G20 Sustainable Finance Working Group (SFWG)

Input Paper

Synergies between sustainability and financial reporting

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Improving the comparability and reliability of sustainability information can help to mitigate the short-term focus in financial markets that holds back strategic thinking for long-term, sustainable growth.

To inform the way forward the G20 Sustainable Finance Working Group (SFWG) has requested the IFRS Foundation and the Global Steering Group for Impact Investment (GSG) to provide insights on the synergies between financial and sustainability reporting.

This input paper identifies ongoing initiatives that seek to better connect enterprise value and sustainability reporting, providing suggestions on the potential roles of the G20 to advance this agenda. The SFWG Secretariat, has worked with the two knowledge partners to finalize this input papers as per the below:

The first chapter, prepared by the IFRS Foundation, explores the importance of global sustainability-related reporting standards that meet the needs of investors and other participants in the world's capital markets.

The second chapter, authored by GSG, describes how investor preferences are changing. This affects the scope of sustainability and financial reporting, now and in the future.

SFWG Secretariat

Chapter 1: Sustainability-related reporting standards that meet the needs of investors and other participants in the world's capital markets

Prepared by the IFRS Foundation

Introduction

The aim of the Sustainable Finance Working Group (SFWG) is to mobilise sustainable finance as a way of ensuring global growth and stability and to promote the transitions towards greener, more resilient and inclusive societies and economies. It is tasked with identifying institutional and market barriers to sustainable finance and to find options to overcome such barriers. This paper aims to support the efforts of the 2021 Sustainable Finance Working Group (SFWG) by proposing a pathway to achieve global standards that enable integration of financial accounting and sustainability-related disclosure for investors with links to sustainability reporting that serves a broad range of users. The paper also explores the potential roles that the G20 can play to support and accelerate progress.

This paper takes stock of:

1) Comprehensive corporate reporting and the conceptual relationship between a) financial accounting and disclosure, b) sustainability-related disclosure to investors and other capital market participants, and c) sustainability reporting to meet the needs of a broad range of users
2) Key events that have built momentum to solve for the challenges of a fragmented eco-system, resulting in a turning point; and
3) Progress to achieve global standards that enable integration of financial accounting and sustainability-related disclosure for investors, and the mechanisms being explored to link this to sustainability reporting that serves a broad range of users.

Key events that have built momentum, resulting in a turning point

Three big trends have combined over the last 18 months to accelerate progress towards a comprehensive corporate reporting system:

1. **There has been a groundswell of demand from all stakeholders** to understand the connection between sustainability topics and financial risk and opportunity, along with the contribution of business to achieving the SDGs. Large, mainstream investors are increasingly integrating sustainability information into investment decisions and calling for improved disclosure.
2. **The leading standard-setters are collaborating to work towards the potential establishment of a single international body** to develop, in the public interest, a set of high quality, understandable, enforceable and globally accepted sustainability disclosure standards to help investors and other participants in the world's capital markets in their decision-making ("global baseline").
3. **Policy makers and regulators are moving to determine their response.**

Table 1 outlines some of the critical global developments since January 2020.

Table 1 - Timeline

2020	**Jan**	**European Commission announced its proposal to develop non-financial reporting standards that take into account internationally recognised standards and offer a model for what is "agreed at international level".**
	Apr	The International Organisation of Securities Commissions (IOSCO) acknowledged the role that the driver of global capital markets regulation must play in this area: only by understanding financial and sustainability information together can investors and governments have the necessary insight into company performance.
		The International Monetary Fund (IMF) argued for the importance of developing global mandatory disclosures on climate change risks to sustain financial stability
	May	IFRS Foundation Trustees announced the exploration of the Foundation's role in establishing ESG Standards.
		The Investor Advisory Committee of the SEC stated that environmental, social and governance information is no longer a fringe concept, but an integral part of the larger investment eco-system
	Sep	The IFRS Foundation Trustees issued a consultation about ways the Foundation might contribute by using its experience in international standard-setting, its well-established due processes and its governance structure.
		The leading international sustainability and integrated reporting standard-setters, CDP, CDSB, GRI, IIRC and SASB set out a vision for a comprehensive corporate reporting system and committed to work together, and with other stakeholders, to achieve global sustainability standards.
		WEF International Business Council published its final report on "Stakeholder Capitalism Metrics"
	Nov	IIRC and SASB announced their intent to merge in a step towards simplifying the corporate reporting system
	Dec	The leading international sustainability and integrated reporting standard-setters published "Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard"
2021	Feb	IFRS Foundation Trustees announced the next steps, having received over 570 comment letters to their consultation.
		IOSCO welcomed the IFRS Foundation Trustees' announcement of next steps and reiterated their commitment to work with the IFRS Foundations Trustees. IOSCO also welcomed the collaboration between leading international sustainability and integrated reporting standard-setters and encouraged further consideration of their recently released prototype standard.
	Mar	IFRS Foundation Trustees announced a working group to accelerate convergence in global sustainability reporting standards focused on enterprise value
		SEC acting chief said that climate and ESG are 'front and center for the SEC,' as the SEC has called on the public for input for its new disclosure requirements for environmental, social, and governance issues
		EFRAG publishes recommendations to the European Commission for the elaboration of possible EU sustainability reporting standards and for possible changes to EFRAG's governance and funding if it were to become the EU sustainability reporting standard setter
	Apr	The IFRS Foundation Trustees published a feedback statement and proposed amendments to the Constitution of the Foundation to accommodate the potential formation of a new International Sustainability Standards Board (ISSB) within the governance structure of the organisation.
	May	Commissioner McGuinness invited EFRAG to start technical work on draft sustainability reporting standards and to proceed with governance reforms as soon as possible.

Comprehensive corporate reporting

Three lenses make up a comprehensive corporate reporting system

Reporting on sustainability matters has become a well-established part of corporate practice and societal expectation[1]. There are predominantly three distinct lenses used for corporate reporting, as depicted in Figure 1 below:

a. *Reporting to all stakeholders on all sustainability matters that reflect significant impacts on people, the environment and the economy* – typically addresses the broadest range of information because it aims to meet the needs of multiple stakeholders, including specific jurisdiction-led, public-policy-driven disclosure requirements.

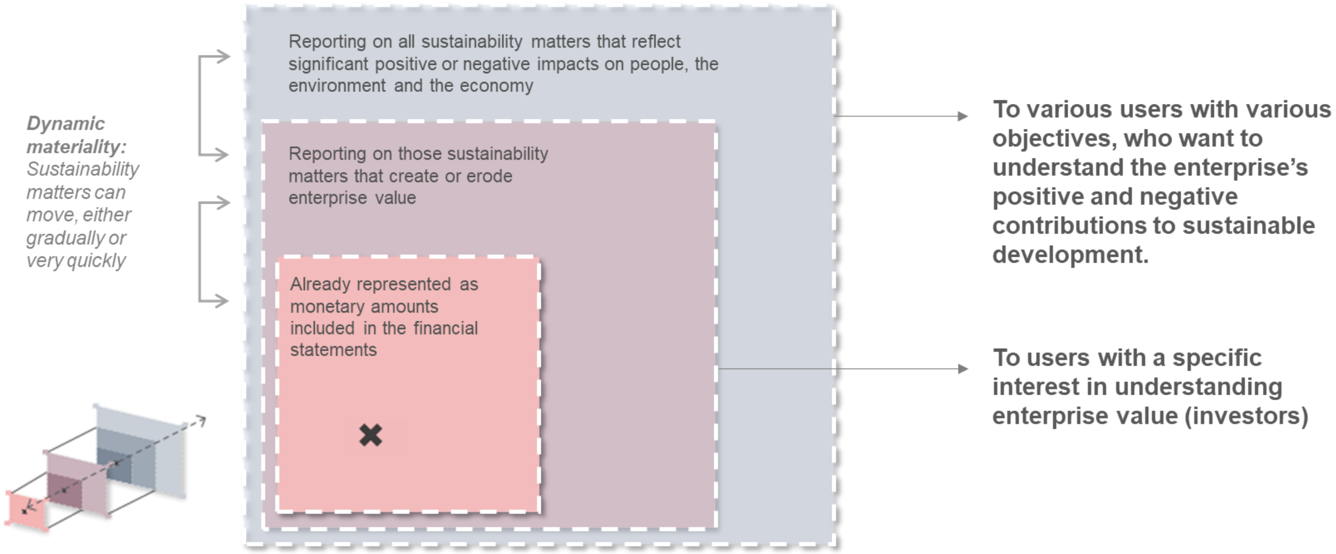
b. *Reporting to investors on all sustainability matters that create or erode enterprise value* – addresses sustainability matters that are reasonably possible to positively or negatively affect

[1] *The time has come.* The KPMG Survey of Sustainability Reporting 2020

the company's net cash flow over the short-, medium, or long-term – and therefore investors' determination of the current assessment of future value creation (enterprise value[2]).

c. *Reporting to investors on monetary amounts included in the financial statements* – represents those effects on enterprise value that have already taken place at the reporting date (or are included in the projections of the cashflows that support valuations and estimates of future cash flows) and that are, therefore, already included in the financial statements.

Figure 1. Comprehensive corporate reporting[3]



There is significant overlap between the scopes of information addressed by sustainability-related reporting to investors and sustainability reporting to a broad range of stakeholders

The diagram in figure 1 emphasises that, while each lens is distinct, there is significant overlap in the scope of sustainability matters that they address. This overlap is due to the interdependency between value created (or eroded) for society and the environment and value created (or eroded) for the enterprise and therefore for providers of financial capital. To meet investors' needs, a company would need to report on all sustainability matters that it is reasonably possible will affect its cash flow over the short, medium, and long term, which are therefore relevant for determination of its enterprise value. Investors' information needs can therefore include information about the company's impacts on society and the environment and how those impacts affect the company's cash flow over the short, medium and long term (also referred to as circularity). More consistent disclosure from companies on sustainability matters relevant to the determination of enterprise value can therefore provide information to support the efficient allocation of capital, including towards more sustainable business activities.

There is also significant interconnectivity between financial accounting and disclosure and sustainability-related disclosure that meets the needs of investors

As illustrated by the smallest box in figure 1, financial accounting and disclosure is also linked with many sustainability-related risks and opportunities, particularly when they directly impact the monetary

[2] Enterprise value definition
[3] Please see [Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard]() for further detail.

amounts included in the financial statements. The relationship between IFRS standards and climate-related disclosures is documented in a November 2019 article[4,5]. For example:

"The carrying amount of assets such as property, plant and equipment, assets recognised in relation to mineral resources, intangible assets and goodwill could be overstated if the impairment calculations do not account for the effect of climate-related risks.

A company's exposure to climate-related risks could be an indicator that an asset or a group of assets is impaired; that exposure could also affect future estimated cash inflows and outflows used for recoverable amount calculations. IAS 36 requires disclosure of the key assumptions on which cash flow projections have been based and management's approach to determining the value assigned to these key assumptions, in particular, in relation to goodwill or indefinite-life intangible assets.

Where climate-related risks could significantly affect the recoverable amount of a company's assets, information about how the effect has been factored into recoverable amount calculations would be relevant for the users of the financial statements. Such information about long-lived assets and assets recognised in relation to mineral resources would be particularly relevant to users. In the extractive industries, investors may look for explanations as to whether a company has considered the effect of climate-related risks in determining whether exploration, or the evaluation of certain areas of interest, should continue."

Sustainability-related risks and opportunities and their effects on financial accounting and disclosure do not stop at impairment. Other examples include changes in the useful life of assets, changes in the fair valuation of assets, and changes in provisions and contingent liabilities arising from fines and penalties.

The dynamic nature of materiality means that the scope of information required by investors and the scope of information required by other stakeholders will continue to evolve

Sustainability matters are material to investors in a given reporting period if it is reasonably possible that they affect the company's cash flow in the short-, medium- or long term. Over time, the sustainability matters that a company assesses to be material to investors can change in response to drivers such as stakeholder pressure, regulation (e.g. taxes and subsidies), evolution of science, changes to the physical environment such as those caused by climate change and changing investor preferences. This is referred to as dynamic materiality. It is a key reason why ongoing standard-setting based on robust due process is critical for maintenance of high-quality standards that enable decision-useful information to be provided to investors.

The paper by the Global Steering Group for Impact Investment, which is also a knowledge partner to the G20, explores the evolution of investor preferences and stakeholder expectations and their potential ramifications for corporate reporting over time.

[4] In brief, IFRS Standards and climate-related disclosures, November 2019
[5] Following the In brief by Nick Anderson, the IASB subsequently published (in November 2020) educational material that complements Nick's article

Progress to achieve global standards that enable integration of financial accounting and sustainability-related disclosure to investors, with a link to wider sustainability reporting.

Achieving a "running start"

Sustainability issues (e.g. climate), corporate value chains, and investment portfolios are all global. The IFRS Foundation's recent consultation on sustainability reporting[6], which included many voices of investors, demonstrated that both investors and companies want a global sustainability disclosure standards solution. IOSCO's strong support shows that securities regulators want this too. Capital market participants are calling for a single international effort to develop, in the public interest, a set of high quality, understandable, enforceable and globally accepted sustainability reporting standards ("global baseline") that enable transparent, consistent and internationally comparable information to be provided in corporate reports to help investors and other participants in the world's capital markets in their decision-making. The IFRS Foundation, with support from IOSCO, has therefore proposed the potential establishment of an International Sustainability Standards Board (ISSB) to accelerate convergence in global sustainability reporting standards focused on investors' determination of the current assessment of future value creation.

The IFRS Foundation is widely viewed as having the structure to be successful in this endeavour. It is the only international model that combines the merits of independent standard-setting, which is crucial for market participation and support, with the public interest oversight of securities regulators globally. It also enables important connectivity to standard-setting for financial accounting and has existing relationships with regions and 144 individual jurisdictions. This is a strong foundation on which to build to achieve a globally coordinated solution.

The IFRS Foundation has proposed that a new International Sustainability Standards Board would issue standards to provide information that is material to investors and other participants in the world's capital markets. It will lead with a climate standard but go broader to address other sustainability matters that due process demonstrates to be relevant for investors. It will also move fast, with an ambition for the potential standards board to launch by the time of COP 26. To do so, it will build off existing initiatives to achieve a running start. The IFRS Foundation now has a working group[7] comprising the leading existing initiatives focused on meeting investors' information needs relating to sustainability disclosure, whose purpose is to provide the potential new board under IFRS Foundation with proposals regarding technical content and to agree on appropriate transfer of technical expertise, resources and content to achieve consolidation. IOSCO is liaising closely with this working group to review its work, as is the IPSASB.

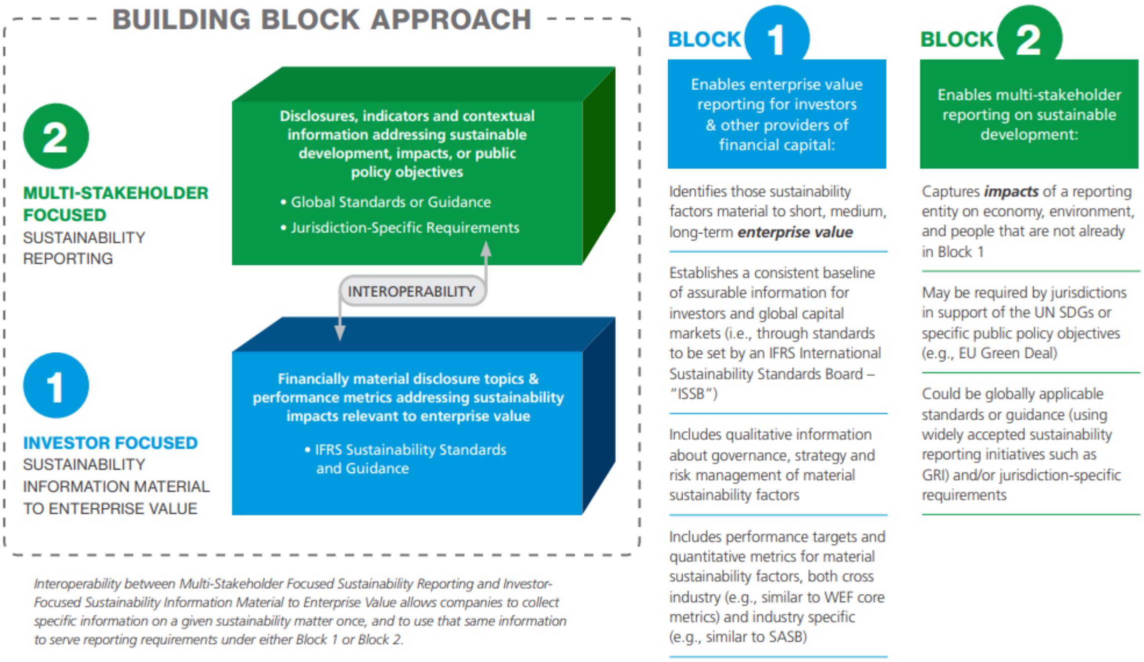
A global baseline

Investors' information needs require global standards to facilitate the provision of a consistent set of information. However, jurisdictions may also have public policy-driven corporate disclosure requirements that reflect regional or national priorities. Individual jurisdictions can add further disclosure requirements to a global baseline of standards for investors to meet their individual public policy needs (the EU taxonomy-specific disclosure requirements are a good example of this). In other words, global, regional or indeed national elements can and should be complementary.[8]

[6] IFRS Foundation Trustees' Feedback Statement on the Consultation Paper on Sustainability Reporting, April 2021
[7] https://www.ifrs.org/news-and-events/news/2021/03/trustees-announce-working-group/
[8] The concept of the global baseline has been introduced and explained by IOSCO and the IFRS Foundation. It is also addressed by IFAC in Figure 2 below. The concept has also addressed by various speeches and proposals in 2021, including the European Commission's recently released Corporate Sustainability Reporting Directive proposal (europa.eu) "EU standards should aim to incorporate the essential elements of globally accepted standards currently being developed. EU standards should go further where necessary to meet the EU's own ambitions and be consistent with the EU's legal framework."

The IFRS Foundation has committed to working with key jurisdictions so that the standards issued by the new board can provide a globally consistent and comparable sustainability disclosure baseline. In addition, the new board will also coordinate on jurisdiction-specific and multi-stakeholder reporting requirements that may not be addressed by an enterprise value lens. In other words, a "building blocks" approach. IOSCO endorsed this approach in its February 2021 press statement.[9] By working with standard-setters, regulators and legislators from jurisdictions, the new board could provide a globally consistent and comparable sustainability reporting standards baseline, while also providing sufficient flexibility to enable wider sustainability reporting requirements to be met by working in coordination with others.

Figure 2. IFAC – enhancing corporate reporting



A multi-stakeholder expert consultative committee

Consistent and comparable disclosures on sustainability matters are needed to bring transparency to financial markets and provide investors with information to assess a company's enterprise value. However, the determination of sustainability matters that are of increasing importance to society and the environment and their related measurement methodologies, is necessarily driven by science, evidence and multi-stakeholder consultation. To advise the potential International Sustainability Standards Board on sustainability matters and measurement methodologies that are potentially relevant for investors, the IFRS Foundation Trustees have therefore started exploring with IOSCO and relevant organisations the establishment of a multi-stakeholder expert consultative committee within the IFRS Foundation's structure, providing important connectivity between a global standard-setting process designed to meet the needs of investors and multi-stakeholder initiatives.

[9] IOSCO media release. 24th February 2021

Ongoing role of the G20

The introduction of a global sustainability baseline will improve the consistency and comparability of information available to capital markets and help to unlock their capacity to be informed about and react at scale to climate and other sustainability challenges. The G20, as the leading forum for

international economic cooperation, has a crucial role to play in supporting global efforts to advance work to integrate financial reporting and sustainability-related disclosure and explore the mechanisms to link this to broader multi-stakeholder sustainability reporting.

We identify the following opportunities for action to achieve integrated financial reporting and sustainability-related disclosure with links to broader multi-stakeholder reporting, which could be further explored and developed through the SFWG over the next G20 presidencies:

- Commitment to an international effort to achieve global standards that meet the information needs of investors and participants in the world's capital markets to achieve relevant material information that is globally comparable ("global baseline")
- Ongoing participation in the standard-setting process to achieve a global baseline and a commitment to work towards interoperability with jurisdictional standards that meet public policy objectives.
- Support for the long-term economic viability of an independent standard-setting process for the global baseline.
- Consideration of domestic policy reforms where new or adapted institutions are required to support mandatory disclosure.
- Recognition of the importance of a digitisation strategy from the start to deliver a global baseline that enables comparable sustainability information to be made available digitally.

Chapter 2: Evolving investor preferences and their implications for reporting standards

Prepared by The Global Steering Group for Impact Investment (GSG)

Background

- In Chapter 1, the International Financing Reporting Standards (IFRS) Foundation describes progress to achieve global standards that enable integration of financial accounting and sustainability-related disclosure, providing investors with information about sustainability matters that do, or are reasonably expected to, affect the entity's future cash flows, and therefore to influence decisions made by investors about the present value of those future cash flows (enterprise value).

- The IFRS Foundation has received widespread support to play a role in developing global sustainability disclosure standards that meet these needs, and the GSG supports these coordinated efforts to ensure a global baseline.

- As described in Figure 1 of the first chapter, whilst financial statements are largely limited to events that have already taken place at the reporting date, sustainability-related financial disclosures consider additional risks, opportunities and outcomes of the company (and any related entities) that may affect the company's cash flows in the short-, medium-, or long-term. These risks, opportunities and outcomes are often influenced by stakeholder pressure around certain issues, regulation (including taxes and subsidies), industry disruptions and technological advances that affect cash flows over time. Sustainability-related disclosure can unlock the capacity for investors to make optimal decisions that improve both the financial and sustainability performance of portfolios at scale.

- **Building on the above, this chapter dives deeper into how investor preferences are evolving over time, driven by a pressing need to account for social and environmental issues that matter to all stakeholders.** In order to achieve the global roadmap for sustainable development, many investors want to do more than today's traditional capital providers are expected to do in their approaches to financial reporting, accounting and investment.

- We observe three key trends:

    1. Increasingly, today's capital providers and companies are acting with value-aligned preferences
    2. The scope of investor requests on sustainability reporting are changing
    3. Accountability to all stakeholders affected by capital provision is emerging, driven by government and civil society who act on their behalf

- Value-aligned preferences, multi-stakeholder accountability and estimations of enterprise value that incorporate relevant information about companies' impacts and dependencies on stakeholders are all core features of the growing "impact economy".

Trends in Investor Preferences

1. Increasingly, today's capital providers and companies are acting with value-aligned preferences

Investors are increasingly making decisions about how and where to allocate capital based on where they see value for society, now and in the future.

Sometimes, this objective is consistent with (or driven by) objectives to maintain long-term enterprise value creation and therefore maintain or improve financial performance and competitive advantage over time. Recent commitments by major asset owners and managers to achievement of net zero emissions are an example of this, including Net-Zero Asset Managers - representing 87 signatories and $37 trillion in assets under management - and the Net-Zero Asset Owners Alliance - including 42 institutional investors, representing $6.6 trillion assets under management. The Net-Zero Asset Owners Alliance is co-convened by the Principles for Responsible Investment (PRI), who focus on "driving meaningful data throughout the markets". Since their launch in 2005, they increasingly recognize the role of investors in *shaping* sustainability performance, leading them to think more broadly about what data is needed, in what form and for what purposes. The collective AUM represented by PRI signatories increased by 20% last year, from $86.3 trillion to $103.4 trillion as of 2020, across 3038 signatories (2701 investors and 337 service providers).

The recently-launched Council for Inclusive Capitalism with the Vatican represents a set of global organizations committed to transparency and disclosure around ESG and SDG-aligned business models, to enable a more "trusted, sustainable, equitable, and inclusive" capitalism.

There are also cases where investors want to see value for society (both now and in the future), whilst acknowledging that it may or may not lead to improved financial performance. The Global Impact Investing Network (GIIN) supports investors with an "intentional desire" to contribute to measurable social and environmental benefit. The global impact investing market is growing rapidly. From 2013-2019, impact investing grew at a compound annual growth rate of just above 60% (as derived from GIIN research) and is estimated to have reached USD 1 trillion globally in 2020. These findings are consistent with market size and growth figures reported by over twenty-five national advisory boards in the Global Steering Group for Impact Investing (GSG) network. While impact investors may see better financial performance, many intentionally choose to prioritize creation of value for stakeholders (society and the environment) over financial return.

2. The scope of investor requests on sustainability reporting are changing

Given the rise of assets under management (AUM) with value-aligned preferences, there is a narrowing gap between the reporting that is important to investors and to all other stakeholders.

Some voluntary efforts to improve social and environmental performance have emerged, focusing on what matters to these investors and giving them the data to make better decisions.

The GSG and Harvard Business School-led Impact-Weighted Accounts Initiative (IWAI) are researching the creation of financial statements that fully reflect a company's positive and negative impacts on employees, customers, the environment and the broader society. The aim is that value-aligned investors use companies' impact-weighted accounting numbers as part of their due diligence, underwriting, engagement and reporting efforts. Asset owners could use these impact-weighted accounts as a monitoring and manager selection tool to ensure that their allocations are aligned with impact. Rating agencies and data providers could also integrate them in their own data products.

The Value Balancing Alliance (VBA) is exploring the feasibility of these evolving reporting requests at the company level. The VBA embraces “double materiality”, which includes a consideration of how impacts and dependencies affect the financial performance of companies (value to business), as well as how they affect people and the planet (value to society).

3. *Accountability to all stakeholders affected by capital provision is emerging, driven by government and civil society who act on their behalf*

There are also capital providers, government and civil society organizations who want to ensure that disclosure is accountable to all stakeholders, not just investors.

As early as in 1997, the Global Reporting Initiative (GRI) started a sustainability reporting framework that focuses on disclosing the most significant economic, environmental and social impacts of a company, including issues that may not directly affect the company’s financial performance that emerge from deep stakeholder engagement. There are now more than 10,000 GRI reporters in over 100 countries.

B Lab has also rolled out a global, voluntary standard and certification platform that enables businesses to measure their impact on workers, community, environment, and customers, and ensures there are stakeholder consultation processes in place. There are currently over 3,500 Certified B Corporations in more than 70 countries.

However, voluntary disclosure may not be enough. Sustainability disclosure expectations by different jurisdictions are also changing. For instance, the European Union is focusing on “double materiality”, through which both traditionally recognized financial risks and social and environmental risks would all require corporate disclosures. The EU’s Non-Financial Reporting Directive (NFRD) promotes measuring social and environmental performance alongside financial performance. The European Commission has published a proposal for a Corporate Sustainability Reporting Directive, in response to demand for stronger and wider sustainability reporting standards above and beyond the NFRD. The goal is that sustainability reporting is “on par” with financial reporting, reflected in the change of terminology used in the CSRD proposal from “non-financial” to “sustainability” reporting. The CSRD reporting requirements will apply to all large EU companies and all listed companies, including listed small and medium-sized enterprises (“SMEs”). This is estimated to cover around 49,000 companies.

Progress in this direction is critical for efforts like the “just transition”, aimed at ensuring that climate action also contributes to the Sustainable Development Goals around poverty and equality. For example, around a fifth of current jobs in the UK have skills for which demand could grow in the green economy or which could require reskilling. Investors are demanding more information related to economic, environmental, racial and climate justice and using this information to make investment decisions – including whether the impacts fall unevenly on low-income communities of color or the Global South. Highlighting the interdependence between green and social issues will be critical to understand where the impact of climate policies will be felt. Changing sustainability disclosure will provide visibility on these interdependencies, allowing investors and companies to respond to and engage with all stakeholders in decision-making, as well as to track progress over time.

A growing number of business leaders are suggesting all businesses should be mandated to align shareholder and wider stakeholder needs, driven by a change in corporate purpose, according to recent research by Re-Generate, Hart and Zingales 2017, Grewal and Serafeim 2020.

Looking ahead, there could be opportunities to further advance requirements on sustainability disclosure that matters to all stakeholders, amplifying it with emerging technology and making the positive and negative impacts of any enterprise transparent and accessible to the public.

Key Challenges

- **Despite meaningful progress in incorporating the voices of important countries in the Global South to processes like the one led by the IFRS Foundation, much of the wider current momentum is still being driven from the Global North (the USA & Europe).** As non-financial reporting and accounting standards emerge, fully considering and addressing the needs of middle income and emerging economies at the table will be critical to ensure global relevance of the standards. Otherwise, they will continue to proliferate in different contexts, perpetuating the current confusion about what kinds of non-financial information matter (and for what purpose).

- **While large companies are often the early subjects of emerging reporting and accounting standards, awareness tends to be lower within Micro-, Small and Medium-sized Enterprises (MSMEs)**. And with the International Council for Small Business (ICSB) noting that MSMEs, formal and informal, make up over 50% of all firms and account, on average, for 70% of total employment and 50% of GDP growth in developing countries, this is a considerable issue for the global relevance of standards. As standards improve and best practice emerges, MSMEs will need to be active in shaping them and in testing effectiveness in their own context, with language-specific resources.

- **Investors themselves are often subject to less sustainability reporting than their underlying investments.** Disclosure standards could also include non-financial reporting on social and environmental issues at the investor-level, including how they interact with their portfolios. Increased transparency on incentives, debt practices, lobbying and governance would in turn help manage systematic risks that affect, or even undermine, the financial and sustainability performance of companies, based on recent research by the Predistribution Initiative.

Ongoing Role of the G20

The G20 acknowledges in the SFSG's 2018 Synthesis Report that mobilizing sustainable finance is essential for global growth and stability, as well as for promoting the transition towards greener, more resilient and inclusive economies.

Building on this precedent and by leveraging its ability to bring together leaders from both developed and developing economies, the G20 has a key role to play in supporting global efforts to advance the trajectories by which financial and non-financial reporting can be brought together, consistently and coherently, to reflect the experience of all stakeholders.

To achieve this objective, we support the opportunities for action identified in the previous chapter and propose additional ones below, all of which could be further explored and developed through the SFWG over the next G20 presidencies:

- **International policy coordination** to facilitate consistency of non-financial reporting, with support from major international organizations and through an enhanced global financial architecture. Open-access, global standards will increase the reliability and comparability of non-financial information. This will in turn make the data more decision-useful, interoperable, and predictive over time, especially by leveraging new and emerging technologies. This will benefit from the "building block approach" described by the IFRS in the first chapter.

- **Agenda-setting and leading by example** to showcase reforms, innovative policy actions and instruments by G20 members, aimed at filling gaps in international standard-setting.

- **Promotion of knowledge-sharing and collaboration** to build capacities worldwide. Different regions bring distinct levels of knowledge, engagement and resources that will affect adoption of global standards.

- **Outreach** with the international community at large, across all audiences.

- **Review and monitor progress** through future G20 meetings and the extended mandate of the SFWG.

IFRS

Supplementary note on the IFRS Foundation's project on sustainability-related financial disclosure standards

Summary

The Trustees recognise the pivotal importance of working with jurisdictions on the advancement of an International Sustainability Standards Board, which would provide the global baseline of sustainability-related financial disclosure standards. A summary of the IFRS Foundation's proposal to meet the information needs of investors is provided in this recent speech by Erkki Liikanen, Chair of the IFRS Foundation Trustees.

Through outreach and engagement with key stakeholders, including feedback received from the G7 Communique, the G20's Sustainable Finance Working Group, and the International Organisations Roundtable[1], the IFRS Foundation Trustees recognise that five elements of their proposal are important to clarify further. This note therefore briefly explains the context of the IFRS Foundation's proposal, before providing further detail on each of the five elements.

Context

In September 2020, in the context of their five yearly strategy review, the Trustees of the IFRS Foundation published a Consultation Paper on Sustainability Reporting. Its purpose was to determine whether there is a need for global sustainability standards; whether the IFRS Foundation should play a role; and what the scope of that role could be.

Feedback to the consultation[2] expressed an **urgent need for international sustainability disclosure standards that meet the needs of global capital markets, and support for the Foundation to play a role in their development**. The Trustees are therefore working toward the establishment of a potential International Sustainability Standards Board (ISSB) within the governance structure of the IFRS Foundation, as set out in the Trustees' February announcement. In March 2021, the Trustees issued a further public statement that lays out the proposed strategic direction of the proposed ISSB, namely:

- **Investor focus for enterprise value**: the new board would focus on information that is material to the decisions of investors and other participants in the world's capital markets.[3]
- **Sustainability scope, prioritising climate but not limited to climate**: due to the urgent need for better information about climate-related matters, the new board would prioritise standards for assurable climate-related financial disclosure, while also working towards meeting the information needs of investors on other ESG (environmental, social and governance).
- **Building on existing frameworks to achieve a running start**: the new board would build upon the well-established work of the Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD), as well as work by leading standard-setters in sustainability disclsoure focused on enterprise value. The Trustees will consider the prototype proposed by the alliance for an approach to climate-related disclosures as a potential basis for the new board to develop climate-related reporting standards. To prepare for this work, the IFRS Foundation has established a Technical Readiness Working Group that is preparing technical recommendations for the new board, as well as joint strategic recommendations for appropriate transfer of technical expertise, content and resources to enable a running start.

[1] As convened by Mark Carney and the Financial Stability Board

[2] The significant matters raised by respondents to the Consultation Paper on Sustainability Reporting was summarised in a Feedback Statement, published by the IFRS Foundation in April 2021.

[3] IOSCO considers that the IFRS Foundation potentially could deliver a global baseline for investor-oriented sustainability-related disclosure standards focussed on enterprise value creation, which jurisdictions could consider incorporating or building upon as part of their mandatory reporting requirements as appropriate and consistent with their domestic legal frameworks. This could promote international consistency and comparability in sustainability-related information, and also form the basis for the development of an audit and assurance framework.

- **Global baseline**: by working with standard-setters from jurisdictions, standards issued by the new board would provide a globally consistent and comparable sustainability-related disclosure baseline[4] for capital markets, while also providing flexibility for coordination on jurisdiction-specific reporting requirements that serve wider public policy objectives.

In April 2021, the Trustees published an Exposure Draft that outlines proposed targeted amendments to the IFRS Foundation *Constitution* which would enable it to accommodate a new board that would set IFRS sustainability standards. The proposed amendments are exposed for comment until 29 July 2021. In parallel, the Trustees are leading a set of workstreams to achieve other key requirements for success, ahead of making a final determination about the creation of a new board before the November 2021 United Nations COP26 conference.

Clarifying elements of the proposal

Based on feedback received, the Trustees recognise that five elements of their proposal are important to clarify further:

1. A governance structure for standard-setting focused on global capital markets that ensures ongoing public authority oversight for independent expertise and public due process

A three-tier approach to governance

One of the Trustees' key requirements for success is to ensure the adequacy of the IFRS Foundation's governance structure to establish an ISSB focused on meeting the needs of capital markets. In response to the Foundation's September 2020 consultation paper, many stakeholders acknowledged that the ISSB would benefit from the Foundation's existing three-tier governance structure. Its three-tier structure provides legitimacy because (i) public authorities are represented on the Monitoring Board, which provides a direct link to governments, (ii) the Trustees provide robust independent oversight, and (iii) the Board members provide independent standard-setting expertise. These three tiers result in IFRS standards that have been endorsed by IOSCO since 2000 for use in cross-border offerings and listings, as well as for setting domestic requirements. The three tiers of governance are explained below and illustrated in Figure 1.

i. IFRS Foundation Monitoring Board

The creation of the IFRS Foundation Monitoring Board began in July 2007 when the United States Securities and Exchange Commission (SEC) issued its rule proposal to lift its reconciliation requirement for foreign registrants using IFRS standards. It was then in discussion with the European Commission about the establishment of an 'external mechanism' that would oversee the functioning of the Trustees.

The SEC and European Commission worked with the Japanese Financial Services Agency (JFSA) and the International Organisation of Securities Commissions (IOSCO) and brought a proposal to the Trustees at their meeting in October 2007. The Trustees agreed to issue a press release proposing a 'formal reporting link' to official organisations, and at the same time the European Commission, JFSA, SEC and IOSCO issued a joint statement proposing a 'monitoring body'. This marked the beginning of the Trustees' five-yearly review of the Constitution and, following public consultation, the Monitoring Board was formally established in January 2009.

[4] IOSCO has encouraged a 'building blocks' approach to establishing a global sustainability reporting system. A global baseline for sustainability-related disclosure standards that focuses on the information needs of investors would be consistent with the investor focus of the IASB's financial reporting standards, allowing for the application of an integrated conceptual framework and allowing the IFRS Foundation to leverage its existing expertise and governance framework. A building blocks approach would provide flexibility for interoperability between the common global baseline and any additional reporting requirements that individual jurisdictions may set beyond the baseline. These may relate to particular public policy objectives or inform the needs of stakeholders other than investors – for instance, to capture wider sustainability impacts, beyond those relevant to enterprise value creation. Where such additional reporting requirements are calibrated to individual jurisdictions' public policy objectives, a technical and independent standard-setting process may not be feasible and it may be challenging to reach international consensus. A building blocks approach on the lines proposed is therefore likely to be a pragmatic approach.

The members of the IFRS Foundation Monitoring Board are representatives of the:

- Board and the Growth and Emerging Markets Committee of the International Organization of Securities Commissions (IOSCO)[5]
- European Commission (EC)
- Financial Services Agency of Japan (JFSA)
- US Securities and Exchange Commission (SEC)
- Brazilian Securities Commission (CVM)
- Financial Services Commission of Korea (FSC)
- Ministry of Finance of the People's Republic of China (China MOF)

The Basel Committee on Banking Supervision and the IOSCO European Regional Committee participate in the Monitoring Board as observers.

The Monitoring Board is currently chaired by Jean-Paul Servais, Vice-Chair of the IOSCO Board and Chairman of the Financial Services and Markets Authority of Belgium.

As stated in the Final Report on IFRS Foundation Governance Review, published in February 2012, Monitoring Board membership was to be expanded to include additional members (up to four) and rotating seats (two) to be selected in consultation with IOSCO. In January 2014, the Comissão de Valores Mobiliários (CVM) of Brazil and the Financial Services Commission of Korea, and in August 2016, the Ministry of Finance of People's Republic of China became members in accordance with this procedure.

ii. IFRS Foundation Trustees

The IFRS Foundation Trustees are appointed subject to approval by the Monitoring Board (as above), following a nominations process as agreed by the Trustees and the Monitoring Board. The Trustees are required to commit themselves formally to acting in the public interest in all matters. They comprise individuals that, as a group, provide a balance of professional backgrounds, and have an interest in promoting and maintaining transparency in corporate reporting globally. They are appointed to ensure a broad international perspective, with six Trustees appointed from the Asia-Oceania region; six Trustees appointed from Europe; six Trustees appointed from the Americas; one Trustee appointed from Africa; and three Trustees appointed from any area, subject to maintaining overall geographical balance.

iii. International Sustainability Standards Board (ISSB)

As with the International Accounting Standards Board (IASB), the Board Members of the ISSB would be selected by the IFRS Foundation Trustees and comprise a group of people representing the best available combination of technical expertise and diversity of international business and market experience, whilst ensuring broad geographical representation.

At all three tiers, the proposals seek to ensure that the composition of the Monitoring Board, the Trustees, and the ISSB, reflects the diversity in expertise and geographical balance necessary to provide global perspectives in both oversight and standard-setting work.

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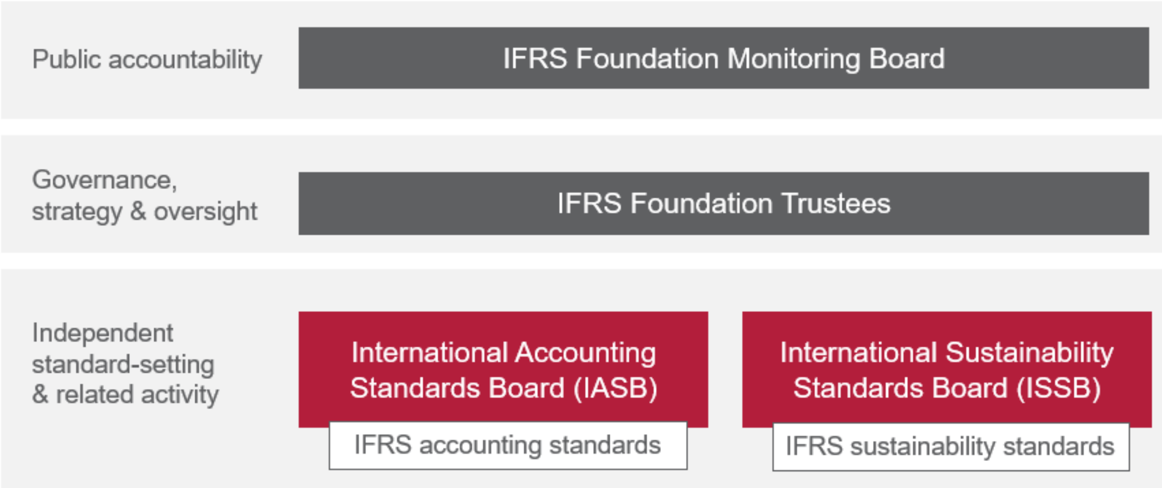
[5] The Growth and Emerging Markets (GEM) Committee is the largest Committee within IOSCO, representing over 75% of the IOSCO's ordinary membership. Dr. Mohammed Omran, Executive Chairman, Financial Regulatory Authority, Egypt, and Vice Chair of the IOSCO Board, is the Chair of the GEM. The Committee seeks to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, providing training programs and technical assistance for members and facilitating the exchange of information and transfer of technology and expertise. The GEM comprises 91 members and 21 non-voting associate members who include the world's fastest growing economies and 10 of the G-20 members. Emerging economies are expected to represent a growing portion of IOSCO membership as new members continue to join. IOSCO is the only international standard setter that has a Committee solely responsible for emerging market issues. This inclusiveness increases IOSCO's effectiveness and positions it to play a bigger part in shaping the global regulatory framework: The GEM has been allocated a seat on the IFRS Foundation Monitoring Board.

Figure 1. proposed IFRS Foundation governance structure



Transparency, full and fair consultation, and accountability

In addition to the existing three-tier governance structure, the Trustees believe that their strategy for a proposed new board is already consistent with the Foundation's mission to develop standards that "bring transparency, accountability and efficiency to financial markets around the world" and align with the Foundation's work to "serve the public interest by fostering trust, growth and long-term financial stability in the global economy". The Trustees' proposal is for the new board to replicate the due process principles of the IASB that have received wide-spread endorsement in achieving global consistency in financial reporting. These include principles of transparency, full and fair consultation, and accountability. As with the IASB, the ISSB's meetings and papers would all be publicly available. Full and fair consultation processes include research, agenda setting, transitional arrangements, post-implementation reviews and interpretations, all of which are subject to public consultation. Transparency is enhanced because the Board´s deliberations and basis for conclusions are an integral part of the standards. Such features engage a broad range of stakeholders globally in the standard-setting process, including those from emerging markets, and the board will be accountable to those stakeholders in its decision-making and how it assesses the effects of its standards.

IFRS-related consultations generally receive input from the public sector, including policymakers and regulatory bodies. The IASB also formally involves jurisdictions in its standard-setting process through its technical advisory body, the Accounting Standards Advisory Forum (ASAF). ASAF is a group of nominated members both National Standard-Setters and regional bodies involved with accounting standard-setting (regional bodies). For the ISSB, IOSCO and the IFRS Foundation are exploring the additional establishment of a consultative committee, within the IFRS Foundation structure, to facilitate discussion on jurisdiction-specific approaches to companies' broader sustainability reporting requirements, where these are not otherwise captured by the ISSB's enterprise value-oriented standards. Such a transparent and public discourse about sustainability issues would foster a two-way dialogue between standard setters, with a view to supporting interoperability between the ISSB's global baseline and additional jurisdiction-specific reporting requirements. The composition of an ISSB consultative committee would provide for a broad geographical spread and would complement and not replace or supersede existing advisory groups and outreach arrangements within the IFRS Foundation's architecture.

In response to the consultation paper, some stakeholders requested an opportunity to provide further input into the Foundation's governance structure. This sentiment was also expressed in the G7 Finance Ministers and Central Banks Governors communique in which they "encourage further consultation on a final proposal leading to the establishment of an [ISSB] ahead of COP26". The Trustees understand the importance of consultation on the proposed governance structure, which is why the current proposed targeted amendments to the *Constitution* are open for public comment until 29 July 2021.

2. Climate first, not climate only

Following detailed analysis of the feedback received to their 2020 consultation paper on sustainability reporting the Trustees have been explicit that the new board would initially focus its efforts on climate-related reporting, but would move quickly to work towards meeting the information needs of investors across other environmental, social and governance matters. This commitment has been further enhanced by the Trustees providing a power to the Chair and Vice-Chair of the new board to undertake an agenda consultation as soon as they are in place, which would consult interested stakeholders on the other environmental, social and governance topics that the ISSB should address in its early standard-setting.

3. Flexible standards to enable gradual transition and support the relevant and competent authorities in jurisdictions to make such standards mandatory at their discretion.

The role of the proposed board would be to provide a mechanism by which market participants, regulators, standard-setters and public authorities can work together in pursuit of high quality, global standards that meet the needs of global capital markets. Such standards would be subject to scrutiny and endorsement by jurisdictional authorities and could be integrated into national or regional standard-setting processes through various models and at the discretion of individual jurisdictions. IOSCO has included in its recent report an explanation that standards issued by an ISSB can be developed and adopted in a proportionate way, which acknowledges the different profiles and capabilities of reporting companies across jurisdictions. For instance, more proportionate adoption may be necessary in the case of smaller issuers, or issuers in emerging economies (see point 5 below regarding SMEs).

The IFRS Foundation does not have the power to make standards mandatory. This power lies with the relevant and competent who are responsible for the oversight of capital markets.[6] This oversight responsibility generally includes the development, application and enforcement of accounting standards, auditing standards, and disclosure regulations. IOSCO's endorsement is therefore highly relevant, which would encourage jurisdictions' requirements to take from ISSB standards.[7]

The IFRS Foundation, through the IASB and IFRS Standards, have considerable experience in supporting stakeholders to transition toward the adoption of IFRS Standards and to assist global stakeholders in the consistent application of those standards. The Trustees intend for the ISSB to learn from that experience.

4. Global baseline approach to take into consideration emerging market needs

The involvement of emerging markets in the establishment of a global baseline is a key element of the building blocks approach being successful. The IFRS Foundation has established mechanisms for the involvement emerging economies in the standard-setting process of the IASB. Specifically, an emerging economies group forms one of the IASB's technical consultative committees. Engagement with this group ensures that emerging economies are specifically consulted in the development of IFRS Standards. The Trustees are currently considering the optimum target operating model for the ISSB and how it can learn from the IASB's work, while also adapting where necessary. Ensuring the involvement

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[6] IOSCO recognises that individual jurisdictions have different domestic arrangements for adopting, applying, or otherwise availing of international standards. It will be important for individual jurisdictions to consider how the common global baseline of standards might be adopted, applied, or otherwise utilized within the context of these arrangements and wider legal and regulatory frameworks, in a way that promotes consistent and comparable sustainability disclosures across jurisdictions.

[7] Similar to the role it currently plays in respect of the IASB's financial reporting standards and subject to the outcome of IOSCO´s assessment and the ISSB's subsequent standards development, IOSCO will work towards formal endorsement of the ISSB as the global standard-setter for sustainability-related corporate reporting. IOSCO would encourage IOSCO members and relevant authorities to consider the ISSB's standards when setting sustainability-related disclosure requirements in their respective jurisdictions. IOSCO will consider how the ISSB's standards can be developed and adopted in a proportionate way that acknowledges the different profiles and capabilities of reporting companies across jurisdictions. For instance, more proportionate adoption may be necessary in the case of smaller issuers, or issuers in emerging economies.

of emerging economies in the development of IFRS Sustainability Standards is a key element in this consideration.

5. Capacity-building for emerging markets and SMEs

The IFRS Foundation will continue to work toward building capacity in emerging markets and with Small and Medium Sized Entities (SMEs) to further develop the understanding of its standards and standard-setting process. This is an area that the Foundation has worked on with key stakeholder partners in recent years and forms part of a memorandum of understanding between the IFRS Foundation and the World Bank Group. The International Accounting Standards Board also develops an *IFRS for SMEs Standard* which is a simplified set of IFRS Standards designed to meet the needs and capabilities of SMEs that do not have public accountability (i.e. understanding that an entity has public accountability if it is publicly traded, or if it is a financial institution or similar entity).

The Trustees recognise the importance of capacity-building in terms of the work of the proposed ISSB with emerging markets and with SMEs. This has been publicly acknowledged by the Trustees in their Feedback Statement published in April 2021. Such consideration, informed by the existing work of the Foundation in the area, forms an important part of its ongoing consideration of a target operating model for the new board.

As of 07.21

Proposed governance structure for an International Sustainability Standards Board (ISSB) under the IFRS Foundation

Public accountability, providing a direct link to governments

IFRS Foundation Monitoring Board

Function:
- Public oversight of the Foundation and the Trustees
- A board comprised of capital market authorities responsible for setting out the form and content of financial reporting in their jurisdictions
- Responsible for approving all Trustee appointments

Members:
(representing approx. 70% of global GDP)
- Brazil Securities and Exchange Commission
- China's Ministry of Finance
- European Commission
- IOSCO Board and Growth & Emerging Markets Committee
- Japan Financial Services Agency
- South Korea Financial Services Commission
- US Securities and Exchange Commission

Observers:
- Basel Committee on Banking Supervision
- IOSCO European Regional Committee

Governance, strategy & oversight

IFRS Foundation Trustees

Function:
- Comprised of 22 individuals approved by the Monitoring Board for their appropriate experience
- Responsible for:
  - governance and strategic direction
  - maintaining the Foundation's *Constitution* and the *Due Process Handbook*
  - appointing members to the boards and their advisory bodies
  - ensuring appropriate financing arrangements

Members:
(representing approx. 70% of global GDP)
- Africa: South Africa
- Asia/Oceania: Hong Kong, Japan, South Korea, New Zealand, India, China
- Europe: Netherlands, France, Finland, Italy, Germany and UK
- Americas: Mexico, USA, Brazil, Canada
- At large: Saudi Arabia, France

Independent standard-setting & related activity

International Accounting Standards Board (IASB)	International Sustainability Standards Board (ISSB)
IFRS accounting standards	IFRS sustainability standards

The **IASB** is an independent standard-setting body of the Foundation. Its members are appointed from varied professional backgrounds, including academia, accountancy, investment, preparation of financial statements, regulation and standard-setting.

The IASB issues **IFRS Standards**, the *IFRS for SMEs* Standard and the IFRS Taxonomy.

Geographical spread:
- Africa: 1
- Americas: 4
- Asia/Oceania: 4
- Europe: 4
- At large: 1

The proposed **ISSB** would be an independent standard-setting body of the Foundation, consisting of 14 majority full-time members appointed from varied national and professional backgrounds and with experience in sustainability-related reporting that meets the needs of capital markets.

The ISSB would issue **IFRS sustainability standards**.

Proposed geographical spread:
- Africa: 1
- Americas: 3
- Asia/Oceania: 3
- Europe: 3
- At large: 4

As of 07.21

Q&A on IFRS Foundation's project on sustainability-related financial disclosure standards

1. How will the IFRS Foundation ensure legitimate governance and oversight of the proposed ISSB?

A three-tier approach: the Foundation's existing three tier structure (see Figure 1 overleaf) is proposed to ensure adequacy and legitimacy of governance and oversight for the ISSB: (i) public authorities are represented on the Monitoring Board, which provides a direct link to governments, (ii) the Trustees provide robust independent oversight, and (iii) the Board members provide independent standard-setting expertise. In response to the Foundation's consultation paper (2020), stakeholders acknowledged that the ISSB would benefit from this structure.

Transparency, full and fair consultation, and accountability: given the IFRS Foundation's existing mission to develop standards that "bring transparency, accountability and efficiency to financial markets around the world", the Trustees propose that the new board replicate the due process principles of the IASB, which have received wide-spread endorsement in achieving global consistency in financial reporting. These include principles of transparency, full and fair consultation, and accountability. Full and fair consultation processes include research, agenda setting, transitional arrangements, post-implementation reviews and interpretations, all subject to public consultation. Transparency is enhanced through the Board´s public deliberations. For the ISSB, IOSCO and the IFRS Foundation are exploring the establishment of a consultative committee, within the IFRS Foundation structure, to facilitate discussion on jurisdiction-specific approaches to companies' broader sustainability reporting requirements, where these are not otherwise captured by the ISSB's enterprise value-oriented standards. Such a transparent discourse about sustainability issues would foster a two-way dialogue between standard setters, with a view to supporting interoperability between the ISSB's global baseline and additional jurisdiction-specific reporting requirements.

2. Will the ISSB move beyond the topic of climate in its standard setting?

The ISSB is proposed to prioritise climate-related disclosure but move quickly to meet the information needs of investors across other environmental, social and governance (ESG) matters. This commitment has been further enhanced by the Trustees providing a power to the Chair and Vice-Chair of the new board to undertake an agenda consultation as soon as they are in place, which would consult interested stakeholders on other sustainability-related disclosures for capital markets that the ISSB should address in its early standard-setting.

3. Will the standards have a degree of flexibility to enable gradual transition at the discretion of jurisdictions?

IOSCO has included in its recent report an explanation that standards issued by an ISSB can be developed and adopted in a proportionate way, which acknowledges the different profiles and capabilities of reporting companies across jurisdictions. For instance, more proportionate adoption may be necessary in the case of smaller issuers, or issuers in emerging economies (see further below regarding SMEs). The IFRS Foundation does not have the power to make standards mandatory. This power lies with the relevant and competent authorities in jurisdictions. In many cases, it is for the domestic securities regulator or the capital markets authority to determine the disclosure requirements – hence the relevance of IOSCO's endorsement, which would encourage jurisdictions' requirements to take from ISSB standards. The IFRS Foundation, through the IASB's IFRS Standards, have considerable experience in supporting stakeholders to transition toward the adoption of IFRS Standards and to assist global stakeholders in the consistent application of those standards. The Trustees intend for the ISSB to learn from that experience.

4. How will emerging market needs be considered as part of a global baseline approach?

The involvement of emerging markets is a key element of the proposed approach to establish a global baseline as part of a building blocks approach. The IFRS Foundation has established mechanisms for the involvement emerging economies in the standard-setting process of the IASB. Specifically, an emerging economies group forms one of the IASB's technical consultative committees, ensuring that emerging economies are specifically consulted in the development of IFRS Standards. The Trustees are determining the target operating model for the ISSB to ensure involvement of emerging economies in the development of IFRS Sustainability Standards. The IOSCO GEM[1] also sits on the Monitoring Board of the IFRS Foundation.

5. How will the Foundation build the capacity of emerging markets and SMEs?

The IFRS Foundation will continue to work toward building capacity in emerging markets and with Small and Medium Sized Entities (SMEs) to further develop the understanding of its standards and standard-setting process. The importance of this for the ISSB is publicly acknowledged by the Trustees in their Feedback Statement (April 2021). For the IASB, this focus forms part of a memorandum of understanding between the IFRS Foundation and the World Bank Group. The IASB also develops an *IFRS for SMEs Standard* which is a simplified set of IFRS Standards designed to meet the needs of SMEs that do not have public accountability.

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[1] The Growth and Emerging Markets (GEM) Committee is the largest Committee within IOSCO, representing over 75% of the IOSCO's ordinary membership. Dr. Mohammed Omran, Executive Chairman, Financial Regulatory Authority, Egypt, and Vice Chair of the IOSCO Board, is the Chair of the GEM. The Committee seeks to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, providing training programs and technical assistance for members and facilitating the exchange of information and transfer of technology and expertise. The GEM comprises 91 members and 21 non-voting associate members who include the world's fastest growing economies and 10 of the G-20 members. Emerging economies are expected to represent a growing portion of IOSCO membership as new members continue to join. IOSCO is the only international standard setter that has a Committee solely responsible for emerging market issues. This inclusiveness increases IOSCO's effectiveness and positions it to play a bigger part in shaping the global regulatory framework: The GEM has been allocated a seat on the IFRS Foundation Monitoring Board.