB) [9], the Climate Disclosure Standard Board (CDSB) and the World Economic Forum (WEF).

An important supporter of the IFRS Foundation is the International Organization of Securities Commission (IOSCO), the global standard-setter for the securities sector. It was instrumental in adopting IFRS in Europe (Van Hulle, 1999, 2004) and, based on recent statements (IOSCO, 2021a, 2021b), appears to play a key role in the field of sustainability as well. Thus, in the report issued in June 2021, the IOSCO officially encouraged the IFRS Foundation's initiative to establish an ISSB "to sit alongside the IASB" and also stated that "in order to guide the IFRS Foundation's work to best support securities regulators' objectives, IOSCO has deepened its collaboration with the IFRS Foundation as the work has progressed" (IOSCO, 2021a, p. 2). This collaboration came into being in March 2021, with the creation of the Technical Readiness Working Group (TRWG) tasked with doing preparatory work for the proposed ISSB. This group is formed by representatives of the CDSB, the IASB, the TCFD, the VRF and the World Economic Forum and is supported by the IOSCO and its Technical Expert Group (TEG) [10] of securities regulators. The first results published in November 2021 include the prototypes for Climate-related Disclosures (Climate Prototype) and General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Prototype) (CDSB, IFRS, TCFD, VRF, WEF, 2021) [11]. Another important supporter of the IFRS Foundation's move towards sustainability reporting is the International Federation of Accountants (IFAC), a transnational organisation for the accountancy profession with considerable influence in the auditing arena (IFAC, 2020).

Before concluding this section, it is worth noting that at COP26, the IFRS Foundation announced its consolidation with the VRF and with the CDSB – both leading institutions focusing on enterprise value – as well as the formation of the ISSB. A few days later, the appointment of the ISSB Chair was announced, followed in January 2022 by that of the

Vice-Chair (who was the Vice-Chair of the IASB, underlining the efforts to ensure connectivity between the two boards) [12] [13].

Figure 2 depicts a timeline of the relevant events described above.

This section has shown the backgrounds of the EC/EFRAG and the IFRS Foundation. It not only focuses on their very different institutional structures but also highlights how different they are in terms of the routes they have followed, particularly regarding the partners chosen to enter the "new" sustainability reporting field. All this helps explain the orientation of their proposals, CSRD and CPSR, which are discussed below.

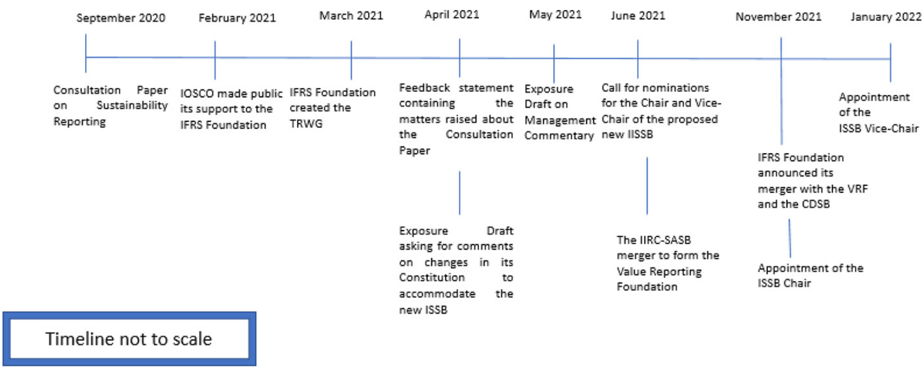
3. Two different proposals about key sustainability reporting aspects

Based on our engagement in the European reporting standard-setting process and the analysis of recent publications about this process, we have identified four key aspects that differ substantially between the two aforementioned documents (CSRD and CPSR): target audience, scope, materiality and reporting boundary. This categorisation is also supported by recent debates led by recognised academics (Adams, 2021; Christensen *et al.*, 2021), as well as the relevance attributed to these aspects in key documents, such as the report of the TRWG (CDSB, IFRS, TCFD, VRF, WEF, 2021) [14]. For clarity of presentation, the differences in each aspect are addressed separately in this section.

3.1 Target audience

We believe that the issue which, in principle, presents the greatest difference when comparing the proposals is the intended audience. In sustainability reporting, it has been widely understood that the target audience is society as a whole (Adams and Abhayawansa, 2021; Adams and Cho, 2020); otherwise, this reporting would fail in its main objective, which is to demonstrate accountability to all key stakeholders (Gray, 1992; Gray *et al.*, 1996). In line with this literature, and with the provision set out in Article 3 of the Treaty on the EU (known as the Maastricht Treaty), signed on 7 February 1992, the CSRD proposal considers investors and non-governmental associations, social partners and other stakeholders to be the primary users without giving investors any preferential treatment.

On the contrary, the IFRS Foundation is orientated to investors and creditors. This appears a natural outcome given that, as noted in the previous section, the main reason for the Foundation's entry into the sustainability field is to help investors to make their own decisions. Having reliable, understandable and comparable information about the risks and



Source: Own work

Figure 2. Timeline of the major IFRS Foundation events related to its entry into the sustainability reporting field

opportunities deriving from sustainability matters is sure to be beneficial. As mentioned above, this strategic decision was reinforced by the feedback obtained through the CPSR and was backed by the IOSCO, which made public its support for the Foundation's plan as early as February 2021 (IOSCO, 2021b). That was even before the Trustees publicly released the analysis of the comment letters and announced their decision to go ahead (IFRS Foundation, 2021a).

3.2 Scope

The scope of the EC/EFRAG proposal is sustainable development issues in a broad sense, which falls in line with the sustainability reporting literature (Adams, 2017; Bebbington and Unerman, 2018; Schaltegger and Burritt, 2018). Thus, Recitals 5 and 6 of the CSRD proposal refer to the Sustainable Development Goals (SDGs) and the three sustainability dimensions – namely economic, social and environmental – together with the need to report information on environmental, social and employee matters, respect for human rights and anticorruption and bribery matters, which appeared in Directive 2014/95/EU. Following the EFRAG (2021a) recommendations, Recital 28 expands the traditional view of sustainability matters to consider intangible assets (intellectual, human, social and relational capital).

Although the IFRS Foundation will initially take a more restrictive view of sustainability matters, it intends to eventually broaden them. In fact, the possibility of enlarging the scope was already anticipated in the CPSR itself. Thus, it stated that the new board would prioritise climate-related reporting but recognised that the aim was to also work towards meeting investors' information needs on other ESG matters (IFRS Foundation, 2020) [15]. Indeed, the feedback document issued after the CPSR confirms that the new board will start to invest its efforts in climate-related reporting, although the desire to broaden its scope is one of the priorities (IFRS Foundation, 2021a). Along these lines, the Exposure Draft on *Management Commentary* also suggests a broad approach, because it "could include matters relating to the entity's intangible resources and relationships – including resources not recognised as assets in the entity's financial statements – and environmental, social and governance (ESG) matters" (IFRS Foundation, 2021d, p. 96). The relevance that the IFRS Foundation attributes to a holistic scope has been reflected in the TRWG's report, in which it recommends that climate be the first but not the only area; in particular, the group refers to human capital, water, biodiversity and ecosystems (CDSB, IFRS, TCFD, VRF, WEF, 2021). The IOSCO also supports this approach, as it encourages "the IFRS Foundation to set a clear path for the further development of standards to other environmental matters beyond climate change, as well as social and governance matters" (IOSCO 2021a, p .57).

3.3 Materiality

Another important aspect that differs between the approaches of the EC/EFRAG and the IFRS Foundation relates to the notion of materiality. From a theoretical perspective, this concept has been a matter of debate for several years, which is not surprising because, as Bernstein (1967, pp. 88–89) remarked, it "[. . .] permeates the entire field of accounting and auditing" and "[. . .] the assessment of materiality is purely a matter of judgement". Although the concept is not an easy one to operationalise, ultimately depending on the preparers' judgment (Brennan and Gray, 2005; IFAC, 2017), the IASB has provided a relatively clear explanation, but not a definition, within its Conceptual Framework. Thus, it states "Information is material if omitting it or misstating it could influence decisions that the primary users of financial reports [. . .] make on the basis of those reports" (IASB, 2018, paragraph 2.11). The IASB has deliberately avoided setting thresholds or limits to quantify materiality; instead, to facilitate the interpretation and application of this notion, it has preferred to provide some guidance with IFRS Practice Statement 2 *Making Materiality Judgements* (IASB, 2017). From this perspective, the concept of materiality helps to decide which items with a financial impact on the reporting entity should be recorded and how to do this.

Introducing this concept into the sustainability domain has added more complexities because it requires considering a wider variety of impacts beyond financial ones, as well as other stakeholders (Edgley *et al.*, 2015; Lai *et al.*, 2017; Puroila and Mäkelä, 2019). As Puroila and Mäkelä (2019, pp. 1044–1045) explain, in sustainability reporting, the notion of materiality:

> [. . .] broadens and challenges this traditional definition by including the significant environmental and social impacts of corporate performance in materiality considerations, and, instead of focussing merely on financial considerations as the interest of shareholders, it considers a larger scope of information users.

Nevertheless, as previous literature has revealed, identifying and disclosing sustainability issues do not only benefit stakeholders but might also enhance investor returns (Grewal *et al.*, 2021; Khan *et al.*, 2016; Van Heijningen, 2019). Briefly, the new materiality perspective is rather different to that considered in financial reporting. It requires bearing in mind not only the views and needs of investors but also those of other stakeholders, whose interests are normally broader and who are concerned about the impacts of the entity on society at large (Adams *et al.*, 2021). That said, it is also true that when dealing with ESG disclosures, preparers will still be required to make materiality judgments, just as O'Dwyer and Unerman (2020) argue.

This wide-ranging concept is deeply embedded in the GRI, the co-constructor of the EC/EFRAG standards, as well as in the CSRD proposal. The proposal, which falls in line with Directive 2014/95/EU and the EFRAG (2021a) recommendations, stipulates that companies should simultaneously report:

- how sustainability issues affect their performance, position and development (the "outside-in" perspective); and
- their impact on people and the environment (the "inside-out" perspective); this has been known as "double materiality".

However, the IFRS Foundation focuses on the "outside-in" perspective because, as stated in the CPSR, a "double materiality approach would substantially increase the complexity of the task and could potentially impact or delay the adoption of the standards" (IFRS Foundation, 2020, p. 14). This strategic decision aligns with the IASB's focus on financial materiality and is also captured in the Exposure Draft on *Management Commentary*, which states that information is material if:

> [it] influences investors and creditors' decisions by influencing their assessments of: (a) the entity's prospects for future cash flows; or (b) management's stewardship of the entity's resources – how efficiently and effectively management has used and protected the entity's resources (IFRS Foundation, 2021d, p. 23).

That said, in addressing climate issues, the new ISSB will follow the TCFD, which has adopted an "inside-out" perspective to account for climate-related risk and opportunities through the disclosure of greenhouse gas (GHG) emissions.

In any case, the two approaches should not necessarily be seen as opposites. The "rebound" or "boomerang" effect mentioned in the EFRAG (2021a) recommendations suggests that first the entity impacts people and the environment, and said impact can then rebound on its business model, subsequently affecting the entity's value: in this respect, the two perspectives can interact. Thus, "the extent to which they create or erode enterprise value may change over time (the so-called 'dynamic materiality')" (EFRAG, 2021a, paragraph 279).

As the focus of the IFRS Foundation is enterprise value, some transactions/events that are not recognised in financial reporting might be considered from the sustainability perspective. To capture this shifting concept, WEF introduced the new term: "dynamic materiality" (World Economic Forum, 2020b). This notion matches the idea of "nested" sustainability information to be disclosed by a company (CDP, CDSB, GRI, IIRC and SASB, 2020b). Therefore, based on the evidence about an entity's impacts on people, the environment and the economy, some sustainability matters that are not financially material during a certain period might affect the entity's value creation and, thus, become financially material later. Besides, as the IOSCO (2021a) highlights, as investors increasingly factor sustainability outcomes into investment decision-making, the notion of enterprise value expands and, in turn, so do investors' data needs, narrowing the distinction between "outside-in" and "inside-out". In sum, the dynamic nature of materiality suggests that the relationship between the two abovementioned approaches will evolve "to keep pace with the expanding value creation lens" (IOSCO, 2021a, p. 30).

That said, there may be tensions if investors' interests remain unchanged and they take a short-term view of the company, rather than the long-term orientation necessary for environmental protection and social improvement (Hahn *et al.*, 2015). Jørgensen *et al.* (2021) refer to tensions between a narrow (financial) approach to materiality, such as the one followed by the SASB standards (the basis of the IFRS Foundation's notion of materiality), and a more complex one, such as the GRI approach (considered by the EC/EFRAG). The latter requires knowledge of the views of all stakeholders to define what is material for each company, which will then be assessed by the preparer (GRI, 2016, 2020).

3.4 Reporting boundary

The last aspect that this paper addresses is the reporting boundary. Before mentioning the differences in how the EC/EFRAG and the IFRS Foundation have approached this aspect, it is worth bearing in mind that the institutions traditionally devoted to sustainability reporting have not been very precise about it, which is partly explained by its inherent complexity (Antonini and Larrinaga, 2017; Antonini *et al.*, 2020; Archel *et al.*, 2008; Gray, 2006). As highlighted by Girella (2017), the institutions devoted to sustainability reporting tend to go beyond the financial reporting boundary, which is based on one dimension: financial control. Antonini and Larrinaga (2017) argue that another type of control is relevant for sustainability purposes: namely, sustainability control. This has been articulated around two different boundaries: organisational and operational (Archel *et al.*, 2008). In the words of Antonini and Larrinaga (2017, p. 126), the first of these boundaries refers to "how boundaries are horizontally s*et al*ong the continuum of corporate ownership/control to include subsidiaries, concessions or franchises, among other organizations, linked to the reporting entity", and the latter captures:

> [. . .] how reporting boundaries are vertically s*et al*ong the supply chain and/or the lifecycle of products and services to include the direct and indirect impact of energy and material inputs, outsourced activities and products and services.

So, as they state, sustainability reporting boundaries are specific to each sustainability indicator.

This wide-ranging boundary approach falls in line with recent GRI guidelines (GRI, 2020) and has been adopted by the CSRD proposal. For example, in Recital 16, the CSRD mentions the value chain when referring to impacts and accountability, which is not entirely new. That said, although Article 19a of Directive 2014/95/EU only refers to large undertakings, which suggests the application of the same reporting boundary as for financial reporting, it was extended with later guidelines on non-financial reporting (European Commission, 2017). Thus, when referring to examples and KPIs, the guidelines state: "A company may consider that impacts through its upstream supply chain are relevant and material issues and report on them accordingly. Impacts may be direct or indirect [. . .]" (European Commission, 2017, p. 6). Moreover, according to the climate-related guidelines published one year later (European Commission, 2018, p. 8): "When assessing the materiality of climate-related information, companies should consider their whole value chain, both upstream in the supply-chain and downstream".

In principle, the extended approach taken by the CSRD proposal about the reporting boundary contrasted with that of the IFRS Foundation, which did not address this aspect in the CPSR. Nevertheless, when addressing climate issues, the new ISSB follows the TCFD, which moves in that general direction in the reporting boundary. Thus, it considers not only direct emissions (Scope 1) but also indirect ones, stemming from the generation of purchased energy, which occurs on the premises of energy producers (Scope 2) and other indirect emissions that occur in the value chain (Scope 3). On this issue, Antonini and Larrinaga (2017, p. 127) remark that the Protocol "provides a well-known set of guidelines for operational boundaries of a particular indicator: GHG emissions".

4. Some reflections, takeaways and suggestions

This piece offers an overview of the advances made in the sustainability reporting standard-setting by relatively "new" institutions: the EC/EFRAG and the IFRS Foundation. Before summarising our main reflections and providing some ideas for future research, we wish to point out that, as previous research has revealed (Alexander and Eberhartinger, 2010; Bengtsson, 2011; Cooper and Robson, 2006; de Aquino *et al.*, 2020; Walton, 2020), standard-setting is not just a highly technical process but also a political one, given that it "implies making choices between the interests and views of different parties" (Reuter and Messner, 2015, p. 367), in this case, between attempting to change firms' behaviour and not doing so, as indicated in the introduction of this research. The nature of sustainability reporting means that the approach followed by the EC/EFRAG is likely to be the most effective in achieving the SDG insofar as firms and stakeholders pay attention to "inside-out" aspects and, therefore, adopt more sustainable behaviour. Nevertheless, although the IFRS Foundation does not aim to promote behavioural changes (Hoogervorst and Prada, 2015), investors, and consequently firms, are likely to modify their investment patterns once climate risks, among others, have been taken into account. Thus, reporting on financially material sustainability-related matters may be "an enabler of change, since it creates a financial incentive for companies and their investors to improve performance on enterprise value-relevant sustainability matters as much and as quickly as they can" (CDP, CDSB, GRI, IIRC and SASB, 2020a, p. 9). That said, we also think that the use of reporting as leverage to promote changes in behaviour is a key aspect in the political analysis of standard-setting and one that deserves attention (Hombach and Selhorn, 2019).

4.1 Reflections and takeaways

Firstly, we show the different routes that the two institutions have taken to enter the sustainability reporting field. For example, we see the spirit of co-construction of the

EC/EFRAG working with the GRI, which is an organisation supported by a broad representation of civil society, such as trade unions and NGOs; or in the case of the IFRS Foundation, there has been the collaboration with and support of leading institutions that focus on enterprise value, such as the VFR and the WEF, and recognised market-oriented actors like the IOSCO. Secondly, we identify some key differences as a consequence of the different partners chosen. Thus, the EC/EFRAG's wide-ranging view of target audience, double materiality and reporting boundary is not reflected in the rationale provided by the IFRS Foundation when entering the sustainability field. Despite following the TCFD with regard to climate issues, one would think that the ISSB would have not only an "outside-in" approach to materiality but also an "inside-out" approach and a broader reporting boundary. As for the reporting scope, the EC/EFRAG is initially much more ambitious than the IFRS Foundation because it attempts to contribute to achieving sustainable development, while the Foundation's decision to start with climate-related reporting seems to be more limited. However, we should not ignore the possibility of a broader scope to cover other ESG matters, which was previously anticipated in the CPSR and has been incorporated in the TRWG's recommendations, where reference is made to the need for critical reporting on climate-related matters as a priority topic but not the only important one (CDP, CDSB, GRI, IIRC and SASB, 2020b).

It is worth noting that the existence of different reporting standards could lead to some unintended consequences, such as competitive disadvantages (Christensen *et al.*, 2021). As the EC/EFRAG is much more demanding than the IFRS Foundation in its proposal, this could affect the competitiveness of EU companies. A relatively recent episode in spring 2021, related to human rights abuses in the Xinjiang cotton region (China), provides an anecdotal example of these potential problems. Thus, the sanctions imposed by various jurisdictions (Canada, EU, the UK and the USA) on China, in terms of travel bans and asset freezes, target senior officials in the north-west region, meant consequences for some Western firms like H&M and Nike, among others, that suffered a startling quick nationalistic backlash after voicing their concerns about Xinjiang-sourced cotton (Achim, 2021). A few months earlier, these companies had expressed their concerns in public statements about allegations that members of the mostly Muslim Uighur minority group were being used as forced labour and decided not to buy Chinese cotton. And when the sanctions were imposed, many Chinese netizens call for boycotts, celebrities cut ties with Western firms and a social media post by the Communist Youth League shared screenshots of H&M's statement aiming to get actions against the company. The reaction was immediate and major Chinese e-commerce platforms withdrawn H&M products from sale (Brant, 2021). The Nike logo was not seen in the players' uniforms of the Chinese Super League (CSL), despite Nike being the sponsor of all CSL teams (Yuche, 2021). However, there was an option to avoid sanctions: removing such statements from their website, which Inditex apparently did (Yunyi, 2021).

If firms voluntarily disclose such violations, then it is their choice to do so, and this might imply not only competitive disadvantages but also positive reputational effects. However, if they are forced to say so and the rules do not apply to everyone everywhere, then that is a completely different matter. This case also illustrates another relevant aspect for our analysis, which is the link between sustainability materiality and financial materiality through the "rebound" or "boomerang" effect. It is still too early to know the extent to which the so-called "rebound" effect occurs and "inside-out" impacts are transformed into financially material impacts, where Chinese reactions against those companies impact their income statements.

This example is particularly useful to illustrate the unintended consequences of reporting, considering that the new institutions aim to produce standards that will eventually become mandatory, unlike previous initiatives that have only provided sustainability reporting guidelines. It is worth noting that the EC's authority makes the EC/EFRAG proposal more likely to be followed in the EU than any other proposal. That said, without overlooking the importance of the mandatory nature of EC standards, the sustainability literature holds that actors will recognise rules as binding, given the existence of previous similar practices (Larrinaga and Senn, 2021). As we see it, this could explain why EFRAG has taken the GRI as the reference for developing its sustainability reporting standards. The IFRS Foundation lacks the power to impose its standards, but this has not stopped the adoption of IFRS in many jurisdictions. As discussed earlier, the IOSCO is behind the decision to establish a new ISSB to deal with sustainability reporting, and the IOSCO has been instrumental in the IFRS adoption in many jurisdictions, including the EU. But, is that still the case now? As explained above, IFRS must follow an endorsement process to be mandatory in the EU, and we argue that if the future ISSB standards have to follow a similar process, then this might give rise to political tensions, as the EC/EFRAG will have its own European sustainability standards. Thus, will the IOSCO be able to force companies listed in the EU to use standards issued by the ISSB? Will it be possible to make EC/EFRAG and ISSB standards compatible?

According to Ernst and Young (2021, p. 13):

> The potential for adopting a global sustainability-related financial reporting standard, with the IFRS Foundation's ISSB at the helm, is strong. The IFRS Foundation is well positioned to lead this effort given its track record in setting global standards.

But this could be more complex in the EU, as the EC/EFRAG has the "silver bullet" of legal enforceability in the Member States. That said, the non-acceptance of IFRS in the USA also casts serious doubt on the impact of future ISSB standards in that country.

Regarding the compatibility of the EC/EFRAG and ISSB standards, we think that extensive communication is needed between the two institutions to combine efforts towards the harmonisation of sustainability reporting, at least to join forces for the design of a common baseline. Although this may be challenging, we argue that the necessary elements seem to be in place for the pieces of the puzzle to fit together – pieces that will fit together better if there is the political will to push for such harmonisation. After all, as we have emphasised previously, standard-setting is both a technical and *political* process. In this respect, we contend that the knowledge exchange between the two actors will optimise efforts by building on the knowledge gained and will help prevent tensions and conflicts, which could potentially occur, at least in the EU context. Indeed, we believe that establishing connections between these actors is pivotal to facilitate companies' sustainability reporting exercise.

A first step to foster connection and cooperation between the EC/EFRAG and the IFRS Foundation could lie in the "building blocks" approach suggested by IFAC (2020), supported by the IOSCO (2021a) and even proposed by the IFRS Foundation (IFRS Foundation, 2021b). This approach would involve structuring standards into two blocks (IFAC, 2021). BLOCK 1 would provide a global sustainability reporting baseline prepared by the ISSB. BLOCK 2 requirements would be set at the jurisdiction level. According to Ernst and Young (2021), by following this approach, the ISSB standards would allow for comparability and consistency of application across jurisdictions, while also providing flexibility for coordination in additional jurisdictional reporting requirements. As the IFAC (2021) notes, insofar as global standards are voluntary by nature, each jurisdiction should decide how to implement the new standards; it suggests using the mechanism already in place for IFRS, which, as discussed above, could be slightly more difficult in the EU. Therefore, we believe it is more likely that what emanates from the ISSB will focus more on climate change issues. This would facilitate widespread adoption, while leaving more politically sensitive issues in jurisdictional hands. We hope that when the ISSB standards develop further, they will take into account what has already been done in the EU.

This desire for cooperation can be also found in the proposal by Accountancy Europe (2021) calling for two-way cooperation based on some shared principles (e.g. striving for convergence on matters that are global and sharing information before it becomes public), as well as a collaboration formalised at the technical level, through working groups and by inviting EFRAG to the TRWG. Also, in the IOSCO (2021a) paper, where it confirms that the IFRS Foundation's focus is enterprise value creation, the IOSCO shows respect for and interest in supporting other institutions' (e.g. the EU) decision to "introduce complementary reporting requirements with a focus beyond enterprise value creation" (IOSCO, 2021a, p. 51). It also refers to the need for:

> A coordination mechanism [that] can [. . .] advise the IFRS Foundation in assessing the dynamic materiality of sustainability topics [. . .] and [. . .] promote interoperability with any additional reporting requirements that may be established at the jurisdiction or regional level to support information needs extending beyond matters relevant to enterprise value creation (IOSCO, 2021a, p. 51).

Recent statements from both GRI and EFRAG shed some light on the feasibility of this collaboration. The GRI Chairman, Eric Hespenheide, has recently stated: "GRI looks forward to collaborating with the IFRS working group and helping make the important link with sustainability reporting, which focuses on disclosing a company's impact on the world" (GRI, 2021b). Patrick de Cambourg, Chair of the EFRAG Project Task Force that is developing ESRS, when announcing the choice of the GRI as the official constructor said that "GRI was [the] first choice", but they "hope to find other valuable partners, soon" (EFRAG, 2021c). This collaborative approach was highlighted in a webinar by de Cambourg in February 2022 in which he emphasised "[. . .] of course the EU doesn't work in isolation [. . .]", and stated:

> I don't see investor focus as established today by the ISSB as an obstacle [. . .] I don't see why we wouldn't be compatible by having an investors focus at international level and a broader stakeholder focus at EU level which would, which is, including the investors' focus [. . .].

In sum, on the basis of the existing information, we believe that the necessary collaboration to put in practice the building blocks approach could be possible. However, such potential cooperation might not be easy. While both institutions agree that standards are one of the most effective mechanisms to achieve comparable, consistent and reliable information (EFRAG, 2021a; IFRS Foundation, 2021b), as this paper has described, political tensions could come into play when it comes to accepting the ISSB standards in the EU.

That said, one should consider that there are many interests at stake, in which the "old" institutions engaged in sustainability reporting might have something to gain or lose. For example, it could be thought that the IFRS Foundation's partners – particularly the union of forces between the American world (SASB) and the UK (IIRC) through VRF – would be an attempt to gain legitimacy to prevail over the most accepted initiative (GRI). This resonates to some extent with previous literature discussing how on other occasions different standards (GRI, United National Global Compact (UNGC) and ISO 26000) have already developed a "strategy of convergence between [them] based on the development of an institutional competition-collaboration dynamic" (Albareda, 2013, p. 552). However, this strategy could be useful for the IFRS Foundation, as it will help to build its legitimacy in the field. The legitimacy it has achieved to date is based not only on its technical knowledge in the field of financial reporting but also on due process and governance (Botzem, 2014; Richardson and Eberlein, 2011), but there are concerns about its level of expertise in addressing sustainability issues. Besides, legitimacy problems also seem to be relevant in the USA, as the SEC is expected to:

> [. . .] announce new, potentially mandatory climate- and human capital-disclosure rules for public companies in the first half of 2022. The expected SEC rules will likely take effect in 2023, which means this year is the time to establish the infrastructure needed for investor-grade ESG reporting (Kinghorn *et al.*, 2022).

In this context, the SASB has tried to position itself, unsuccessfully, as the reference that the US SEC should follow to work on sustainability issues. It looks as if, at present, the SASB is trying to gain legitimacy by merging with the IIRC through the VRF and with CDSB and the IFRS Foundation. However, we argue that this could be counterproductive to the efforts of the SASB to gain legitimacy in the USA, because its alliance with a British initiative could cause it to be seen as an "outsider" in the US context. Such situations are not new. Indeed, previous literature on standard-setting (Boström, 2006; de Aquino *et al.*, 2020; Larrinaga and Senn, 2021) explains that issues related to the search for legitimacy and power by different actors are commonplace in initial standard-setting process phases. Only time will tell what the end of the "story" is.

4.2 Suggested future research directions

By way of conclusion, we would like the reflections presented in this piece to have some impact on standard-setters, who often call for research outputs to inform their decisions. In fact, academic studies can be useful not only in providing literature reviews but also in the analysis of the intended (and unintended) consequences of standards (Abela and Mora, 2012; Fülbier *et al.*, 2009), although it appears that research outputs reported thus far have not been taken seriously by standard-setters (Johansen, 2016; Singleton-Green, 2010). That said, as Rutherford (2011) contends, there are risks of creating an expectation gap on both sides: academics that do not perceive their research is being taken into consideration and policymakers who think that our research does not meet their needs. Nevertheless, we hope that this trend will change, because as Garcia-Torea *et al.* (2020, p. 287) state: "Academics are not heroes; they are probably just pieces of the puzzle that is history [. . .]", thanks to their "intellectual capital".

We hope that the discussion and reflections in this research encourage the accounting academia to conduct more policy-relevant research, particularly about the current sustainability reporting standard-setting process. It is worth noting that although we have had access to some first-hand information, many of the arguments in this study are based on publicly available material and on the existing literature that aligns with the official rationale provided by the two institutions. This does neither necessarily fully reflect the EC/EFRAG and the IFRS Foundation's deliberations during their meetings nor does it contemplate possible divergent views on the discussed issues or the pressures that they could have suffered. The literature that considers the standard-setting process to be political and conflictual could illuminate future studies (Boström, 2006; Botzem, and Quack, 2006; Cooper and Robson, 2006; de Aquino *et al.*, 2020; Djelic and Sahlin-Andersson, 2006; Reuter and Messner, 2015; Walton, 2020).

In that respect, it would be interesting to see studies that explore how the differences identified when comparing the IFRS Foundation's proposal to that of EC/EFRAG evolve and how potential partners are positioned in the new landscape. Regarding the EU, the challenge posed by the potential adoption of ISSB standards, and the need to follow a sort of endorsement process, has a political angle that should not be ignored when discussing the future of the EU standard-setting process. The global influence of the IFRS Foundation's standards might entail additional potential issues of conflict and contestation, as they affect many actors in very different institutional settings; the discussions about adopting IFRS in the USA could be especially illuminating (Kothari *et al.*, 2010; Ramanna, 2013).

Another fruitful research line could involve studying the role played by actors from the professional environment in disseminating the ideas and practices derived from the proposals of the EC/EFRAG and the IFRS Foundation. Larrinaga and Bebbington (2021) reveal the important role of actors such as firms providing consultancy and assurance services in the gradual institutional configuration of the GRI in recent decades. The current sustainability standard-setting scenario offers an ideal opportunity for studying how professional actors intervene in developing and implementing the emerging sustainability reporting standards.

Given the novelty of the sustainability reporting standard-setting process, even purely conceptual works and studies based on limited empirical evidence – for which the EU offers a unique scenario to explore the usefulness of a broad approach to sustainability reporting – would be welcome additions to the literature. All such studies can help to develop this topic further. Academic research has played a vital role in the evolution of financial reporting standard-setting, and there is potential for it to have a similar impact on sustainability reporting standard-setting.

Notes

1. Hereafter, we will use the combined acronym EC/EFRAG to refer to the "working group" composed of these two actors, set up to develop the EU Sustainability Reporting Standards (ESRS).
2. The new strategy towards the adoption of IAS was announced in 1995. See the communication from the Commission: "Accounting harmonisation: a new strategy vis-à-vis international harmonisation" COM 95 (508).
3. In September 2020, Begoña Giner, one of the co-authors of this paper, was appointed member of the Task Force.
4. See the request for technical advice and the personal query about governance changes at www.efrag.org/Activities/2105191406363055/Sustainability-reporting-standards-interim-draft#
5. See www.efrag.org/Lab2
6. See the TF members, which basically coincide with those listed in the link in Footnote 4. www.efrag.org/EuropeanLab/LabGovernance/45/European-Lab-PTF-on-European-Sustainability-Reporting-Standards
7. See www.ifrs.org/about-us/who-we-are/#history
8. See www.ifrs.org/about-us/who-we-are/
9. VFR is the result of integrating the SASB and the IIRC to work towards a unified set of global sustainability standards (this integration was officially announced on 9 June 2021). See www.globenewswire.com/news-release/2021/06/09/2244505/0/en/IIRC-and-SASB-form-the-Value-Reporting-Foundation-providing-comprehensive-suite-of-tools-to-assess-manage-and-communicate-value.html
10. In March 2021, the IOSCO established a Technical Expert Group (TEG) which is (and will continue to be) crucial for engaging with the IFRS Foundation in pursuing this task (IOSCO, 2021a).

11. The TRWG is also working on other technical objectives: Conceptual guidelines for standard-setting, Architecture of standards, Other items to inform a standard-setting agenda, Due process characteristics, Digitisation strategy, and Connectivity between the IASB and the ISSB.
12. See www.ifrs.org/news-and-events/news/2021/12/emmanuel-faber-appointed-to-lead-the-issb/
13. See www.ifrs.org/news-and-events/news/2022/01/sue-lloyd-appointed-as-issb-vice-chair-and-janine-guillot-appointed-as-special-advisor-to-issb-chair/
14. The document *Summary of the Technical Readiness Working Group's Programme of Work* (CDSB (Climate Disclosure Standard Board), IFRS (International Financial Reporting Standards), TCFD (Task Force on Climate Related Financial Disclosures), VRF (Value Reporting Foundation), WEF (Word Economic Forum), 2021) explains that in Deliverable 1 prepared by the TRWG reference is made to materiality and targets. Another exemplification of the importance of these aspects is found in Deliverable 3. General Requirements Prototype includes requirements about the application of the concept of materiality and the applicable reporting boundary for sustainability-related disclosures.
15. Paragraph 42 of the document explains: "The SSB could also broaden its work over time to focus on other priorities beyond a specifically climate or environmental focus (for example into social and other related matters) as demands change". In the same vein, Paragraph 43 states: "During the Task Force's informal consultation, many stakeholders have argued that, at a later stage, the SSB might adopt a broader scope of sustainability reporting that includes the interrelationship between environmental, social and governance factors."

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About the authors

Begoña Giner is a Full Professor in Accounting and Finance, University of Valencia (Spain). She has been the President of the European Accounting Association (EAA) and is the Chair of the EAA Stakeholder Reporting Committee, a Member of the Public Interest Oversight Board (PIOB). She has been member of the Technical Expert Group of EFRAG (EFRAG TEG), the International Financial Reporting Standards (IFRS) Council and the EFRAG Task Force that prepared the work for EU non-financial reporting standards. She has published in top academic journals, including *Abacus*, *Accounting, Auditing and Accountability Journal*, *Accounting and Business Research*, *Accounting in Europe*, *European Accounting Review*, *Journal of Business Ethics*, *Accounting, Social and Environmental Accountability Journal*, among others. Begoña Giner is the corresponding author and can be contacted at: begona.giner@uv.es

Mercedes Luque-Vílchez is an Assistant Professor of Accounting in the Agricultural Economics, Finance and Accounting Department at the Universidad de Córdoba. She is a member of the EFRAG Secretariat of the Task Force that prepare the work for EU non-financial reporting standards. Her research interests include social and environmental accounting and standard-setting of sustainability reporting. She has published in top academic journals, including *Sustainability Accounting, Management and Policy Journal*, *Organization & Environment*, *Meditari Accountancy Research*, *Journal of Business Ethics*, *Journal of Public Money and Management* and *Social and Environmental Accountability Journal*, among others.