

# Sustainability and ESG

## Talking points for episode 113



The interest in environmental, social and governance (ESG) and sustainability reflects that companies are no longer judged only as profit drivers - their effect on society also matters.



While IFRS financial statements focus on profit or loss, balance sheet and supporting disclosures, there is recognition that factors that do not directly feed into profit or loss has an effect on enterprise value. This has led to a demand for more information about those additional factors.



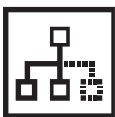
Many judgements relating to ESG have an effect on financial reporting today. For example, ESG costs might impact cost of production in the oil and gas industry and in turn have an impact on asset recoverability. However, many areas that affect enterprise value are not reflected directly in IFRS financial statements.



Investors judge companies on a range of non-financial information, including reputation, progress towards UN goals such as carbon emissions, diversity and inclusion metrics, and gender pay gap.



The wide variety of metrics and benchmarks that have developed inhibits consistency and comparability of sustainability information today. Regulators are leading the demand. This demand reflects their concerns about the possibility that misleading reporting could result if companies select disclosures to portray themselves only in a positive light. Consistent standards about sustainability would set a base for comparability of numbers and disclosures.



The IFRS Foundation is well placed to bring consistent standards, given their global reputation, brand, standard setting knowledge and experience. Those factors give them the opportunity for the global respect beyond what is currently available amongst the variety of ESG bodies.



Putting sustainability standards under the umbrella of the IFRS Foundation is a positive step, given the overlap and interconnectivity between financial reporting and sustainability reporting. Sustainability standards can supplement the base of financial reporting to allow investors to understand what affects enterprise value. Assurance will be important - consistent data but also trusted data.



Assurance is also an important factor in sustainability reporting. The market is already demanding audit opinion over sustainability sustainability reports.