UNIVERSITY OF VALE DO RIO DOS SINOS - UNISINOS
ACADEMIC RESEARCH AND POSTGRADUATE UNIT
GRADUATE PROGRAM IN ACCOUNTING
MASTER'S DEGREE

LUCIANO BOHN

THE CREATION OF THE ISSB: AN ANALYSIS OF SUPPORTIVE COMMENT LETTERS

Porto Alegre
2023

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Dissertation submitted as partial fulfillment of the requirements for the Academic Master's Degree to the Graduate Program in Accounting at Universidade do Vale Do Rio dos Sinos (UNISINOS).

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Porto Alegre

2023

B677c Bohn, Luciano.
The creation of the ISSB : an analysis of supportive comment letters / Luciano Bohn. – 2023.
116 f. : il. ; 30 cm.

Dissertação (mestrado) – Universidade do Vale do Rio dos Sinos, Programa de Pós-Graduação em Ciências Contábeis, 2023.
“Orientador: Prof. Dr. Antônio Kronbauer
Coorientador: Prof. Dr. Clea Beatriz Macagnan”

1. Content analysis. 2. IFRS. 3. ISSB. 4. Sentiment analysis. 5. Sustainability reporting. I. Título.

CDU 657

Dados Internacionais de Catalogação na Publicação (CIP)
(Bibliotecária: Silvana Dornelles Studzinski – CRB 10/2524)

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ACKNOWLEDGEMENTS FOR CAPES

This study was financed in part by the Coordenação de Aperfeiçoamento de Pessoal de Nível Superior - Brasil (CAPES) - Finance Code 001.

ACKNOWLEDGEMENTS

I would like to thank God, Jesus Christ, and the Virgin Mary for giving me strength, conditions and enlightening my intelligence to complete this dissertation. I would also like to thank my parents and family for their support, love and understanding during my absences; Mariana Lanner de Araujo Simon for recommending the master's degree at Unisinos; my boss Gerson Untertriefallner Costa for allowing flexible working hours and temporary leave so that I could give this project my full dedication; my sister Lilian Bohn for her support, encouragement, and valuable tips on academic work; Professor Cristiane Benetti and Professor Carlos Alberto Diehl for their suggestions; and my advisors Clóvis Antônio Kronbauer and Clea Beatriz Macagnan who, even in the face of all adversities, gave me support and advice for the completion of this dissertation.

ABSTRACT

Sustainability reporting is currently a voluntary mainstream practice of companies worldwide, and defining which organisation sets international sustainability reporting standards is a complex process which requires debate, public observation, and participation. This exploratory archival research was designed to analyse 577 comment letters, submitted to the IFRS Foundation's public consultation in 2020, concerning the creation of the International Sustainability Standards Board (ISSB). The focus was on identifying the key supportive arguments in the answers, to question 2 of the questionnaire proposed in the Foundation's consultation paper, about the creation of the ISSB. The *corpus* entailed 393 supportive comment letters, which represent 68% of letters, while 31% were opposed and 1% were neutral. Both manual and computer-aided content analyses were conducted, based on the perspectives of Krippendorff, Weber, Saldaña and Mayring. The computational analysis employed Python, machine learning, Natural Language Processing, Sentiment Analysis, and BLOOM-560m. The key supportive arguments that legitimised the establishment of the ISSB are: the Foundation can mobilise the appropriate mechanisms to make sustainability standards mandatory; the Foundation's expertise in developing accounting standards could be used to set sustainability standards; the Foundation has the best governance structure for the role; and both financial and sustainability reporting should be under the same institutional scope (The Foundation), to create a link between the reports. It was also found that the creation of the ISSB only partially met the calls for the harmonisation of international standards, since sustainability information, that is not related to investors' needs and enterprise value creation, will still need to be reported through other frameworks, that encompass a broader perspective, such as those adopted by the Global Reporting Initiative (GRI) and the European Financial Reporting Advisory Group (EFRAG). It is expected that this research can both offer scientific subsidies to qualify professional accounting organisations that provide guidance on accounting procedures, as well as contribute to the advancement of academic research on the newly formed ISSB. It can be inferred that, although the creation of the ISSB is an important step towards the standardisation of sustainability reports, there is still a lot of ground to cover in the ongoing debate on sustainability reporting standards.

Keywords: sustainability reporting; IFRS; ISSB; sentiment analysis; content analysis.

RESUMO

O relatório de sustentabilidade é atualmente uma prática voluntária de empresas em todo o mundo, e definir qual organização deve estabelecer padrões internacionais para esses relatórios é um processo complexo que requer debate, observação pública e participação. Nesta pesquisa documental exploratória realizou-se uma análise de 577 cartas-comentário, submetidas à consulta pública da Fundação IFRS, em 2020, sobre a criação do *International Sustainability Standards Board* (ISSB). Objetivou-se identificar os principais argumentos de apoio, apresentados nas respostas à pergunta 2 do questionário proposto pela Fundação, sobre a criação do ISSB. O *corpus* de análise envolveu 393 cartas de apoio, que representam 68% das cartas, enquanto 31% se opuseram e 1% foram neutras. As cartas foram examinadas por meio de análises de conteúdo, manual e computacional, nas perspectivas de Krippendorff, Weber, Saldaña e Mayring. Na computacional, empregaram-se Python, aprendizado de máquina, processamento de linguagem natural, análise de sentimentos e BLOOM-560m. Os principais argumentos de apoio que legitimaram o estabelecimento do ISSB são: a Fundação pode mobilizar os mecanismos apropriados para tornar os padrões de sustentabilidade obrigatórios; a experiência da Fundação no desenvolvimento de padrões contábeis pode ser usada para definir padrões de sustentabilidade; a Fundação tem a melhor estrutura de governança para a função; e que, tanto o relatório financeiro quanto o de sustentabilidade devem estar sob a mesma alçada, para criar-se um vínculo entre os relatórios. Verificou-se também que a criação do ISSB atendeu apenas parcialmente às demandas de harmonização das normas internacionais, pois, as informações de sustentabilidade que não estão relacionadas às necessidades dos investidores e geração de valor empresarial, precisarão ser relatadas através de *frameworks* com perspectiva mais ampla, como o do *Global Reporting Initiative* (GRI) e do *European Financial Reporting Advisory Group* (EFRAG). Espera-se que esta pesquisa possa tanto oferecer subsídios científicos para qualificar organizações profissionais de contabilidade que fornecem orientações sobre procedimentos contábeis, quanto contribuir para o avanço da pesquisa acadêmica sobre o recém-formado ISSB. Infere-se que, embora a criação do ISSB seja um passo importante para a padronização dos relatórios de sustentabilidade, ainda haverá um intenso debate em torno desse tema.

Palavras-chave: relatórios de sustentabilidade; IFRS; ISSB; análise de sentimentos; análise de conteúdo.

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LIST OF ABBREVIATIONS

A4S	The Prince of Wales Accounting for Sustainability Project
A&F	Accounts and Finance
AI	Artificial Intelligence
BLOOM	BigScience Large Open-science Open-access Multilingual Language Model
CDSB	Climate Disclosure Standards Board
COLAB	Google Colaboratory
COP21	The 21st U.N. Climate Change Conference
COP26	The 26th U.N. Climate Change Conference
CP	Consultation Paper
CPD	Carbon Disclosure Project
CSR	Corporate Social Responsibility
DPSIR	Driver-Pressure-State-Impact-Response
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social and Governance
EU	European Union
EY	Ernst & Young
FASB	Financial Accounting Standards Board
FSB	Financial Stability Board
G250	World's largest 250 companies
GAAP	Generally Accepted Accounting Principles
GHG	Greenhouse Gas Protocol
GRI	Global Reporting Initiative
GSSB	Global Sustainability Standards Board
IAS	International Accounting Standard
IASB	The International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales
IDE	Integrated Development Environment
IFAC	International Federation of Accountants
IFRIC	IFRS Interpretations Committee

IFRS	International Financial Reporting Standards
IFRSF	The IFRS Foundation
IGO	Intergovernmental organisation
IIRC	International Integrated Reporting Council
INSB	Non-Financial Standards Board
IOSCO	The International Organization of Securities Commissions
IPSF	International Platform on Sustainable Finance
IR	Integrated Report
ISO	International Standards Organisation
ISSB	International Sustainability Standards Board
KPMG	Klynveld Peat Marwick Goerdeler
NDC	Nationally Determined Contribution
NFI	Non-financial Information
NFRD	Non-Financial Reporting Directive
NGO	Non-Governmental Organisations
NLP	Natural Language Processing
PWC	PricewaterhouseCoopers
SASB	The Sustainability Accounting Standards Board
SDG	Sustainable Development Goal
SDGD	Sustainable Development Goal Disclosure
SEC	US Securities and Exchange Commission
SME	Small and medium-sized enterprise
SSB	Sustainability Standards Board
TCFD	Task Force on Climate-Related Financial Disclosures
UK	The United Kingdom
UN	United Nations
US	The United States of America
VRF	Value Reporting Foundation
WBCSD	World Business Council for Sustainable Development
WCED	World Commission on Environment and Development
WEF	World Economic Forum

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1 INTRODUCTION

The crisis in the environmental field has generated a public demand for more responsible, social, and ecological organisation practices (FONSECA; MCALLISTER; FITZPATRICK, 2014). Trying to meet this demand – to increase their transparency, reputation and legitimacy, as well as to enhance their brand value, several companies voluntarily disclose sustainability information – such as on corporate social responsibility (CSR), and on environmental, social and governance (ESG) dimensions, which may be relevant to diverse stakeholders – e.g., public authorities, suppliers, employees, creditors, customers, investors, etc.., through an important channel – sustainability reporting; thus, sustainability reporting has become a growing relevant topic in business and academia (HAHN; KÜHNEN, 2013).

From a brief historical point of view concerning sustainability-related reporting, Hahn and Kühnen (2013, p. 5) say that since the 1970s, "traditional financial reporting in Western countries was sometimes complemented by additional social reports", explaining that "in the 1980s, the focus shifted towards environmental issues". These authors point out that in the "1990s, reporting research and practice increasingly began to consider the social and the environmental dimension simultaneously in a joint report which is often published alongside traditional financial reports", which "can be directly linked to the development of voluntary standard-setting by the Global Reporting Initiative (GRI)" framework (HAHN; KÜHNEN, 2013, p. 5). Regarding the GRI framework – which first version was published in 1999 (HAHN; KÜHNEN, 2013), the KPMG Survey of Sustainability Reporting 2020 (KPMG, 2020, p. 25) states that it "remains the most commonly used reporting standard or framework, used by around […] three-quarters of G250 reporters" – "the top 250 companies from the Fortune Global 500 ranking for 2019" (KPMG, 2020, p. 50).

On the other hand, even though KPMG indicates that there is a great number of sustainability reporting standards nowadays, it is known that "the Sustainability Accounting Standards Board (SASB) framework and International Standards Organisation (ISO) standards are the most commonly used for sustainability reporting" (KPMG, 2020, p. 25). However, Hahn and Kühnen (2013, p. 5) say that "in spite of the standardization efforts, significant differences remain between companies from different institutional environments with regard to the content and quality of sustainability reports", and these differences affect reporting harmonisation (FORTANIER; KOLK; PINKSE, 2011).

It can be assumed that the sustainability reports have no harmonization that makes it possible to compare them (ADAMS; ABHAYAWANSA, 2022). Furthermore, this lack of harmonic standards puts the term “sustainability” into the sustainability reporting debate, and on gaps concerning some of its key aspects: 1) the need for a precise, clear and common scientific definition/understanding of sustainability; 2) the target audience: all stakeholder users versus some stakeholders; 3) what to address: climate first versus other sustainable development goals (SDGs); 4) single materiality (financial focus) versus double materiality (financial and non-financial dimensions); 5) voluntary reporting disclosure versus mandatory reporting disclosure; 6) what aspects give sustainability reporting legitimacy; and 7) the link between accounting and sustainability. (ADAMS; ABHAYAWANSA, 2022)

Concerning frameworks in the accounting field, the International Accounting Standards Board (IASB) – part of the International Financial Reporting Standards (IFRS) Foundation –, has played a central role in setting accounting standards (PACTER, 2005). Several countries now require or permit the use of IFRS Accounting Standards – except for the USA, where the accounting standards, known as US-GAAP, are developed by the Financial Accounting Standards Board (FASB) (PACTER, 2005).

In 2020, The IFRS Foundation launched a public consultation, which was an invitation to comment on whether the Foundation should establish a new board to develop international standards for sustainability reporting (IFRS FOUNDATION, 2020a). Since a new board was created – the International Sustainability Standards Board (ISSB), the supportive responses received by the IFRS Foundation through comment letters is the theme of this dissertation, which will be detailed in the following section.

1.1 Research Question Background

A study released in 2018 (BARKER; ECCLES, 2018) reports a debate on whether the IASB – in conjunction with FASB, should extend its expertise in standard-setting to address sustainability reporting. Despite calling for the involvement of FASB and IASB, Barker and Eccles (2018) queried the appropriateness of these institutions as nonfinancial standard-setting bodies, as the authors argued “it is not obviously the case that expertise in setting financial accounting standards ‘translates’ into a corresponding capacity to set nonfinancial standards” (BARKER; ECCLES, 2018). The debate on whether to involve an accounting standard-setting institution (such as the IFRS Foundation) to develop standards for sustainability reporting has been brought under the microscope (ADAMS; ABHAYAWANSA, 2022).

As standard setting is widely seen as a political or economic process rather than a technical process, various methods of participation are available to interested parties (CHATHAM; LARSON; VIETZE*,* 2010). Of these, one of the most studied is the submission of comment letters in response to a public consultation, which is an invitation from a standards setter to stakeholders to comment on proposed ideas, standards, exposure drafts, etc. (HOLDER *et al.,* 2013).

Thus, as a recognised organisation, the IFRS Foundation, following a public consultation in 2020, which received 577 (supportive and non-supportive) comment letters in response (IFRS FOUNDATION, 2021a), announced the creation of the International Sustainability Standards Board (ISSB), on the third of November 2021, at the 26th U.N. Climate Change Conference (COP26), stating that the ISSB would set standards for sustainability reporting. Furthermore, the IFRS Foundation released a feedback statement on the results of the public consultation, claiming the proposal received widespread support, using this last assertion as an argument to legitimise the creation of the ISSB (IFRS FOUNDATION, 2021b).

Although claiming that the Foundation received widespread support to legitimise the creation of the ISSB, the Trustees have not published a detailed analysis of the comment letters resulting from the 2020 consultation (ADAMS; ABHAYAWANSA, 2022). Thus, Adams and Mueller (2022) published a study in which the comment letters, authored by academic professors – with experience in the accounting field or sustainability research background – were analysed, and the academics presented empirical arguments to support their positions opposing the creation of the ISSB (ADAMS; MUELLER, 2022). In this scenario, as an analysis of non-supportive comment letters has already been done, this research addresses an analysis of all the supportive letters in response to the IFRS Foundation's first stage of public consultation in 2020, as described in the following sections.

Based on the research background presented, the following research question is proposed: What key arguments in the supportive comment letters – in response to the IFRS Foundation public consultation in 2020 – legitimised the creation of the ISSB?

1.3 Objectives

1.3.1 General Objective

The purpose of this study is to identify some of the key arguments in the supportive comment letters that legitimised the creation of the ISSB.

1.3.2 Specific Objectives

As part of the IFRS Foundation's consultation paper 2020, the Trustees proposed a questionnaire with 11 questions, addressing different matters on which the Trustees sought the respondents' opinions. One of these matters was raised under question 2, which specifically asked whether the IFRS Foundation should establish a new board (the ISSB). Thus, to answer the research question, this study's focus was on the supportive responses to question 2.

To identify the key arguments in these responses, three specific objectives were set out:

a) to identify the number of supportive comment letters concerning the creation of the ISSB;
b) to analyse the supportive arguments found in the responses to question 2; and
c) to identify the key arguments provided by the respondents that justify the supportive comments (which, according to the IFRSF, legitimised the creation of the ISSB).

1.4 Motivation and Relevance

Considering the theoretical and empirical literature review, searches in 2022 on Google Scholar, for the term "ISSB", returned only one bachelor's essay by Santos (2021), focusing on question 8 of the IFRS Foundation public consultation questionnaire 2020. However, in the running of the research, after new searches on Google Scholar, it was found that Adams and Mueller (2022) published, in October 2022, an analysis of non-supportive comment letters submitted by academics. Furthermore, it was also found a master's thesis by Ferreira (2022) which addressed the lobbying influence on the creation of the ISSB, focusing on questions 1, 7 and 9 of the IFRS Foundation public consultation questionnaire 2020.

Thus, the focus of this research is to analyse the supportive comment letters in response to Question 2 of the IFRS Foundation public consultation questionnaire 2020, which was specific on whether a new board should be established. Hence, this research expects to address some of the main themes which included supportive arguments preceding the creation of the ISSB. Analysing these supportive responses made by the respondents may shed light on the key arguments that legitimised the IFRS Foundation to establish the ISSB, impacting the future of sustainability reporting.

It is expected that this research, in addition to the literature review on the subject, may contribute in two ways. Firstly, as the ISSB standards may become mandatory in jurisdictions that adopt IFRS standards, this study may represent scientific support to qualify the professional accountancy organisations that provide guidance on accounting procedures, and it may provide an insight into the upcoming changes that businesses will face when new ISSB standards come into effect. Secondly, it may also help with furthering academic research concerning the ISSB.

1.5 Research Delimitation and Structure

The consultation paper and exposure draft included the disclaimer "All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality" (IFRS FOUNDATION, 2020a). This means that there might be comment letters that contributed to the results of the public consultation but that were not published upon the request of the respondent. Therefore, this research is limited to an analysis of the supportive comment letters that were published on the IFRS Foundation website as a response to the first stage of the public consultation on sustainability reporting in 2020.

The letters were analysed to identify the arguments the respondents put forward to support their favourable opinions towards the creation of the ISSB, considering the theoretical background covered in Section 2. The focus of the analysis was on the pragmatic assumptions that justified the respondents' favourable positioning. To this end, Discourse analysis could have been conducted; however, content analysis is considerably less subjective as compared to discourse analysis. In prior literature for similar studies, content analysis was considered a well-established method for analysing comment letters, as well as all narrative sections of reports (BEATTIE; MCINNES; FEARNLEY, 2004; CHATHAM; LARSON; VIETZE, 2010; DURIAU; REGER; PFARRER, 2007; LINSLEY; SHRIVES, 2006; MILNE; ADLER, 1999; UNERMAN, 2000).

Concerning this report, the dissertation is structured in five sections. In the first section, the introduction is presented, containing the contextualisation of the main topic, the research question, the objectives, the delimitation of the research, and the motivation and relevance of the study. The second section addresses the literature review covering the theoretical background related to legitimacy theory, sustainability reporting, voluntary versus mandatory disclosure, the link between accounting and sustainability, a brief history of the IFRS Foundation, and public consultation. The third section describes the methodological procedures used in the research. The fourth section summarizes the main results and analysis, followed by the fifth section – final considerations, references, and annexes.

2 LITERATURE REVIEW

This section considers the literature review on the items that give theoretical and conceptual support to the proposed study, addressing the aspects related to legitimacy theory and public consultations, sustainability reporting, and the link between accounting and sustainability.

2.1 Legitimacy Theory and Public Consultations

Organisations seek to align the ethical principles related to their operations with society's expectations (DOWLING; PFEFFER, 1975), and an organisation is legitimate when it obtains public approval (SUCHMAN, 1995). Suchman (1995, p. 574) defines legitimacy as the "generalized perception or assumption that the actions of an entity are desirable, proper or appropriate" within a social system. That means society is based on social contracts between the organisation and the interest groups that legitimise it (MACAGNAN; SEIBERT, 2021).

Organisations require legitimacy to gain the support of society, and legitimacy theory argues that organisations constantly strive to ensure that their activities align with social expectations and norms. (DEEGAN; RANKIN; TOBIN, 2002). In other words, to enhance their transparency, organisations should disclose the social impacts of their core activities.

To achieve this objective, organisations may employ substantive and/or symbolic practices that aim to increase their credibility and reputation with their stakeholders. From the perspective of substantive corporate legitimacy, social norms are used as a reference to adjust organisational strategies and processes through tangible changes in corporate activities. According to the symbolic approach, practices are implemented to improve the perception of stakeholders, and, consequently, lead the main stakeholders to have a mistaken impression that the organisation is committed to society's expectations (DOWLING; PFEFFER, 1975; NEU; WARSAME; PEDWELL, 1998). An organisation's legitimacy is often established and preserved through symbolic gestures that take part in the organisation's public image (ASHFORTH; GIBBS, 1990). Said in another way, that means the public perception is vital to the survival of the organisations.

Standards are usually set by either private standard-setting bodies (such as the IFRS Foundation, IASB, and FASB) or public standard-setting bodies. Transparency in standard-setting with public participation is essential to the IASB's legitimacy as a private-sector regulator (JORISSEN *et al.*, 2012). Standard-setters value public participation because it helps them to analyse how interest groups might react to the proposed standards (TANDY; WILBURN, 1992). Participation in the standard-setting process is vital to ensure the legitimacy of a regulator and its standards (TANDY; WILBURN, 1992). To this end, since its inception in 2001, the IFRS Foundation/IASB have included formal public consultation as part of its accounting standard-setting process. Stakeholders have multiple opportunities to present their perspectives on the topics being considered before any proposals are established as standards. One way to influence the standard-setting process is by sending feedback comment letters to the IASB/IFRS Foundation (GREGORIOU; GABER, 2006). As explained by Shocker (1973, p. 97),

> Any social institution [...] operates in society via a social contract, expressed or implied, whereby its survival and growth are based on two aspects: (1) the delivery of some socially desirable ends to society in general, and (2) the distribution of economic, social, or political benefits to groups from which it derives its power.

Shocker’s remarks mean that organisations must meet the needs of society as well as the needs of those groups that might directly impact its survival, such as shareholders, market regulators and governments. Furthermore, the author also pointed out that “In a dynamic society, neither the sources of institutional power nor the needs for its services are permanent”, which means that “an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval” (SHOCKER, 1973, p. 97). It could, therefore, be argued that these are some reasons why the IFRS Foundation launches public consultations, to obtain society’s approval of its standard-setting activities.

A perspective of legitimacy theory often adopted is when an organisation seeks to obtain or maintain its legitimation via a social contract. That means, in theory, the permission of a company to act. Through this contract, the entity receives resources, and the surrounding society will evaluate its operations (BESKE; HAUSTEIN; LORSON, 2020). One way an institution can seek permission (and legitimacy) to act is by conducting open public consultations that rely on the bottom-up mobilization of stakeholders (BEYERS; ARRAS, 2021). For example, when regulatory bodies want to implement new policies or modify existing ones, they issue a public call for comment, inviting everyone involved to share their views and provide relevant information. The consultation and the opinions are generally submitted through portals and may include both closed and open questions during the processing process. At the end of the consultation, regulators publish a report (a feedback statement) that summarizes all input and clarifies the changes made to the proposed policy based on the feedback received (BEYERS; ARRAS, 2021).

In principle, various stakeholders may participate, but deciding whether to get involved or not is up to them. The regulatory body does not necessarily seek or guarantee diversity or deliberation among stakeholders (ARRAS; BEYERS, 2020). However, public participation helps increase acceptance of regulatory decisions, especially when multiple stakeholders are included in the process (BEYERS; ARRAS, 2021). In addition, public consultations are believed to increase legitimacy, as they contribute to positive evaluations of policy-making processes and greater acceptance of policies. Transparency, a mechanism that promotes legitimacy, informs stakeholders about stakeholder engagement, the decision-making process, and the use of feedback from consultations (BEYERS; ARRAS, 2021).

De Fine Licht (2014) argues that citizens' perceptions of consultations can be influenced by information disseminated by the media, rather than fully reflecting the effective contribution of stakeholders. Policies must be clearly communicated to citizens and businesses, including information about their origin and process of elaboration, and the media are of crucial importance in this regard. The way policymakers and the media approach policy processes can expose citizens to undue influence and manipulation. Public consultations foster constructive dialogue between various stakeholders, reinforcing perceptions of legitimacy among stakeholders and organisations subject to regulation (BEYERS; ARRAS, 2021).

The IFRS Foundation standard-setting due process must allow all users an equal chance to influence its contents (WINGARD; BOSMAN; AMISI, 2016). The Trustees of the IFRS Foundation – overseer of the IASB –, outlined the due process in their constitution, which consists of a six-stage process: agenda setting, project planning, the publication of a discussion paper, the publication of an exposure draft, IFRS publication and post-implementation review (IFRS FOUNDATION, 2020c). When exposure drafts are made available for comment, there are chances for interested stakeholders to participate and exert influence in setting the standards, and consultation papers (CPs) can be accessed on the website, while discussions are open to the public, either in person or virtually (WINGARD; BOSMAN; AMISI, 2016). On the other hand, Burlaud and Colasse (2011) argue that the due process adopted by the IFRS Foundation, although creating the impression of transparency and inclusion of all voices, has fundamental flaws in its effectiveness (BURLAUD; COLASSE, 2011). The authors say that the public does not vote on standards, and participation requires technical skills and effort, while the Trustees are still free to make their own choices, even after receiving feedback. Moreover, even those who disagreed or did not participate must follow the eventual mandatory standard (BURLAUD; COLASSE, 2011). The conclusions of Ram and Newberry (2013), who examined the progress of IFRS standard-setting for small and medium-sized enterprises (SMEs), support this perspective. It was observed that the IASB did not significantly engage with the views presented during the public consultation and only made changes when pressured by influential regulators. Ram and Newberry (2013) stated that the IASB had already committed to maintaining its recognition and measurement requirements before the public consultation, and, to gain support from powerful stakeholders, the IASB made changes to the final standard.

According to Porter (2005), although the IFRS Foundation's/IASB's technical knowledge is an advantage, it is not enough to guarantee the legitimacy of the accounting standards established by the IASB. The IFRS Foundation requires legitimacy for the IASB to achieve its objective of establishing globally accepted and enforceable accounting standards (PORTER, 2005). Through public consultation, the IFRS Foundation's due process allows stakeholders to participate, albeit unevenly. The main concern is how seriously contributions are taken by the IFRSF's Trustees, who may have conflicting interests. If the Trustees cave into powerful interests, other stakeholders may withdraw from standard-setting activities, feeling that they have no real chance of influencing the content of the standards (WINGARD; BOSMAN; AMISI, 2016).

The IFRSF launched the public consultation in 2020 to obtain public opinion on its possible involvement in setting standards for sustainability reporting. To understand the potential influence of the IFRSF's initiative, it is important to examine the origins and primary goals of sustainability reports.

2.2 Sustainability Reporting

The origins of sustainability reporting, recent developments, and examples of some of the main international treaties and frameworks used by organisations to draft sustainability reports, provide a crucial foundation for examining the IFRSF's initiative.

2.2.1 History and recent developments

The demands on organisations to adopt a new moral and ethical posture towards citizens began in the 1960s in Europe, most notably in Germany, and social indicators began to be disclosed and published together with the accounting statements. The clamour for the recognition of social responsibility led to the publication of different models of *tableau de bord social* in France in the 1970s, which later spread to other European countries and the USA. In the 1970s, the impact of environmental issues started to be discussed. First, in academic circles and Non-Governmental Organisations (NGOs), and later, by the community around the world, due to the concern and awareness of the damage caused to the environment (TINOCO; KRAEMER, 2004).

In the 1980s, spending on environmental protection began to be seen by leading organisations not as costs, but as investments in the future and, paradoxically, as a competitive advantage. In 1987, the World Commission on Environment and Development (WCED) popularised the term ‘sustainable development’ in its widely known report, Our Common Future also known as the Brundtland Report (BANSAL, 2005). According to the Brundtland Report, sustainable development is “development which meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, ch.2). The report explains that the definition contains within it two key concepts: first, “The concept of ‘needs’, in particular the essential needs of the world’s poor, to which overriding priority should be given”; second, “The idea of limitations imposed by the state of technology and social organisation on the environment’s ability to meet the present and future needs” (WCED, 1987, ch.2). It was not until the mid-1990s that disclosures on economic, social, and environmental aspects became more popular. With the Internet’s advent and the influence of such popularization, in the late 1990s, some companies started to publish social and environmental reports separately from traditional statements (SIEW, 2015). However, in most countries this disclosure is not compulsory but voluntary instead, and there is no mandatory standard to be followed (IOANNOU; SERAFEIM, 2017).

Given the stakeholders, including investors and capital markets, demand for greater transparency on both environmental and social issues, a range of reporting tools, guidelines and frameworks have been developed by several institutions to help corporations build their sustainability reports, also known as the sustainability report (SIEW, 2015). These include the SIGMA project, the DPSIR framework, The Global Compact, The Carbon Disclosure Project (CPD), the World Business Council for Sustainable Development (WBCSD), and the Greenhouse Gas Protocol (GHG Protocol), among many others. In addition, entities such as the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC) have proposed a framework for companies to report their social and environmental aspects (IOANNOU; SERAFEIM, 2017). Due to the growing and frightening environmental degradation, companies felt obliged to incorporate social responsibility into their profit-making objectives, as the continuity and the aforementioned social responsibility encompass the population's well-being (TINOCO; KRAEMER, 2004).

The literature reviewed relates to the need for sustainability reporting standards (ECCLES *et al*., 2012; DE VILLIERS; MAROUN, 2017), and the potential positive consequences of mandatory GRI reporting have been noted by researchers recently (GREWAL; RIEDL; SERAFEIM, 2019). However, the possibility of the GRI Standards becoming mandatory is not an alternative that the IFRS Foundation contemplated in the public consultation in 2020 (ADAMS; ABHAYAWANSA, 2022). The rapid growth of corporate sustainability reporting tools, with different criteria and methodologies, has created major complications for stakeholders and organisations (SIEW, 2015). Furthermore, another issue with existing frameworks is that they operate on a voluntary basis, and organisations can choose what to report on. Given these characteristics, organisations may not produce a completely accurate and transparent assessment of their sustainability measures, but merely an apparent transparency (VIGNEAU; HUMPHREYS; MOON, 2015). Chart 1 illustrates the advantages and disadvantages of the sustainability report.

Chart 1 – Advantages and disadvantages of the sustainability report

Advantages	**Disadvantages**
• It may help businesses towards achieving sustainable development. • It may improve the organisation's risk management and regulatory compliance (gas emissions). • It may improve the organisation's reputation, and promote employees, customers, and other stakeholders' engagement. • It may address ESG metrics/criteria. • It may provide an overview of organisations' activities and impacts on society and the environment.	• No mandatory reporting standard, not legally binding, voluntarily disclosed. • It may be used as a marketing tool. • It is not part of the financial statements; the organisations adopt the framework which suits their business (or investors') needs. • Subject to 'cherry-picking': positive aspects are disclosed, and negative ones are usually omitted. • Multitude of standards, frameworks, and guidelines led to confusion ('alphabet soup' of acronyms).

Source: prepared by the author, based on SIEW (2015) and JOSE (2017).

In recent decades, several intergovernmental treaties were set up to align efforts and determine the expected conduct of responsible business. The two main international treaties that serve as a 'north star' (ADAMS, 2021; VAN DEN BROEK; KLINGLER-VIDRA, 2022) for sustainability reporting, since 2015 – The United Nations Sustainable Development Goals and The Paris Agreement – are briefly outlined below.

The 2030 Agenda for Sustainable Development was launched by a United Nations summit in the USA in 2015, and it mainly aimed at ending poverty in all its forms, achieving gender equality, and ending environmental degradation. This agenda was adopted unanimously by 193 United Nations member states and outlined the global plan of action for the following 15 years in areas of critical importance for humanity and the planet. A set of 17 Sustainable Development Goals (SDGs) and 169 targets were established as a concrete to-do list and blueprint for all member states (ROSATI; FARIA, 2019). Chart 2 lists the 17 Sustainable Development Goals (SDGs) of the UN Agenda 2030.

Chart 2 – UN Agenda 2030: The 17 Sustainable Development Goals (SDGs)

1. End poverty in all its forms everywhere. 2. End hunger, achieve food security and improve nutrition and promote sustainable agriculture. 3. Ensure healthy lives and promote well-being for all at all ages. 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. 5. Achieve gender equality and empower all women and girls. 6. Ensure availability and sustainable management of water and sanitation for all. 7. Ensure access to affordable, reliable, sustainable, and modern energy for all. 8. Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all. 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. 10. Reduce inequality within and among countries.	11. Make cities and human settlements inclusive, safe, resilient, and sustainable. 12. Ensure sustainable consumption and production patterns. 13. Take urgent action to combat climate change and its impacts. 14. Conserve and sustainably use the oceans, seas, and marine resources for sustainable development. 15. Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels. 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Source: the UN Agenda 2030 (UNITED NATIONS, 2015).

Additionally, The UN Global Compact (UNGC) promotes the integration of the SDGs into business strategies by applying 10 principles (SIEW, 2015). It offers participants an extensive toolbox, including next-generation solutions platforms, an online UN Business Action Hub and resources that help businesses take action to achieve the SDGs (UNGC, 2022). The Sustainable Development Goal Disclosure (SDGD) Recommendations (ADAMS; DRUCKMAN; PICOT, 2020) address the necessity to make public the information on how sustainable development considerations are incorporated into the governance strategy, management approach and oversight, and to disclose performance and targets set to achieve these objectives. The recommendations focus on generating long-term value for both the company and society, considering the impact (whether positive or negative) that the company can have on sustainable development (or achievement of the SDGs) (ADAMS; DRUCKMAN; PICOT, 2020).

Every year, the UN publishes The Sustainable Development Goals Report, which provides a global overview of progress on implementing the 2030 Agenda for Sustainable Development, using the latest available data and estimates (UNITED NATIONS, 2022a). As stated in the latest 2022 report (7 July 2022), “Cascading and interlinked crises are putting the 2030 Agenda for Sustainable Development in grave danger, along with humanity’s very own survival. [...]”, referring to global conflicts and the effects of the COVID-19 pandemic, and its negative impacts as “reversal of years of progress in eradicating poverty and hunger, improving health and education, providing basic services, and much more [...] highlights the severity and magnitude of the challenges before us.” (UNITED NATIONS, 2022a).

According to recent studies, leading organisations that have consistently made changes to their sustainability reports show signs of moving towards meeting the SDGs. However, this change is uneven and incomplete: although these firms do not appear to be only narrowly “cherry-picking” in their reporting, they are not fully committed to following all the SDGs in a structured way (WHITTINGHAM *et al.,* 2023; ROSATI; FARIA, 2019). As per the KPMG Report 2022, most companies report on SDGs, with 10 per cent of companies reporting against all 17 SDGs. Three SDGs remain the most popular for companies: goal no. 8: Decent Work and Economic Growth; goal no. 12: Responsible Consumption and Production; and goal no. 13: Climate Action (KPMG, 2022).

Concerning the Paris Agreement, also known as the Paris Acord, it can be said that world leaders at the UN Climate Change Conference (COP21) signed it to tackle climate change and its negative impacts. The Agreement is a legally binding international treaty and entered into force on 4 November 2016. The Agreement includes commitments from 194

Parties (193 States plus the European Union) to reduce their carbon/greenhouse gas emissions. The main goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels." Implementation of the Agreement is also essential for the achievement of the SDGs (UNITED NATIONS, 2022b).

Every five years, each country is expected to submit an updated national climate action plan - known as Nationally Determined Contribution, or NDC. In their NDCs, countries communicate actions they will take to reduce their greenhouse gas emissions to reach the Paris Agreement goals. In 2023, the first "global stocktake" will assess progress on Paris Agreement goals (UNITED NATIONS, 2022b). The Agreement conveys a clear message about the importance of reducing carbon emissions in the economy and encourages companies to adopt a future vision that balances economic and environmental issues. (HE *et al.,* 2022)

Adopting the Paris Agreement brought important implications for companies and their carbon accounting practice, which involves the use of accounting techniques to collect, analyse, validate, and communicate information on climate change. That also includes managing carbon assets, revenues, liabilities, expenses, and carbon-related risks to facilitate more informed decisions. The Agreement highlights the need to adapt to global warming and the reduction of carbon emissions, conveying the idea that carbon neutrality is the goal to be achieved by society (TANG*,* 2017). While carbon emission mitigation can be costly, companies must take early actions that will impact operational structure, processes, efficiency, reputation, and sustainable long-term results in a carbon emission-limited future. (HE *et al.,* 2022).

The popularity of sustainability reporting is evidenced by the development of various frameworks, guidelines, and standards in recent decades (SIEW, 2015). Several organisations that promote sustainability reporting and guide reporting standards concern indicators to be reported, reporting processes and/or reporting principles (ADAMS; NARAYANAN, 2010). The various guidelines mainly differ depending on the target audience for the report, which aspects of sustainability they address, which non-financial information is disclosed and the approach to materiality they adopt.

As explained in IIRC and KIRKSHHOFF (2020), "Non-financial information is information that does not currently appear in a company's financial statements – its profit and loss account (P&L), balance sheet or cash flow statement. However, it provides insight into the potential future financial performance or value of a company." (IIRC; KIRKSHHOFF, 2020, p.9). As there is no universally accepted definition of materiality, which covers both qualitative and quantitative aspects, many preparers, researchers, and organisations rely on definitions provided by regulatory agencies. (ECCLES *et al*., 2012). According to the IFRS Foundation, “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity” (IFRS FOUNDATION, 2018).

Concerning sustainability disclosure, the approach to materiality referred to as ‘financial materiality’ refers to information that, if omitted, can affect the value of the company or its shares. It, therefore, refers to the impact of the environment and society on the organisation, and not the other way around, an approach similar to the one used in financial reporting. In contrast, the “double materiality” approach addresses information that meets the needs of multiple stakeholders and reports both the impacts of society and environment on the organisation as well as the organisation’s impacts on society and the environment (ADAMS; ABHAYAWANSA, 2022).

Due to the many acronyms used to abbreviate the names of the initiatives, these have recently been referred to as the ‘alphabet soup’ of standard-setters (ADAMS; ABHAYAWANSA, 2022). Some of the main existing initiatives for sustainability reporting are:

a) The Greenhouse Gas Emissions (GHG) Protocol:

Initially developed in the late 1990s, GHG Protocol established comprehensive global standardised frameworks to measure and manage greenhouse gas (GHG) emissions from private and public sector operations, value chains and mitigation actions (GHG, 2022). After the Paris Agreement, the GHG Protocol broadened to create standards and tools for governments and cities to track climate action, providing the most widely recognized greenhouse gas accounting standard (CHARNOCK, 2016). The Corporate Accounting and Reporting Standard provides a step-by-step guide for corporations to quantify and report on their emissions. These steps include setting corporate goals and inventory; setting corporation boundaries - deciding whether an equity share approach or control approach should be adopted; setting operational boundaries e understanding scope 1, 2, and 3 emissions categories of a corporation; tracking emissions over time; managing inventory quality; accounting for GHG reductions; verifying GHG emissions and setting GHG targets (SIEW, 2015). The GHG Protocol is most well-known for its three scopes of emissions:

Scope 1: those directly caused by assets owned or controlled by the organisation.

Scope 2: those caused indirectly through energy usage.

Scope 3: indirect emissions within the supply chain and those outside scopes 1 and 2.

Tracking and monitoring the indirect emissions under Scope 3 has proven to be difficult for many organisations, and it is within Scope 3 where most corporate emissions fall. (CHARNOCK, 2016).

b) The Global Reporting Initiative (GRI):

Established in 1997 in Boston, USA, following a public outcry after the Exxon Valdez oil spill. The first version of GRI principles-based guidelines was launched in 2000. They adopt a double materiality / multi-stakeholder focus and promote sustainability considerations to be incorporated in the management approach, strategy, and governance oversight (ADAMS; ABHAYAWANSA, 2022). According to the Global Initiative Reporting (GRI):

> Sustainability reporting is an organisation's practice of publicly reporting on its most significant economic, environmental, and social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development (GSSB, 2018).

GRI's definition of sustainability reporting is widely understood and accepted (ADAMS, 2021). The number of corporations using GRI's guidelines has been increasing exponentially. To date, the GRI Standards are the most widely used by companies, and the most frequently referenced sustainability reporting standards by governments, financial market regulators, and stock exchanges around the world, with more than 160 policies in 67 countries and regions (VAN DER LUGT; VAN DE WIJS; PETROVICS, 2020). The GRI standards are set by the Global Sustainability Standards Board (GSSB), which was established as an independent operating entity under the auspices of the GRI Board of Directors, and members of the GSSB have a wide range of knowledge and insights from different stakeholders involved in sustainability reporting. As of 2022, The GRI remains the most dominant standard used worldwide (KPMG, 2022).

c) International Standards Organisation (ISO):

The ISO is a non-governmental organisation (NGO) that includes national standards organisations from 167 developing and developed countries, primarily composed of private sector organisations, one organisation per country (ISO, 2023). In environmental management, the ISO has been developing standards since 1996 when ISO 14001 –

‘Environmental management systems: specification with guidelines for use’ was released (ADAMS; NARAYANAN, 2010).

The International Standard ISO 14001 is recognized worldwide and promotes the idea that environmental performance can be improved by systematically identifying and managing environmental aspects. That, in turn, contributes to sustainability by helping to prevent pollution, improve environmental performance and comply with relevant laws. (CAMILLERI, 2022). A review of the standards was conducted in 2020, and it highlights the need to promote environmentally responsible corporate behaviours through various media and to establish relationships with stakeholders. In addition, several ISO standards emphasize specific aspects of the environment, such as ISO 4226 (air quality), ISO 6107 (water quality) and ISO 10381 (soil quality), among others. (CAMILLERI, 2022). As stated in the KPMG Report 2020, ISO is among the standards most used worldwide (KPMG, 2020, p. 25).

d) Carbon Disclosure Project (CDP):

Established in 2000 in the UK as an independent non-profit charity as the “first platform to leverage investor pressure to influence corporate disclosure on environmental impact” (CDP, 2022a). CDP has a globally comprehensive database on the disclosure of greenhouse gas emissions, water use and climate adaptation tactics. Companies are evaluated on the quality and breadth of information in their carbon disclosures (CDP, 2022a). The criteria consider both the company's particular risks and the possible advantages arising from climate change, as well as the adoption of good internal information management practices, to help the corporation to be aware of its GHG emissions (SIEW, 2015).

The CDP initiative was a pioneer in establishing a mandate to standardise the measurement of risks related to climate change in financial markets. To provide a standard metric, publicly traded companies (i.e., report preparers) measure and report their climate change risks annually (THISTLETHWAITE, 2015). In 2022, CDP received data reported by nearly 20,000 organisations worldwide. Among these organisations, more than 18,700 companies had half of the global market capitalization. In addition, more than 1,100 cities, states and regions also provided information to CDP (CDP, 2022b).

e) The Task Force on Climate-Related Financial Disclosures (TCFD):

The TCFD was established in 2015 by the Financial Stability Board (FSB) at the request of G20 Finance Ministers and Central Bank Governors at the December 2015 Paris United Nations Climate Change Conference (COP21). The TCFD recommendations, released in 2017, placed greater importance on corporate climate reporting and required companies, both in the financial and other sectors, to present climate-related financial disclosures, covering the areas of governance, strategy, risk management, and metrics and targets (TCFD, 2017). The recommendations have received more than 3,800 voluntary endorsements from organisations and the latest TCFD report indicates that disclosure according to these guidelines has shown steady advances worldwide (TCFD, 2022).

Financial risks associated with climate change fundamentally differ from risks commonly assessed by markets, often involving significantly more intricate complexities and a requirement to extend time horizons considerably. Climate change represents hazards that jeopardize companies' financial ability, affecting both their material assets and supply chains (O'DWYER; UNERMAN, 2020). The TCFD recommendations assume that the disclosure of long-term disclosure of accurate and relevant information about corporate financial risks related to climate change can contribute to improving market results (FSB, 2015; TCFD, 2016). One way to ensure appropriate capital allocation is through financially transparent measurement of climate-related risks and opportunities. That can lead corporate managers to identify and actively manage these risks and opportunities (O'DWYER; UNERMAN, 2020; TCFD, 2016).

The TCFD recommendations aim to report the financial implications a corporation faces under different climate change scenarios. In contrast, other sustainability reporting frameworks focus on reporting the impact of corporate operations on climate change (and other areas of sustainability). While a company is responsible for contributing to global warming through GHG emissions from its operations and supply chains, the risk it faces is influenced by all global emissions from all sectors worldwide. Therefore, the individual contribution of the company is only a part of this risk (O'DWYER; UNERMAN, 2020). Even organisations that take an environmentally conscious approach and manage to reduce their GHG emissions to zero or below will still be subject to climate-related risks from third-party emissions (UNERMAN; BEBBINGTON; O'DWYER, 2018).

2.2.2 The calls for the IFRS Foundation's engagement with sustainability reporting

A paper published by Barker and Eccles in 2018 was titled "Should FASB and IASB be responsible for setting standards for nonfinancial information?" with ''for it to be most useful for investors" on the title page (BARKER; ECCLES, 2018). While it claimed that the document made a "neutral" contribution to the debate among various stakeholders about whether mandatory reporting standards are necessary for effective "sustainability" or "non-financial" corporate reporting, other authors claim the question itself is not neutral (ADAMS; ABHAYAWANSA, 2022). However, despite calling for the involvement of FASB and IASB, Barker and Eccles (2018) queried the appropriateness of these institutions as non-financial standard-setting bodies, as the authors argued “it is not obviously the case that expertise in setting financial accounting standards ‘translates’ into a corresponding capacity to set nonfinancial standards.” (BARKER; ECCLES, 2018, p.33). After Barker and Eccles’ paper in 2018, several subsequent reports were published promoting the idea of the IFRS Foundation as the possible body responsible for setting the standards for sustainability reporting.

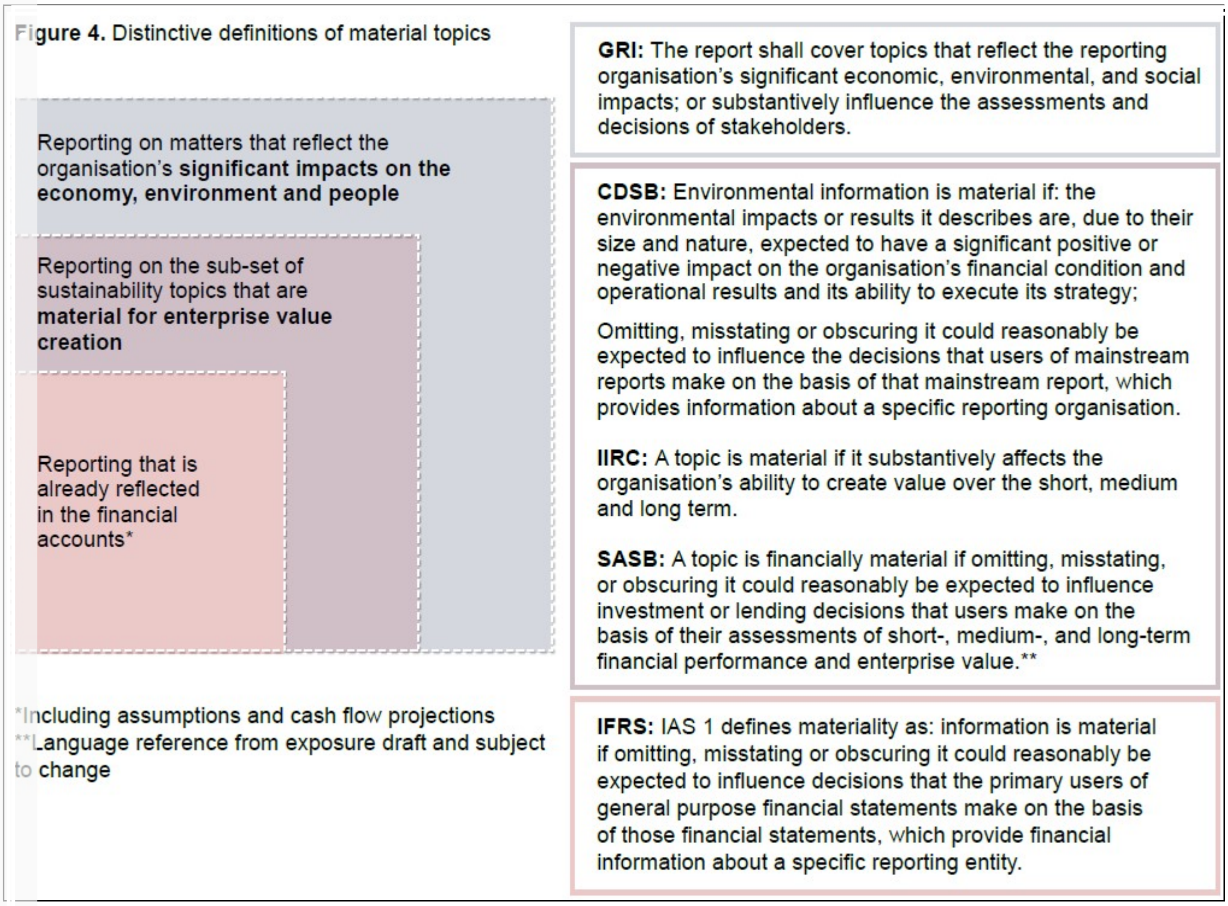
In December 2019, Accountancy Europe, a global organisation for the accountancy profession, released a paper titled “Interconnected Standard Setting for Corporate Reporting”, which proposed a potential model for establishing an international and independent body responsible for setting standards for global non-financial corporate reporting, based on an existing framework. The paper states that the large array of non-financial information (NFI) reporting initiatives is “leading to confusion and the potential for greenwashing […] NFI reporting needs to be harmonised and connected with financial reporting.” (ACCOUNTANCY EUROPE, 2019, p.3)

In April 2020, The International Organisation of Securities Commissions (IOSCO) released a report on sustainable finance and the role of securities regulators, where IOSCO addressed the sustainability reporting scenario stating that “the multitude of voluntary reporting standards and the fact that these can have different target users and scope, as well as using different formats and metrics can make it difficult for investors to compare such information across the different voluntary frameworks.” (IOSCO, 2020a, p.4). The report also addressed the history of accounting standards development and the creation of the IASB, mentioning that “[...] financial accounting has experienced similar challenges in the past. A couple of decades ago, a patchwork of national accounting requirements constituted an obstacle to cross-border activities [...] In response to these challenges, organisations such as IOSCO, the World Bank, the FSB (Financial Stability Board) and G20 promoted the development of global accounting standards.” (IOSCO, 2020a, p.25). Nowadays, the two globally accepted accounting standards are the IFRS of the IASB and the US GAAP standards set by the FASB (IOSCO, 2020a).

In June 2020, the Institute of Chartered Accountants in England and Wales (ICAEW) published a paper titled “Non-financial reporting: ensuring a sustainable global recovery”, addressing the challenges caused by the COVID-19 pandemic and also quoting Accountancy Europe's 2019 paper. ICAEW strongly encourages all efforts to establish an independent, international standard-setting body for non-financial reporting. This body would be managed by an internationally recognized umbrella entity, which would be responsible for coordinating such activities on a global scale, suggesting that "an enhanced way of working could be envisaged between the EU/EFRAG and an eventual International Non-Financial Standards Board (INSB) which is open to the collaborative development of standards." (ICAEW, 2020, p.3) and "The IFRS experience indicates that a universal reporting language can offer many potential economic and social advantages. We believe the same holds true for non-financial reporting" (ICAEW, 2020, p.4). Said in another way, ICAEW suggested that the IFRS Foundation should extend its remit to developing standards for non-financial information.

In September 2020, a "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting" was published by the CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), and Sustainability Accounting Standards Board (SASB), which contained a summary of alignment discussions among these institutions and facilitated by the Impact Management Project, World Economic Forum and Deloitte (IMPACT MANAGEMENT PROJECT, 2020, p.1). The report argued in favour of reducing the "confusion among producers and users of sustainability information" and for a "comprehensive solution for corporate reporting that is urgently needed" (IMPACT MANAGEMENT PROJECT, 2020, p.2). The document explained the initiative of the five institutions aimed at working towards a comprehensive corporate reporting system, pointing out that "in the 1970s, the International Accounting Standards were established, which became IFRS in 2001 as the generally accepted language for financial reporting. Their use is now mandated in more than 140 jurisdictions, with US GAAP playing an equivalent role in the United States." (IMPACT MANAGEMENT PROJECT, 2020, p.13). Thus, the report suggested that the expertise obtained with the harmonisation of accounting standards in the late 1990s conducted by the IASC (now IASB) could potentially be used to harmonise the various sustainability reporting frameworks. The report addressed the different approaches to materiality employed by the 5 institutions, as illustrated in Figure 1.

Figure 1 – The different approaches to materiality of the 5 institutions

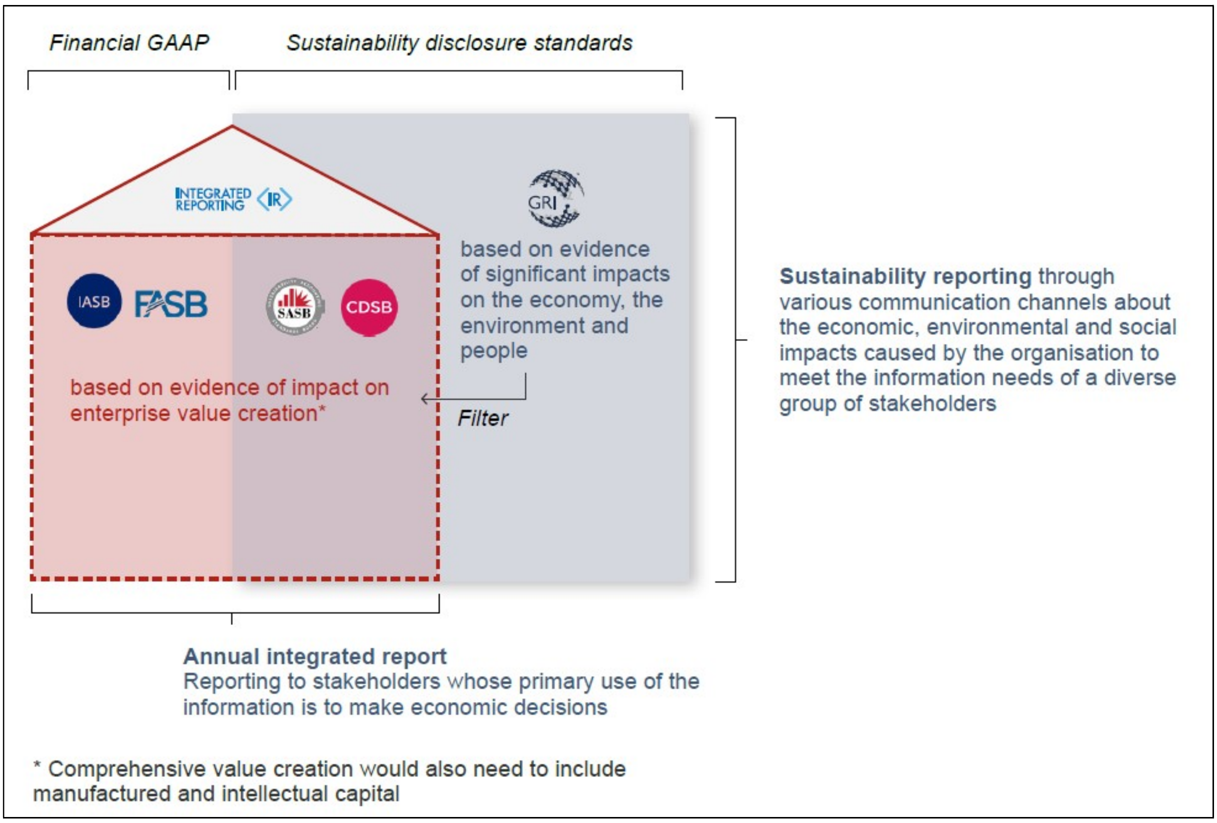


Source: IMPACT MANAGEMENT PROJECT (2020, p.11).

The sections coloured in shades of pink/light purple represent the reporting practice consistent with IFRS and US GAAP, which "enables companies to disclose sustainability information that is material for enterprise value creation" while the section coloured in blue encompasses "reporting on matters that reflect the organisation's significant impacts on the economy, environment and people", such as the approach adopted by the GRI (IMPACT MANAGEMENT PROJECT, 2020, p.11). The diagram illustrates that the approach to materiality can be narrow, such as the one adopted by IFRS (highlighted light pink), or wide, such as the approach adopted by the GRI (highlighted blue), or in-between (highlighted light purple) such as the approach adopted by SASB, IIRC, CBSB, and potentially by the newly formed ISSB.

The report also included a "house diagram", as shown in Figure 2, to illustrate how the current standards and frameworks that "alongside the existing financial accounting standard-setters, can immediately support the emergence of a more coherent, comprehensive corporate reporting system, which acknowledges the concept of dynamic materiality and the needs of multiple users” (IMPACT MANAGEMENT PROJECT, 2020, p.13).

Figure 2 – The “house diagram” included in the Impact Management Project Report



Source: IMPACT MANAGEMENT PROJECT (2020) p.14.

The report also explained that “the standards and frameworks that make up the “house”, which might be thought of as the first building block of the system, are all focused on enabling disclosure that is relevant to enterprise value creation. (IMPACT MANAGEMENT PROJECT, 2020, p.13). This means that the disclosure of most economic, environmental, and social impacts caused by the organisations would remain out of the proposed annual integrated reports.

In September 2020, the International Federation of Accountants (IFAC) issued the publication “Enhancing Corporate Reporting: The Way Forward.” IFAC is comprised of a global network of more than 180 professional accountancy organisations in 135 countries and jurisdictions (IFAC, 2023), and opined that “a new standard-setting board is necessary to build and coordinate a coherent global system of interconnected corporate reporting”. IFAC called on the IFRS Foundation to establish a board, with an enhanced mandate and composition, utilizing the independence and success of IFRS Foundation’s governance:

“IFAC calls for a new Sustainability Standards Board alongside the IASB” (IFAC, 2020). Therefore, the publication suggested that a new separated board should be established, but under the governance structure of the IFRS Foundation.

The announcement of the 5 Institutions was followed by the publication, also in September 2020, of a White Paper titled “Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation” by the World Economic Forum's International Business Council in collaboration with the Big Four accounting firms – Deloitte, EY, KPMG, and PwC – to also work towards harmonization of sustainability standards (WORLD ECONOMIC FORUM, 2020).

Finally, in September 2020, the IFRS Foundation launched its public consultation around the proposed establishment of the Sustainability Standards Board. In October 2020, Erik Thedéen, chair of IOSCO Sustainability Task Force, released an open response to the statement of intent of the 5 institutions, namely CDP, CDSB, GRI, IIRC and SASB, welcoming their initiative to work alongside the IFRS Foundation, stating that

> IOSCO is in a unique position to help in this process – just as [IOSCO] did 20 years ago when [IOSCO] endorsed IFRS for use in cross-border offerings and listings and set the foundations of the current three-tier governance structure that the IFRS Foundation enjoys today (IOSCO, 2020b, p. 4).

This represented another clear reference to the harmonisation of accounting standards that took place in the late 1990s, suggesting that the same should now be done with sustainability reporting standards.

In November 2020, the IIRC and the SASB announced that they intended to join forces to form a new integrated organisation, the Value Reporting Foundation (VRF). While not formally joining the new entity, CDP, CDSB and GRI expressed an interest in collaborating with VRF to progress towards the idea of a cohesive and unified corporate disclosure system (IFRS FOUNDATION, 2022a).

2.2.3 Voluntary Vs. Mandatory Sustainability Disclosure

The term ‘voluntary disclosure’, in this research, refers to ‘disclosure in excess of requirements’: management decides what additional accounting information will be provided in its annual reports, according to the users' needs (MEEK; ROBERTS; GRAY, 1995). Organisations that decide to publish sustainability reports often voluntarily share most of their content. Such voluntary disclosure of information is a common strategy organisations use to demonstrate their commitment to sustainability and promote their achievements to stakeholders. Organisations are free to decide what will be addressed (or not) in sustainability reports and, generally, choose to disclose only the favourable aspects of their impact on society and the environment (ABEYSEKERA; GUTHRIE, 2005).

The sustainability report is considered a "stand-alone" type of report. This type of report reveals what the organisation considers its responsibility and what it would like the reader to know. Based on previous reasoning, it can be inferred that the probability of all commercial enterprises being unsustainable is quite high. Many corporations worldwide appear to be voluntarily taking responsibility through these reports. However, while it is clear that such accountability is necessary, it is not clear whether these voluntary reports are actually increasing accountability or simply improving the appearance of accountability (GRAY; HERREMANS, 2011).

Discretionary disclosure occurs when managers and/or organisations can decide on whether to disclose information they are aware of, considering disclosure as an internal process and considering the reasons that drive managers and/or organisations to share such information (VERRECCHIA, 2001). While there are various financial reporting obligations, managers can hold supplemental information that is not required for disclosure. During a series of interviews conducted by the IIRC with investors, it was noted that some respondents expressed concern that the obligation to comply with reporting requirements could result in fewer material disclosures. That can increase the disclosures, but decrease the quality, reducing the uniqueness and depth of the information presented (IIRC; KIRKSHHOFF, 2020). However, the study of Grewal, Riedl and Serafeim*,* (2019) examined the equity market reaction to events associated with the passing of a directive in the European Union (EU), which affected firms listed on EU exchanges, mandating increased nonfinancial disclosure, related to firms’ ESG performance. The authors predicted and recorded adverse market reactions to companies that exhibit: a) low levels of predetermined non-financial transparency, which is consistent with investors expecting these future disclosures to reveal unfavourable news as well as internal costs and policy advances for these companies; b) underperformance on non-financial issues, which is in line with expectations that these companies will incur future costs to internalize current externalities; and c) less ownership by institutional investors, which is consistent with these investors demanding more disclosures than required by law. The organisations in the sample that showed superior non-financial performance and above-average disclosure got a positive response from the market, despite facing higher differentiation costs. (GREWAL; RIEDL; SERAFEIM*,* 2019).

Academic work quote reasons why global (mandatory) regulation is useful to firms and the accounting profession. (DEEGAN; UNERMAN, 2006; SCOTT, 2011). The accounting profession has an interest in promoting the idea that objective and accurate accounting reports faithfully reflect the transactions and events of the reporting entity. High-profile accounting scandals in the United States in 2001 and 2002 (such as Enron and WorldCom) resulted in political pressure that prompted significant changes in accounting regulations in several countries and legislation to strengthen new and existing regulations (such as the Sarbanes-Oxley in the US in 2002). Additionally, the banking crisis of 2007-2008 failed several banks that required state assistance, increasing mistrust in the global banking system and calling into question the effectiveness of financial accounting and regulation. Politicians questioned the lack of warning in the financial statements of failed banks about the risks and problems faced. As a result, at the G-20 summit in September 2009, the leaders called for the strengthening of accounting standards and regulation, and for the FASB/IASB convergence project to create a single set of international accounting standards. (DEEGAN; UNERMAN, 2006).

Deegan and Unerman (2006) explain that there are two broad schools of thought on the issue of voluntary (not regulated) and mandatory (regulated) information disclosure. Chart 3 provides a summary of the reasons for both views.

Chart 3 – Voluntary Vs Mandatory Disclosure

Voluntary (not regulated) disclosure	**Mandatory (regulated) disclosure**
- Accounting information is an asset that users of financial statements will pay for on an as-needed basis, leading to optimal reporting by entities; - Organisations that do not provide information to the capital market are punished, as the absence of information is interpreted as "bad news"; - Financial regulation results in an oversupply of information, as users do not pay for production costs, and this leads to excessive demand for information; - Regulation limits accounting methods used, which may prevent organisations from using those they deem most effective to reflect their specific performance or position.	- Without regulation, information markets disclose less information than ideal, making them inefficient; - Unregulated disclosures can cause individual investors to lose their savings; - Powerful stakeholders access desired information, while less powerful stakeholders do not; - Investors need protection from fraudulent organisations that produce misleading information; - Regulation increases comparability by standardising methods across different entities.

Source: prepared by the author based on Deegan (2006, p. 41).

Unerman and O'Dwyer (2007) also stated that mandatory accountability of corporate social responsibility to stakeholders would bring more value to shareholders in the long term than the current self-regulatory system. If corporate social responsibility self-regulation and socio-environmental accounting fail to prevent harmful social and environmental consequences, reflexivity can increase public awareness of the risks of corporate operations. This can lead to loss of trust and the authors suggest that statutory regulation can prevent this loss of economic value for shareholders. Regulation protecting social and environmental interests can benefit both the company and the shareholder. This goes against the prevailing business discourse (UNERMAN; O'DWYER, 2007).

2.2.4 Accounting and Sustainability

The use of accounting expertise to influence voluntary sustainability reporting has been perceived as a subtle form of "financialisation", where technical discussions aimed at maximizing profit are prioritized over corporate responsibility. While it is evident that professional accountants are increasingly involved in risk disclosure, recent developments in sustainability reporting show that accounting expertise is exposed to uncertainty and contestation (THISTLETHWAITE, 2015).

During the last few years, there has been a considerable increase in the participation of professional accountants in the development and dissemination of corporate sustainability reporting standards (GRAY, 2010; LOVELL; MACKENZIE, 2011). However, the accounting competency has been criticized for favouring financialisation by simplifying sustainability reporting to produce data that conforms to maximum profit targets, to the detriment of corporate social responsibility through regulation (MALSCH, 2013). Specifically, accounting expertise, which includes conceptual frameworks developed to identify relevant information for investors to make decisions, may favour disclosing information that is easy to measure to the detriment of more complex impacts on ecosystems and society (ZHANG; ANDREW, 2014).

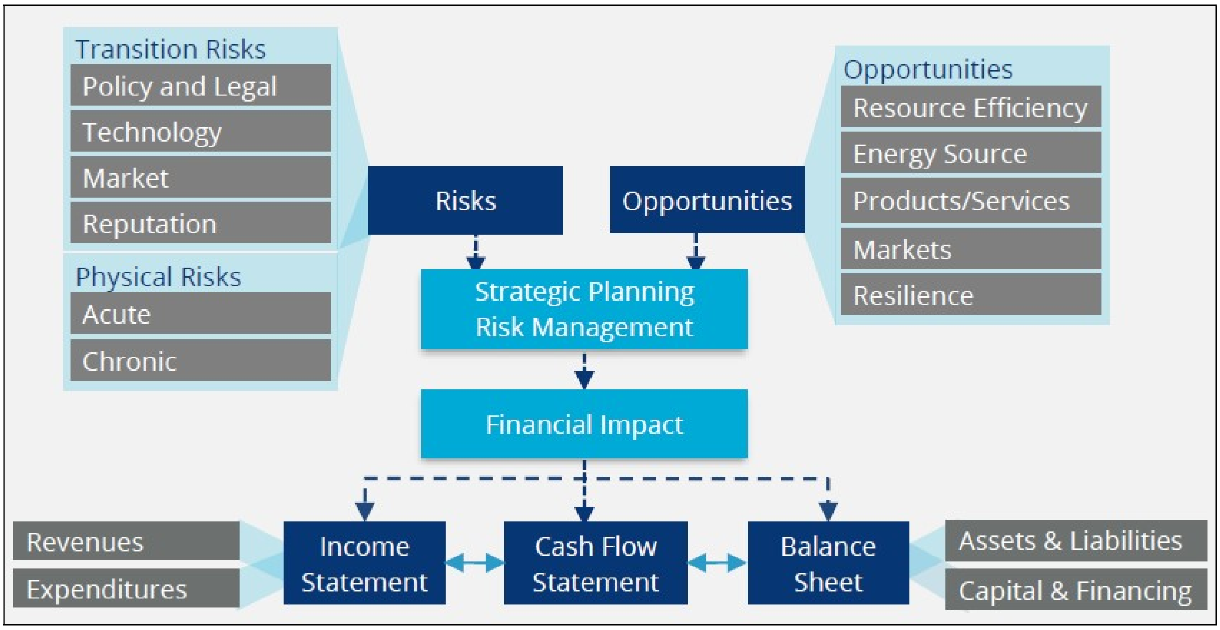
Gray (2010) states that many aspects of traditional accounting, which are pragmatic and procedural, may not be suitable for dealing with sustainability issues. It may be necessary to have a more sophisticated understanding of what "sustainability" really is and how it can have some practical significance at the organisational level (GRAY, 2010). Gray (2010) explains what accounting for sustainability looks like quoting Morgan (1988):

> Accountants are always engaged in *interpreting* a complex reality, partially, and in a way that is heavily weighted in favour of what the accountant is *able* to measure and *chooses* to measure, through the particular schemes of accounting to be adopted (MORGAN, 1988, p. 480).

This means that, in general, accountants and organisations do not consider their interactions with nature in the income statement (profit and loss statement) or the statement of financial position (balance sheet). These interactions are treated as "externalities" that have no internal impact. However, recent developments in sustainability reporting have led to the incorporation of these externalities, such as the increase in regulatory interventions, changes in market and operating conditions, the adoption of new practices and relationships with external actors, and because organisations are increasingly recognizing the relevance of transparency for long term success (UNERMAN; BEBBINGTON; O'DWYER, 2018).

One recent development was the initiative of the Task Force on Climate-related Financial Disclosures (TCFD), which in 2017, emphasized the relationship between its recommended disclosures on climate change and the effects of financial reporting, as shown in Figure 3, highlighting the interaction between these two elements.

Figure 3 – Climate-Related Risks, Opportunities and Financial Impact (TCFD, 2017)



Source: TCFD (2017, p. 8)

As illustrated, the primary connection is between risk management and strategic planning, as this relationship directly affects the financial statements, including the Income Statement (profit and loss), Statement of Financial Position (Balance Sheet) and Cash Flow

Statement, through changes in the forecasts and assumptions that lay the foundations of these statements (TCFD, 2017).

The IFRS Foundation released a document in 2020 intended to support the consistent application of requirements in IFRS Accounting Standards, illustrating examples of when these standards may require companies to consider the effects of climate-related matters in preparing a company's financial statements (i.e. the impact of environmental risks (climate) on the reporting organisation), quoting "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (..) make on the basis of those financial statements." (IFRS FOUNDATION, 2020b). The accounting standards that require organisations to disclose and recognise the climate-related risks on their financial statements are listed in Chart 4 below.

Chart 4 – The effects of climate-related matters on Financial Statements

IAS 1 *Presentation of Financial Statements*	"[...] This means disclosure of assumptions about climate-related matters may be required, for example when those matters create uncertainties that affect assumptions used to develop estimates, such as estimates of future cash flows when testing an asset for impairment or the best estimate of expenditure required to settle a decommissioning obligation." [...] "If climate-related matters create material uncertainties related to events or conditions that cast significant doubt upon a company's ability to continue as a going concern, IAS 1 requires disclosure of those uncertainties.
IAS 2 *Inventories*	"[...]Climate-related matters may cause a company's inventories to become obsolete [...] IAS 2 requires the company to write down those inventories to their net realisable value."
IAS 12 *Income Taxes*	"[...]Climate-related matters may affect a company's estimate of future taxable profits and may result in the company being unable to recognise deferred tax assets or being required to derecognise deferred tax assets previously recognised."
IAS 16 *Property, Plant and Equipment* and **IAS 38** *Intangible Assets*	"[...] IAS 16 and IAS 38 require companies to review the estimated residual values and expected useful lives of assets at least annually, and to reflect changes—such as those that might arise from climate-related matters—in the amount of depreciation or amortisation recognised in the current and subsequent periods. Climate-related matters may affect the estimated residual value and expected useful lives of assets, for example, because of obsolescence, legal restrictions or inaccessibility of the assets."
IAS 36 *Impairment of Assets*	"[...]Climate-related matters may give rise to indications that an asset (or a group of assets) is impaired. For example, a decline in demand for products that emit greenhouse gases could indicate that a manufacturing plant may be impaired, requiring the asset to be tested for impairment."[...]" A company is required to base cash flow projections on reasonable and supporChart assumptions that represent management's best estimate of the range of future economic conditions. This requires companies to consider whether climate-related matters affect those reasonable and supporChart assumptions."

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and **IFRIC 21** *Levies*	"Climate-related matters may affect the recognition, measurement and disclosure of liabilities in the financial statements applying IAS 37, for example, related to: • levies imposed by governments for failure to meet climate-related targets [...]; • regulatory requirements to remediate environmental damage; • contracts that may become onerous [...] as a result of climate-related changes in legislation; • restructurings to redesign products or services to achieve climate-related targets.[...]"
IFRS 7 *Financial Instruments: Disclosures*	"[...]For example, for lenders, it may be necessary to provide information about the effect of climate-related matters on the measurement of expected credit losses or on concentrations of credit risk. For holders of equity investments, it may be necessary to provide information about investments by industry or sector, identifying sectors exposed to climate-related risks, when disclosing concentrations of market risk."
IFRS 9 *Financial Instruments*	"[...]For example, loan contracts might include terms linking contractual cash flows to a company's achievement of climate-related targets.[...] Climate-related matters may also affect a lender's exposure to credit losses. For example, wildfires, floods or policy and regulatory changes could negatively affect a borrower's ability to meet its debt obligations to the lender.[...]"
IFRS 13 *Fair Value Measurement*	"[...]For example, market participants' views of potential climate-related legislation could affect the fair value of an asset or liability.[...] Specifically, fair value measurements categorised within Level 3 of the fair value hierarchy use unobservable inputs significant to their measurement[...]"
IFRS 17 *Insurance Contracts*	"[...]Examples of insured events that could be affected by climate-related matters include business interruption, property damage, illness and death. [...]Climate-related matters may also affect required disclosures about (a) the significant judgements and changes in judgements made in applying IFRS 17, and (b) a company's exposure to risks, concentrations of risk, how it manages risks and sensitivity analysis showing the effect of changes in risk variables."

Source: summary prepared by the author based on IFRS Foundation *Effects of climate-related matters on financial statements* (IFRS Foundation, 2020b).

Accounting can play a crucial role in creating and applying accountability strategies related to corporate social responsibility practices, such as through sustainability reports (LOVELL; MACKENZIE, 2011). However, acting as policymakers and implementers of knowledge, the specialist activities of accountants are never wholly technical. This occurs because, through the mediating role played by accounting firms and professional bodies, they align the organisations' socially responsible practices with the rational ethics of the market. The idea that the market is the main indicator of corporate social responsibility is the result of a significant rationalization effort that seeks to justify the need for social and moral conscience in business, not based on subjective emotions or human values, but on the logical economics of profit maximization (MALSCH; 2013). Sustainability has been undermined by accounting, and this situation does not seem likely to change, as the accounting profession focuses on sustainability reporting from a financial materiality perspective. Historically, accountants and professional organisations have considered "sustainability" in terms of corporate sustainability and, more recently, in terms of "enterprise value" (ADAMS, 2022).

The Prince of Wales Accounting for Sustainability Project (A4S) was founded by HRH The Prince of Wales (Charles III) in recognition of the crucial role finance professionals can play in driving change. A network of accountants is overseen by the organisation to work on new regulations that promote the incorporation of sustainable accounting practices (ADAMS, 2022). The A4S project proposes that the inclusion of sustainability as a fundamental part of the structure of all organisations, becoming an intrinsic aspect of their identity, is a prerequisite for achieving a prosperous economy and society. Integrating environmental and social factors into strategy and operations is crucial for organisations, not only because they want to act responsibly, but also because of the underlying business reasons for doing so (FRIES; MCCULLOCH; WEBSTER, 2010). The A4S Academy offers training that aims to teach finance leaders how to integrate sustainable practices into their activities (A4S, 2023).

2.3 The IFRS Foundation Proposals for Sustainability Reporting

This section provides a brief history and current structure of the IFRS Foundation and addresses its response to the calls for the Foundation to play a role in setting sustainability reporting standards.

2.3.1 The IFRS Foundation

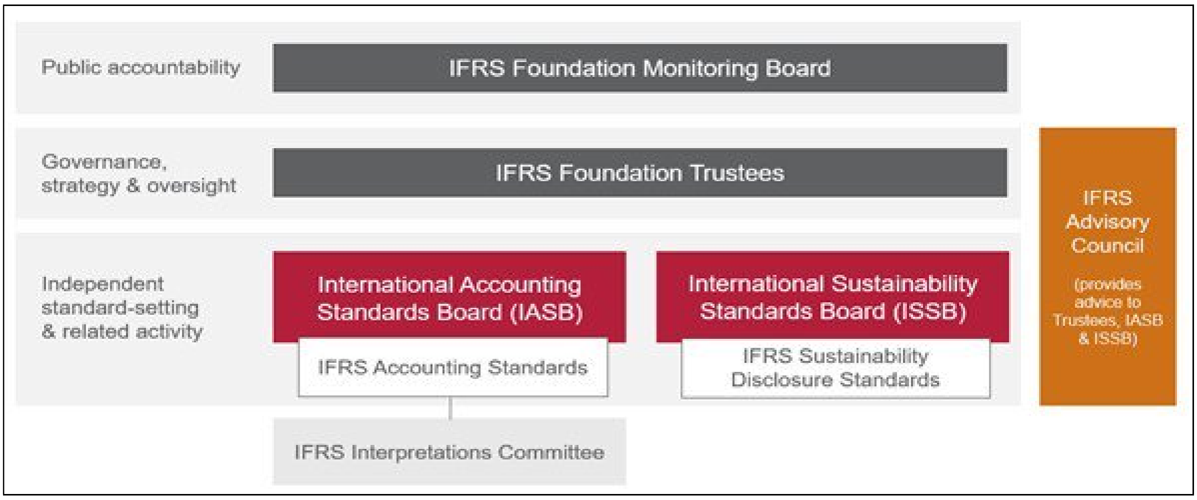
The IFRS Foundation is a not-for-profit corporation incorporated in the State of Delaware, USA, and is registered as an overseas company in England and Wales, having its head office located in London, UK. It was established in 2001, in parallel with the restructuring of the International Accounting Standards Committee (IASC), which developed the International Accounting Standards (IAS), into the International Accounting Standards Board (IASB) (BOTZEM; QUACK, 2009).

In its early days, the IASC did not play a prominent role and its impact on global accounting was negligible, and the Committee was largely unknown and uninfluential (CAMFFERMAN; ZEFF, 2007). It was founded in 1973, but as late as 1984, leading companies in Europe and the US neglected the standards produced by the Committee, and the IASC had little impact on accounting practices in Europe, Japan, and the US. The main reason for the IASC's subsequent success is that its core values were deeply aligned with the interests of the most influential regulator: the Us Securities and Exchange Commission (SEC) (MARTINEZ-DIAZ, 2005). In the 1990s, the United States held a leading position in the global financial system. Therefore, those who diverged from its accounting standards would be barred from accessing the world's largest and most prosperous financial markets, thus facing financial losses (SIMMONS, 2001). This generated political pressure from companies looking to enter the US financial markets, and this pressure ultimately stimulated the adoption of the IASC's international accounting standards (MARTINEZ-DIAZ, 2005).

IOSCO initially endorsed part of IASC's standards in 1995, and in 2000, 30 core standards. This was followed by the restructuring of IASC in 2001 into IASB, receiving SEC's endorsement. These were major strategic achievements, which had a positive effect on the likelihood that national regulators would adopt IASs (MARTINEZ-DIAZ, 2005). However, organisations based in the US still report under a framework created by the Financial Accounting Standards Board (FASB), and the standards are collectively commonly referred to as 'US GAAP' (the US Generally Accepted Accounting Principles) (GUYADER; JONES; HELLUIN, 2021). The SEC does not permit its domestic organisations to use IFRS Standards in preparing their financial statements; rather, it requires them to use US GAAP. IFRS Accounting Standards are only permitted for listings by foreign companies (IFRS FOUNDATION, 2017). Joint projects between the FASB and the IASB to harmonise accounting standards ended after a limited number of projects were completed shortly after 2013 (GUYADER; JONES; HELLUIN, 2021).

In the month following IOSCO's endorsement in 2000, the EC proposed that all companies that were listed in the EU should prepare their consolidated accounts, from 2005, under IASC's standards. IASC standards were subject to a two-tier approval mechanism to address any material weaknesses or concerns related to the IASs (MARTINEZ-DIAZ, 2005). As of 2023, IFRS Accounting Standards (which encompass the IAS) are required for use by 167 jurisdictions around the world (IFRS FOUNDATION, 2023a), and the Foundation holds a three-tier governance structure, as shown in Figure 4.

Figure 4 – The IFRS Foundation's current structure



Source: IFRS FOUNDATION (2023d)

Members of the IFRS Foundation's governing board are responsible for establishing the organisation's strategy, governance, and oversight. They report to the Monitoring Board, made up of representatives of capital market authorities in their respective geographic areas, who are responsible for overseeing corporate reporting and ensuring transparency and public accountability (IFRS Foundation, 2023a).

In 2021, the IFRS Foundation achieved an annual income of £28.8 million from three main sources. The first consists of voluntary contributions from various jurisdictions around the globe. The second source refers to voluntary donations and license fees paid by international accounting firms. Finally, the third source of income is generated by the Foundation itself through the sale of subscription services, publications, and licensing of its intellectual property (IFRS FOUNDATION, 2023b).

2.3.2 The IFRSF Public Consultation in 2020

In September 2020, the IFRS Foundation published a consultation paper (IFRS FOUNDATION, 2020a) in three languages (English, Spanish, and Japanese) inviting detailed comments (answers) from stakeholders on the alternatives proposed by The Foundation. It is important to note that throughout the consultation paper, the Trustees, after putting forward the alternatives, stated their opinion as to what they considered to be the best route.

The Consultation Paper (CP) proposed a questionnaire made up of 11 questions, but that were mainly set out to determine:

a) whether there is a need for global sustainability standards;

b) whether the IFRS Foundation should play a role in developing such standards;

c) what the scope of that role could be; and

d) whether the IFRS Foundation should establish a separate Sustainability Standards Board (SSB) under the governance structure of the Foundation.

The CP consisted of five main sections in which the foundation explained the purpose of the consultation (invitation to comment) and the alternatives proposed. Part 1 of the CP entitled “Assessment of the current situation” contained a preamble where the Trustees explain that a task force that was set up in October 2019 especially for the 2020 consultation, and that the initiative must be understood as part of the Foundation’s five-year review of its strategy. (IFRS FOUNDATION, 2020a)

A brief definition of “sustainability reporting” was indicated on the CP. At the end of paragraph 2, it reads “For further details of the work of the Trustee Task Force see Annex A”. Annex A is found at the end of the CP, and it describes the process the Task Force had undergone to develop the CP, and the footnote number 39 states that

> For the purpose of this paper the term ‘sustainability reporting’ is used as a catch-all phase referring to information related to all environmental, social and governance (ESG) matters (IFRS FOUNDATION, 2020a, p. 17).

The preamble section ends with the Trustees inviting detailed comments from stakeholders on the matters set out in the CP. The Trustees did not ask for information regarding the credentials or identification of the respondents to be included in their submissions (ADAMS; MUELLER, 2022). Paragraph no.4 of Part 1 stated, “The Trustee Task Force has informally engaged with a cross-section of stakeholders involved in sustainability reporting” (IFRS FOUNDATION, 2020a, p. 4) and in paragraph no.17 the Trustees explain there had been several calls for the IFRS Foundation “to become involved in reducing the level of complexity and achieving greater consistency in sustainability reporting”, addressing the papers published by Accountancy Europe (June 2020), Eumedion (June 2020) and the IFAC (September 2020). The Trustees then affirm that

> Such calls suggest that the IFRS Foundation’s track record and expertise in standard-setting, and its relationships with global regulators and governments around the world, could be useful for setting sustainability reporting standards (IFRS FOUNDATION, 2020a, p. 7).

In paragraph 21 it is suggested that by leveraging its existing relationships, the Foundation could achieve greater global consistency and lessen the complexity of sustainability reporting. The Trustees explain that such work would require the support of, and a close institutional relationship with governments, regulators, and national standard-setters.

In part 2 of the CP, the Trustees put forward three alternatives on how the IFRS Foundation could approach sustainability reporting:

a) Maintain the status quo: keep things the way they are, however as per the Trustees this "would not respond to stakeholders' calls for the Foundation to take a leading role in global sustainability reporting";
b) Facilitate existing initiatives: the Foundation could attempt to facilitate and harmonise existing initiatives, which could assist in reducing complexity. However, as per the Trustees "this approach also carries an equal risk of causing fragmentation and adding to the complexity - by adding another voice to the discussion, rather than creating a global framework for consistent standard-setting"; and
c) Create a Sustainability Standards Board and become a standard-setter working with existing initiatives and building upon their work: subject to consultation, but as per the Trustees "this option is considered the best of those discussed to assist in reducing complexity and achieving comparability in sustainability reporting.". (IFRS FOUNDATION, 2020a, p. 8)

In Part 3 of the CP, after affirming that the best option, in the Trustees' opinion, is to establish a new board, the Trustees explain that the SSB (new board) would be established under the governance structure of the IFRS Foundation to develop global sustainability standards, making use of existing sustainability frameworks and standards, and initially focusing on climate-related risks. They also explain that the SSB would operate alongside the IASB, and the two boards would benefit from the link (interconnectedness) between financial reporting and sustainability reporting (IFRS FOUNDATION, 2020a, p. 9).

In Part 4 of the CP, the Trustees explain how the Foundation could make use of its existing relationships with other institutions and initiatives. They state that in 2015, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD), and the IASB as a member of the FSB has participated in the oversight of the TCFD's work through its regular reports to the FSB. The TCFD is an internationally recognized and accepted framework for companies to voluntarily communicate their climate risks (TCFD, 2022). However, the Trustees point out that "the TCFD is a private-sector task force without any mandate or ability to set international standards and has not been established on a permanent footing" (IFRS FOUNDATION, 2020a, p. 10).

Part 4 also addresses the statement put forward by the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB) and the Climate Disclosure Project (CDP), which set out a proposal for collaboration between these standard-setters. In that statement, the organisations reported that they would welcome the prospect of working with the IFRS Foundation. Part 4 ends with the Trustees explaining that "regional and jurisdictional public policy initiatives, most notably by the European Union, have worked to a) establish the International Platform on Sustainable Finance (IPSF); b) review the Non-Financial Reporting Directive (NFRD) during 2020; c) start preparatory work on non-financial reporting standards, as the European Commission requested the European Financial Reporting Advisory Group (EFRAG) to do this as quickly as possible; and d) develop a Taxonomy for sustainable activities".(IFRS FOUNDATION, 2020a, p. 11)

Part 5 of the CP addresses the (initial) scope of the SSB if it were to be established by the IFRS Foundation. According to the Trustees, the Task Force conducted an informal survey and consultation that revealed the urgent need to establish global sustainability reporting standards for climate-related information. As a result, it was decided to adopt a 'climate-first' approach, with a special emphasis on climate change, GHG emissions and associated financial risks. About the approach to materiality the SSB would use, the Trustees explain that given the IFRS Foundation's current mandate and approach (i.e. financial materiality under IASB's Conceptual Framework for Financial Reporting), the SSB "should focus on producing information [...] that would support the decisions of investors and other market participants (the prime audience for financial reporting)", which is also information that addresses the performance and long-term health (value) of the reporting entity" (IFRS FOUNDATION, 2020a, p. 13). On the other hand, the Trustees explain, "some stakeholders are interested in developing standards referring to the principle of 'double materiality'", requiring the entities to report about the impact on the wider environment, such as the approach adopted by the EU, and adopting a multi-stakeholder approach, and that such approach is adopted by the GRI. The Trustees then affirm, in paragraph 50, that

> For the SSB to commence with a double-materiality approach would substantially increase the complexity of the task and could potentially impact or delay the adoption of the standards. Therefore, a gradualist approach is recommended. If established, the SSB would initially focus its efforts on the sustainability information most relevant to investors and other market participants. Such information would more closely connect with the current focus of the IASB (IFRS FOUNDATION, 2020a, p. 14).

Part 5 ends by addressing the need for assurance (i.e., external audit) for the sustainability information disclosed by businesses, and that there are conceptual and practical challenges (i.e., the lack of a consistent global framework for this end) to achieving such assurance. This topic, however, is outside the scope of this research.

The deadline for submitting comment letters, addressing the questions proposed, was 31 December 2020 (IFRS FOUNDATION, 2020a). The questionnaire proposed by the Trustees was placed on pages 15 and 16 of the consultation paper, and the questions asked are shown in Annex A. The comment letters were published on the foundation´s website between the end of 2020 and early 2021(IFRS FOUNDATION, 2021a). The Trustees published a feedback statement in April 2021, providing a summary of the comments received and explaining the strategic decision they would adopt following the feedback received, and this is discussed in section no. 4 of this dissertation.

3 RESEARCH METHODOLOGY

This section addresses the research design, the methodological procedures used in the study, as well as the limitations of the method.

3.1 Research design

Research in accounting – regarded as "good" if it is founded on good theory – "can be based on quantitative or qualitative methods, and both should be equally accepted as long as the most appropriate method has been chosen" (SMITH, 2003, p. xiii). Furthermore, some of the traditional research concepts in accounting (such as objective, conservative methods, quantitative approaches, focus on financial issues mainly), as well as some of the contemporary research ideas in accounting (subjective, alternative methods, qualitative approaches, focus on financial and/or on non-financial issues), can be mixed to design research with "the use of archival data" (SMITH, 2003, p. xii).

Smith (2003, p. 142) explains that "archival data" embraces "the sources used to generate research based on historical documents, texts, journal articles, corporate annual reports, company disclosures, etc.", which can lead to associated research approaches that "may therefore range from the fundamental analysis of accounting numbers, through to the content analysis of narratives and critical approaches to the development of accounting theory".

Concerning texts analyses approaches, content analysis, either quantitative or qualitative, "has traditionally been applied to the analysis of archival data" (SMITH, 2003, p. 147). Smith defines content analysis "as a method that uses a set of procedures to make valid inferences from texts" (SMITH, 2003, p. 147), while Mayring (2014, p. 28) states that "qualitative Content Analysis includes systematic quantitative steps of analysis". Regarding the research validity, Smith (2003, p. 146) points out that "An archival study will normally have more external validity than experimental or simulation approaches because of its reference to empirical data".

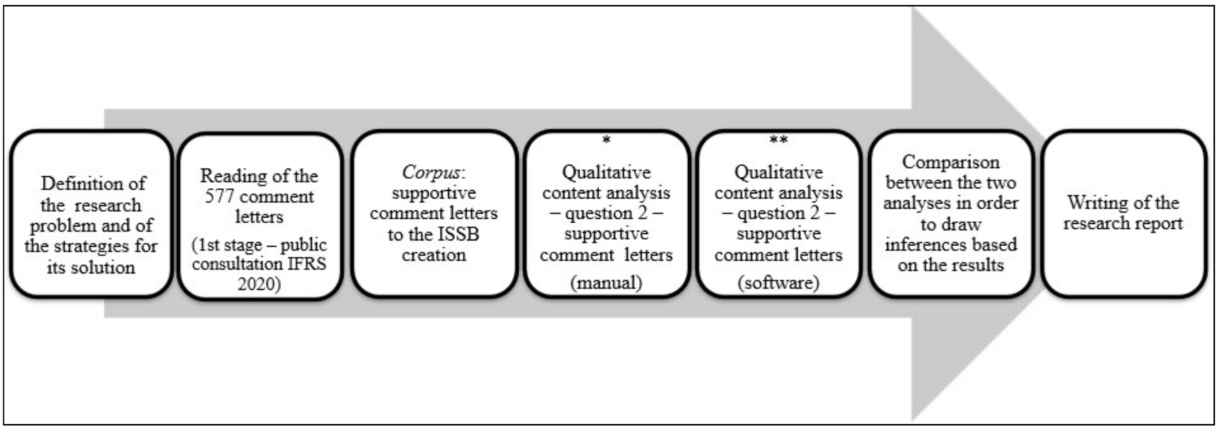
Regarding dealing with data such as comment letters submitted in response to public consultations, several studies were done using the content analysis method (YEN; HIRST; HOPKINS, 2007; HOLDER *et al*., 2013; ADHIKARI; BETANCOURT; ALSHAMERI, 2014; ANANTHARAMAN, 2015). Hence, having all this in mind, this exploratory archival research was designed, which addresses a quanti-qualitative content analysis (MAYRING, 2014), with an interpretive perspective (SMITH, 2003, p. 4), of the supportive comment letters, to the creation of the ISSB, in response to the IFRS Foundation first stage of its public consultation, in 2020, concerning international sustainability reporting standards. Smith (2013, p. 142) states that "Such sources can usually be classified as *primary* (e.g., original research results published for the first time)".

Thus, aiming to answer the research question presented in section 1.2, the methodological steps were taken to:

a) identify the number of supportive comment letters from the 577 submissions;
b) carry out a manual and a computer qualitative content analysis of the supportive comment letters, with a focus on the responses to question 2 of the consultation paper questionnaire to identify some of the key arguments that gave legitimacy to the creation of the ISSB;
c) carry out a computer qualitative content analysis of the supportive comment letters;
d) compare the two analyses to determine the accuracy of the manual qualitative content analysis and make inferences from the results.

Figure 5 summarises this research sequence, based on Smith (2003). Further information on the content analyses themselves is described in 3.2.

Figure 5 – Steps – Archival Research



Source: prepared by the author, based on Smith (2003). Steps with (*) and (**) are detailed in 3.2.

3.2 Analysis Technique

Content analysis can be defined from different perspectives. For Linsley and Shrives (2006, p. 393), it is "a method of codifying text into various categories, and it can be used where a great amount of qualitative information needs to be analysed". According to Holsti

(1969), the fundamental phases of content analysis, which involve data collection, coding, categorization (themes), content analysis and interpretation of results, have different concerns about validity and reliability. Krippendorff (2004, p. 180) says that “Content analysis is a research technique for making replicable and valid inferences from texts […] to the contexts of their use”. To Weber (1990, p. 12), “A central idea in content analysis is that the many words of the text are classified into much fewer content categories”. In summary, content analysis systematically examines texts or other media to analyse their prominent manifest and/or latent meanings. A manifest meaning is surface and apparent, while an underlying meaning is “suggestive, connotative and subtextual” (SALDAÑA, 2011, p. 10).

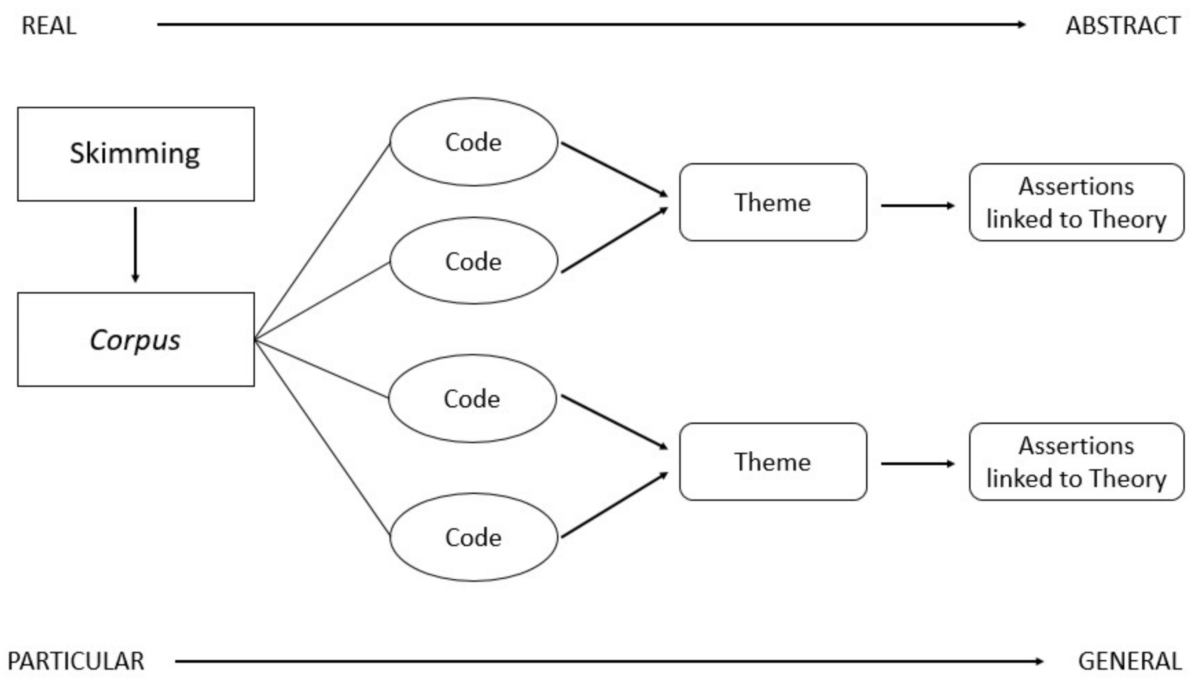
For this study, two quanti-qualitative content analyses were carried out. As a first step, a manual content analysis of the supportive comment letters was carried out to search for some manifest and underlying meanings that might be found in the supportive responses, under the lens of the theoretical background proposed in section 2 of this research report. Although the assessment of underlying content is a challenging task (POTTER; LEVIE-DONNERSTEIN, 1999), the adoption of an exploratory technique to examine both meanings, explicit and implicit, would help to identify which aspects justify the respondents’ supportive arguments, addressing the research question proposed in section 1.2.

As a second step, a computer-aided content analysis of the supportive comment letters was carried out to assess the accuracy of the manual content analysis. Further information about the software used is described in section 3.5. An illustration of the steps followed in this research is shown in Figure 6.

In sum, the following steps were taken to analyse the comment letters:

a) skimming the letters to obtain an overview of the main points in the texts;
b) definition of the *corpus* (total body of data to be analysed);
c) coding and categorization of the *corpus* into themes. Both manual and computer-aided, by running a script on Python software using Natural Language Processing (NLP) + BLOOM-560m + Machine learning + Sentiment Analysis;
d) analysis of results, inference, and interpretation.

Figure 6 – Content analysis model in summary



Source: adapted by the author from SALDAÑA (2013).

Codes consist of short terms or expressions that serve to label a part of the data, while themes arise because of coding, being represented by more elaborate phrases or sentences that synthesize the explicit (manifest) and/or implicit (underlying) meanings of the data. From the themes, it is possible to progress towards the concepts and theories that guided the initial coding process, providing a database for analyses and inferences. (SALDAÑA, 2013). Further explanations concerning the computer-aided content analysis are done in the sequence.

3.3 Data Source

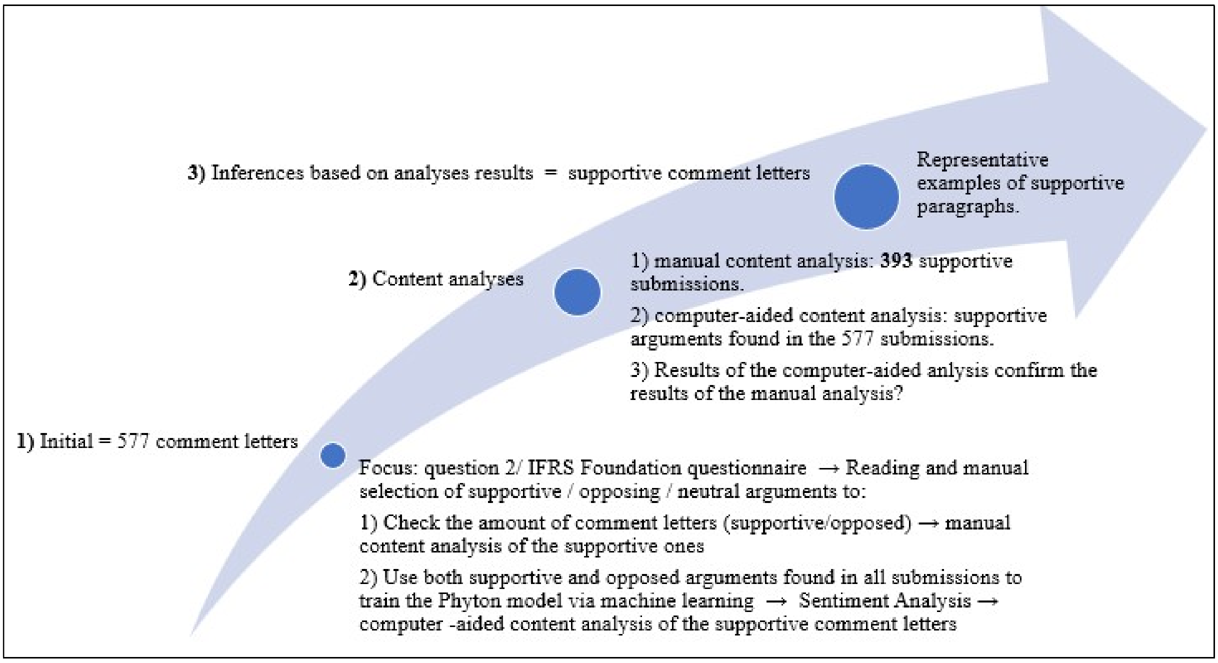
Copies of all 577 comment letters were downloaded directly from IFRS Foundation´s website (IFRS FOUNDATION, 2021a). These were published in ascending numerical order (i.e., 1,2,3...) and pdf format, and the same order was followed (for example, submission no.4, submission no.5, submission no.15, etc.) on this dissertation. Some of the letters were scanned before publication, therefore not allowing the extraction of text contents. These letters were transformed into text format using software, thus enabling the extraction of their contents. Some respondents did not answer the questionnaire proposed in the consultation paper. Instead, they simply wrote a memo/letter/email to the IFRS Foundation with their views on the proposals. Letters 2, 490 and 543 included the comments in English and the literal translation into Spanish on the back, and the Spanish part was ignored as it was a repetition of the English version. Furthermore, one of the letters was handwritten (submission 540); however, as it was short (one page only) it was manually typed and included in the analysis processes. Therefore, both manual and computer analyses consist of the content of all 577 letters that were published.

The comment letters published by the IFRSF were numbered sequentially and named according to the respondent or organisation that sent them. When not specified in letters, names of individuals and organisations were searched on the internet to verify the respondents' stakeholder group and geographic region.

3.4 Analysis Corpus

The initial corpus considered all 577 comment letters that were published by the Foundation. During the manual analysis, it was found that 393 submissions (68%) were supportive of the establishment of a new board (SSB). Therefore, the corpus for the manual analysis consists of 393 submissions. During the manual analysis, both supportive and opposing arguments were registered on an Excel spreadsheet, and a count was also made of the submissions (letters) that were supportive and opposed relating to Question 2 of the CP questionnaire. Figure 7 shows a summary of the corpus selection for each analysis.

Figure 7 – The Analysis Corpus



Source: prepared by the author.

The Foundation stated that it received broad support from most respondents regarding the creation of the ISSB (question number 2 in the questionnaire), in its feedback statement that was published (IFRS FOUNDATION, 2021b). However, they did not publish any metrics demonstrating the proportion % for or % against the creation of the ISSB. Therefore, in this dissertation, an initial manual content analysis of all the letters was carried out to analyse the supportive and opposing responses related to the creation of the ISSB, more specifically the answers to question 2, which was about whether the foundation should create the SSB under the governance structure of the Foundation. During a general reading of the letters and responses to the proposed questionnaire, five codes relevant to the main theme of this research and the literature review were identified. They are:

Code 1: IFRSF's engagement (with sustainability reporting).

Code 2: The establishment of a new board.

Code 3: Relationships (with other institutions and regulatory bodies).

Code 4: A climate-first approach.

Code 5: Focus on investors ‘needs.

During the coding process, the supportive and opposing arguments relevant to each code were recorded in an Excel spreadsheet. It is important to reiterate that the respondents could be supportive of the creation of the new board (code 2) but not necessarily supportive of the other codes, and vice versa. Even though a questionnaire was proposed, many respondents spoke of many other topics outside the original scope of the public consultation.

For analysis purposes of the selected excerpts and inferences, the five codes were then grouped into three broad themes:

Theme 1: The creation of the ISSB.

Theme 2: The switch from voluntary to mandatory sustainability disclosure.

Theme 3: The sustainability report under the ISSB.

The main paragraphs that best represent the supportive arguments of each theme (and respective codes) are presented in Section 4 “Analysis and Results”. Opinions considered neutral are those where the respondent did not address the proposed questions, not expressing an opinion, but addressing other subjects such as the tobacco industry, nuclear weapons, a book summary, or offering their services to the Foundation. The development of the Python model requires large amounts of data during the training section. Therefore, while conducting the manual analysis for Code 2, sample paragraphs relating to the other 4 codes (and an additional Code 0 ‘Other Content) were also extracted. Both supportive and opposing arguments related to the codes were recorded on a separate spreadsheet to be fed onto the Python Model for training. The corpus for the computational analysis, therefore, consists of supportive arguments that relate to the established codes in all 577 comment letters, as respondents may support or oppose each code under the same submission.

3.5 Natural Language Processing on Python Programming Language

Bird, Klein and Loper (2009, p. 19) say that natural language represents "a language that is used for everyday communication by humans; like English, Hindi or Portuguese". These authors explain that: "In contrast to artificial languages such as programming languages and mathematical notations, natural languages have evolved as they pass from generation to generation and are hard to pin down with explicit rules" (BIRD; KLEIN; LOPER, 2009, p. 19). Hence, the authors define Natural Language Processing (NLP) – also known as "Computational Linguistics" in academia, as "any kind of computer manipulation of natural language", that "could be as simple as counting words", as well as involving 'understanding' complete human utterances" (BIRD; KLEIN; LOPER, 2009, p. 19).

Once "Classification by computer […] leads to perfect coder reliability" (WEBER, 1990, p. 15), for this study, Python was used, a free downloadable powerful and simple programming language for processing linguistic data (BIRD; KLEIN; LOPER, 2009) using the pre-trained model BLOOM-560m (large language model for NLP) (HUGGING FACE, 2023), and via machine learning, develop a model to conduct a Sentiment Analysis (POKHAREL, 2020). In the sequence, an overview of how this model was developed is explained.

3.6 Python Model and Steps

As pointed out by Smith (2003), content analysis is a subjective process, largely depending on the researcher's interpretation. Due to this aspect, to validate the coding, it would be necessary to have at least two coders (researchers) coding the textual corpus, for comparison purposes. The coding of the texts was done by only one researcher, and as this is one of the problems explained by Kripendorf (2004), a computational content analysis was conducted, using the natural language processing (NLP) technique in the Python programming language, using machine learning to conduct a sentiment analysis (polarity: supportive or opposed) of the content of the letters.

For this dissertation, an analysis of textual data found in the comment letters, through the development of a natural language processing model, using Python language, machine learning and sentiment analysis, was also conducted. For the development of the model and computational analysis of the texts, it was decided to use Google Colaboratory (Colab), which is a virtual environment (cloud-based) and is an Integrated Development Environment (IDE) similar to Jupyter (another well-known IDE).

Natural Language Processing (NLP) is a branch of Data Science and Linguistics that helps computers to automatically understand and manipulate natural human languages. NLP turns text (unstructured narrative data) into quantifiable variables (structured data). NLP is also known as text mining, and is, like other areas, constantly evolving and innovating. Due to the complexity of converting text (human domain) to numbers (machine domain), the greatest advances in natural language processing occur with the application of artificial intelligence techniques. Artificial (computational) intelligence needs to be able to learn, once natural language is a very complex area, with a lot of ambiguity, and the ability to learn is extremely important and it brings a differential (BIRD; KLEIN; LOPER, 2009).

Python is a simple yet powerful programming language with excellent functionality for processing linguistic data. It is free and has special libraries (modules) for performing specific computational tasks (BIRD; KLEIN; LOPER, 2009). Machine learning is a method that automates the construction of analytical models; It is a branch of artificial intelligence based on the idea that systems can learn from data, identify patterns, and make decisions with minimal human intervention (RASCHKA; MIRJALILI, 2019). This learning takes place via training the computational model through the processing and analysis of historical data (of events that have already occurred), and the computer will thus produce an analysis model, which is the result of learning and can be used to make predictions. However, before relying on model results, tests need to be conducted to assess model accuracy. Each type (nature) of task is addressed by the main classes of machine learning:

a) Supervised (Task-Oriented): data is known and sortable. By training, the model will distinguish the characteristics learned. The developer of the model becomes the supervisor as we train the model. Good for regressions and classifications, data mining tasks are said to be supervised when there is a class or a special attribute with which to compare and validate the result;
b) Unsupervised (Data Driven): the model will analyse and attempt to group data as it identifies patterns, compiling (grouping) data that are similar (RASCHKA; MIRJALILI, 2019).

For data classification, a classification algorithm is used, which is a supervised learning technique. In this case, an algorithm is used to identify the category of new observations based on the training data. In classification, the model learns from a given set of data or observations and then classifies the new observation into one of the classes that were present in the training step (RASCHKA; MIRJALILI, 2019).

Sentiment analysis (or emotion mining) is a data science tool that can be used to analyse a digital text to determine the polarity of the message, being positive, negative, or neutral (in this case, supportive, opposed, or neutral). A sentiment analysis system for textual content combines natural language processing (NLP) and machine learning techniques to assign weighted sentiment scores to sentences (POKHAREL, 2020). With recent advances known as Deep Learning and Transfer Learning, the ability of algorithms to analyse texts has improved considerably. Transfer learning refers to leveraging pre-existing training of a model.

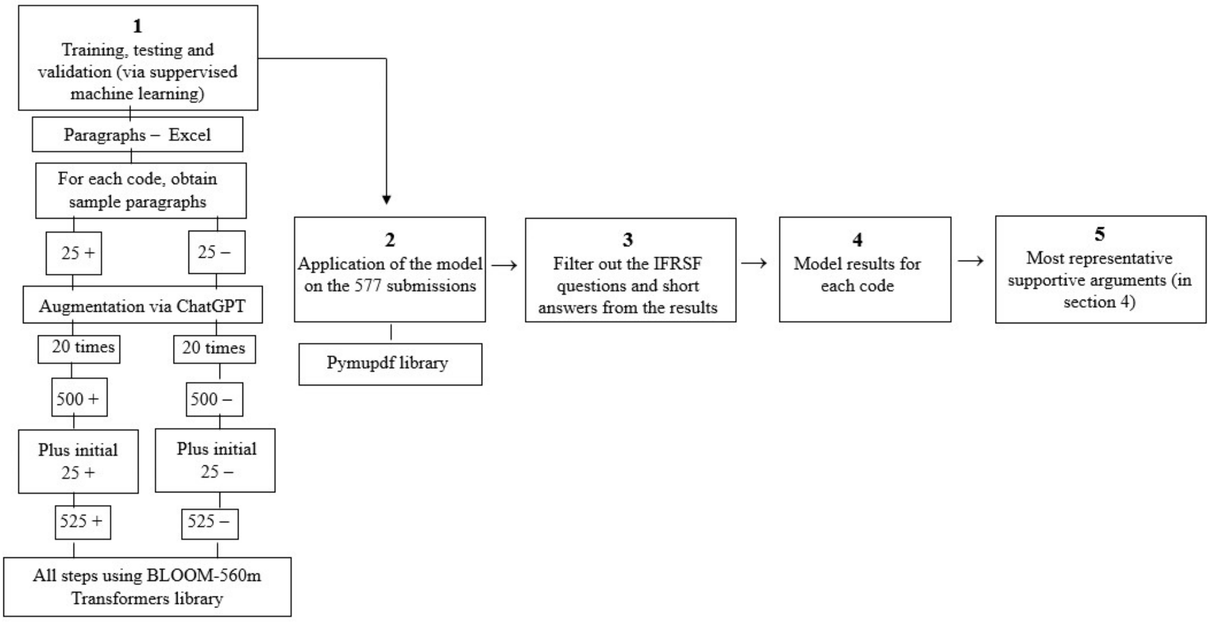
Basic sentiment analysis from text documents follows a relatively simple process:

a) Divides each text document into its components: sentences, phrases, speech fragments, etc.;
b) Identifies each sentiment associated with a phrase or component;
c) Assigns a score with sentiment polarity to each sentence;
d) Combines scores for sentiment analysis across multiple layers (paragraphs and entire texts).

The task of analysing sentiments in texts can be done in different ways via machine learning, using natural language processing (NLP). More advanced techniques for context identification use Deep Learning, which can do context extractions automatically. Thus, the difficulties related to the comprehension of the text are greatly reduced. With the context identified, the problem is converted into a simple classification/regression, depending on what exactly the researcher wishes the model to predict (RASCHKA; MIRJALILI, 2020).

The steps for the development of the Python Model for this dissertation are outlined as follows, and Figure 8 provides a summary of the steps to build, train, and implement the Python model to analyse the comment letters.

Figure 8 – Development of the model for Sentiment Analysis with Python.



Source: prepared by the author.

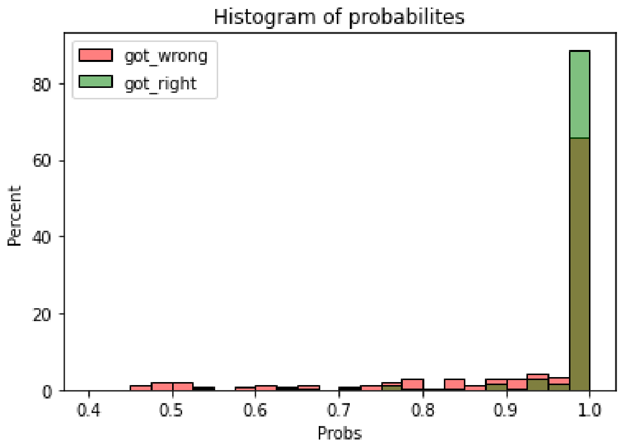
1st step: Training, testing and validation via supervised learning:

An Excel spreadsheet was created, where, for each code, the following was obtained from the letters: 25 examples of supportive paragraphs and 25 examples of opposing paragraphs. The 50 original comments were used in a step called data augmentation, where synthetic data is generated to increase the diversity of information available for model training. The augmentation was performed using the ChatGPT application, which, based on the original paragraphs, can create variations of the same arguments with new vocabulary and/or syntactic structure, maintaining the corresponding sentiment. Each original paragraph was reproduced (multiplied) into 20 new paragraph variants, resulting in a total sample of 525 supportive paragraphs (25 original + 500 rewritten) and 525 opposing paragraphs on the same topic (25 original + 500 rewritten). In total, 1050 (525+525) paragraphs of each code were used to train the model.

The machine learning process requires large amounts of data for the model to learn what it should look for and analyse. Therefore, the original 25 paragraphs (supportive and opposed) were rewritten in variants to create a database that is representative of the different possible ways that respondents could have used in their supportive or opposing arguments. ChatGPT is an artificial intelligence language model developed by OpenAI, an artificial intelligence research organisation. ChatGPT was trained in a large volume of text to learn to understand and generate natural language in several languages (LUND; WANG, 2023). In addition to the test paragraphs, for each code, from the submissions it was obtained a further 30 supportive paragraphs and a further 30 opposing paragraphs, different from those that were in the training sample, generating a total of 60 more examples for validation purposes. These were not augmented. Finally, samples of other paragraphs addressing matters other than the ones in the 5 chosen codes, for example, paragraphs where the respondents introduce themselves, provide their details, or address auditing (not in the scope of the dissertation) were also fed into the model under Code 0 ‘Other Content’ and sentiment ‘neutral’. After training the model, the validation step aims to verify its accuracy by providing data that was not part of the training, thus quantifying its ability to predict in the face of new/unseen data. The language model used was Bloom-560m and the library used was Transformers from the Hugging Face group. BLOOM is a Large Language Model previously trained by the developers for Natural Language Processing. (HUGGING FACE, 2023).

The probability that the model determines (for example, 95%, 97.5%, 99%, 100%) indicates how confident the model is in the prediction it makes. For each of the fractions of the probabilities between hits and misses, a histogram was generated with the percentage distribution of the probabilities, as shown in Graph 1.

Graph 1 – Histogram: distribution of probabilities



Source: prepared by the author.

The columns in Graph 1 represent the frequency of each probability value, the green colour indicates the model's correct predictions and the pink colour the wrong ones. The width of each column is 2.5% (i.e.: 90%, 92.5%, 95%, 97.5%, 100%). As shown in the histogram, from 97.5% onwards, the chance of the model making a correct prediction in this fraction is greater. Therefore, using the histogram, a cut-off point was established, 97.5%, meaning that every time the model predicts with this probability or above, the prediction will be considered for the results. However, by establishing the cut-off point, some sentences and paragraphs will be discarded from the analysis because the model's probability of success is less than 97.5%, these sentences or paragraphs being classified under undefined sentiment. The accuracy of the model from the 97.5% cut-off point is 63% (0.629), thus discarding 11.4% of the sentences/paragraphs where the probability of a correct prediction was less than 97.5%.

2nd step: After training and validation are completed, all letters are analysed:

All 577 letters were subjected to the model analysis, and the texts were then segmented into sentences or paragraphs which were fed into the model for it to predict the sentiment (polarity: supportive, opposed, or neutral) of each code.

3rd step: Ignore the questionnaire and very short sentences from the results:

Many respondents replicated the questionnaire in their letters and responded to each question. After step no.2, the model was trained to ignore the questions (phrases ending with '?'), which were discarded from the results.

4th step: Model results for each code:

To demonstrate the results, a final filter was applied: ignore sentences that contain less than 3 words, or 15 characters, and fall under the cut-off point of 97.5% or above. The results were grouped by codes and sentiment, expressed in %, and the polarity found in the letters according to the trained model. The results can be found in section 4.2.

5th step: Most representative supportive arguments (paragraphs):

The 5 most representative paragraphs of each code, found in the letters, were listed according to the model's score, and confronted with manual analysis to demonstrate examples of the main supportive arguments of each code.

The results of both manual and Python model analyses are discussed in Section 4. Representative examples of the supportive arguments under the 5 codes are discussed under the 3 broad themes, linking the main findings of the analyses with the theoretical background and with the outcome of the public consultation.

3.7 Methodology Limitations

Content analysis "is inevitably subjective and therefore the coding method needs to be reliable for valid conclusions to be drawn" (LINSLEY; SHRIVES, 2006, p. 393). Krippendorff (2004) states that the two principal criteria used for evaluating content analyses are reliability and validity. While validity entails truth, "Reliability provides assurances that research results can be duplicated" (KRIPPENDORFF, 2004, p. 221). Regarding content analysis, there are three types of reliability: stability, accuracy, and reproducibility (KRIPPENDORFF, 2004).

Concerning stability, Jones and Shoemaker (1994, p. 165) say that it "refers to a coder being able to code the data consistently over time and can be tested by coding the data more than once by the same coder". However, inconsistencies may result "from a variety of factors, including ambiguities in the coding rules, ambiguities in the text, cognitive changes within the coder, or simple errors" (WEBER, 1990, p. 17). To Weber (1990, p. 17), "Because only one person is coding, stability is the weakest form of reliability".

Accuracy – the strongest type of reliability (WEBER, 1990), entails "how well the coding compares to a pre-set standard or norm" (LINSLEY; SHRIVES, 2006, p. 393). Furthermore, for Krippendorff (2004, p. 215), "Accuracy is the degree to which a process conforms to its specifications and yields what is designed to yield". On the other hand, "suitable accuracy standards are not easy to find because interpretations can only be compared to other interpretations and attempts to measure accuracy presuppose the privileging of some interpretations over others" (KRIPPENDORFF, 2004, p. 216).

Regarding reproducibility, it can be said that it "means that any individual with specifiable qualifications could perform the same coding tasks as well and know exactly what is meant by the categories (themes) […] used in the research" (KRIPPENDORFF, 2004, p. 218).

Concerning validity, Krippendorff (2004, p. 212) states that it "provides assurances that the claims emerging from the research are confirmed (borne out) in fact". In other words, this author says that

> Validity is the quality of research results that leads the readers to accept them as true, as speaking about the real world of people, phenomena, events, experiences, and actions. […] A content analysis is valid if the inferences drawn from the available texts withstand the test of independently available evidence, new observations, competing theories or interpretations, or being able to inform successful actions (KRIPPENDORFF, 2004, p. 313).

Thus, having all these in mind, some other limitations of this research are:

a) A single coder: only the researcher performed the content analysis for this study;
b) Limited choice of themes: due to the large number of respondents and the quality (depth) of the comment letters it was not possible to address all themes, but the ones related to the research question;
c) Big data (unstructured): each comment letter has around 5 (five) pages on average, and this represents around 3,000 (three thousand) pages of text to be analysed;
d) The data sample: this research is limited to the comment letters published on the IFRS Foundation´s website. Letters may have been submitted and considered by the foundation, but not published upon a request for confidentiality from the respondent. Therefore, it can be said that this study is not comprehensive, but limited to the supportive comment letters that were published on the IFRS Foundation website.
e) Machine learning: even though BLOOM-560m is pre-trained for Natural Language Processing (NLP), the model that was developed to analyse the comment letters was limited to learning the content that was fed onto the model in the training steps, and the algorithm can still make wrong predictions, as explained in section 3.6.

4 RESULTS & ANALYSIS

This section presents the results of both manual and Python model analysis for Code 2 (Establishment of a new board), and the Python model analysis for the remaining codes. Before proceeding to the results, it is important to note a concern that was raised by many respondents, both supporting or opposing the initiative of the IFRS Foundation. The concern was that the Foundation did not propose clear definitions at the outset of the CP for the terms used throughout the document, for example *"The Consultation Paper uses 'sustainability' and many other terms without definition or explanation. In many cases, the Consultation Paper uses different terms interchangeably. This includes the terms 'reporting', 'disclosure', 'financial reporting', 'sustainability reporting', 'sustainability information', 'sustainability disclosures' and more. This will lead to confusion, complexity, inefficiencies, and sub-optimal results"* (Submission 162, IFRS FOUNDATION, 2021a).

In the absence of clear definitions, some respondents stated the definitions that would encompass their responses (for example, submissions 54, 73, 190, 453, 505). However, a brief definition of "sustainability reporting" was indicated on the consultation paper (CP) in Annex A, p. 17, footnote no.39. Perhaps for being a footnote at the end of the CP and not displayed in the main body of text, it might have been missed by many respondents. It is important to highlight that the definition proposed by the Trustees differs significantly from that of GRI (and that of the United Nations), therefore the respondents may have addressed the questions proposed in the consultation paper based on their understanding (and definitions) of sustainability and sustainability reporting.

4.1 Manual analysis results

The manual analysis aimed at analysing the responses to question no.2 of the questionnaire proposed by the IFRS Foundation, which asked whether the Foundation should establish a new board (IFRS Foundation, 2020a, p. 16). The results are presented in chart 5, ranked in order of number of comment letters (largest to smallest) submitted by the stakeholder groups identified.

Chart 5 – Results of the manual analysis on whether the IFRSF should establish the ISSB

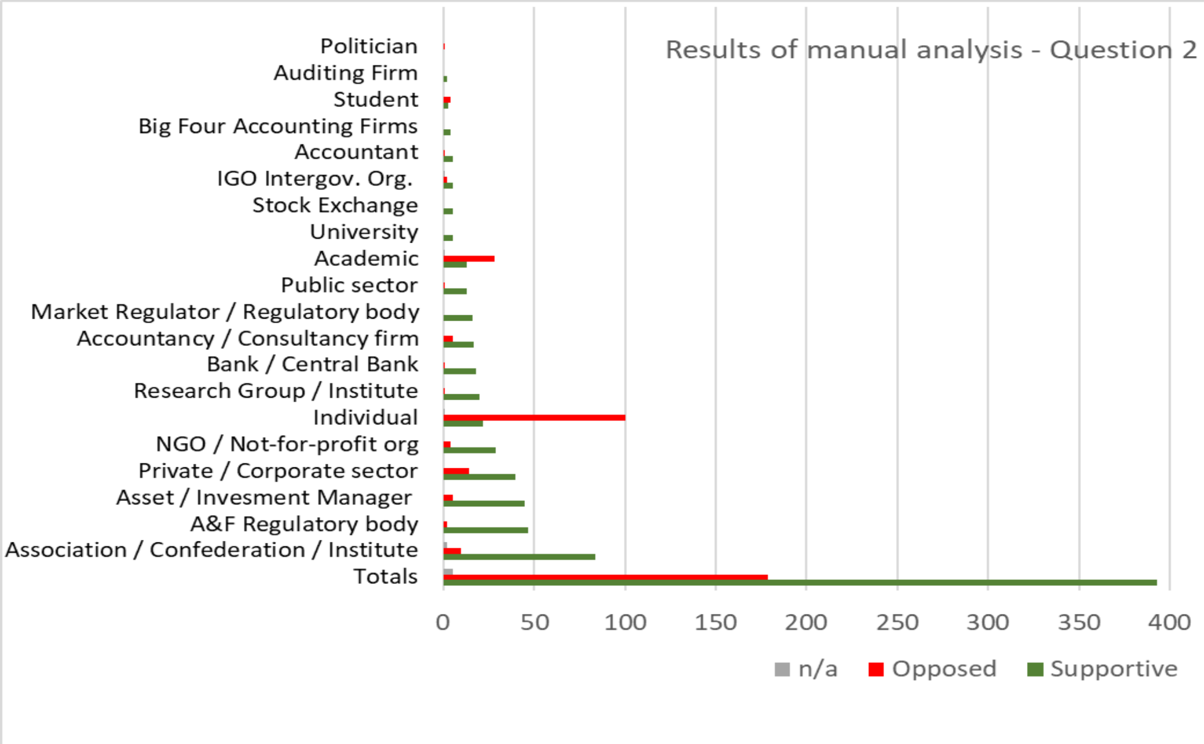
	Stakeholder groups	total	% of letters	Supportive	%	Opposed	%	N/A	%
1	**Individual**	123	21,3%	22	18%	100	81%	1	1%
2	**Association / Confederation / Institute**	96	16,6%	84	88%	10	10%	2	2%
3	**Private / Corporate sector**	54	9,4%	40	74%	14	26%	-	-
4	**Asset / Invesment Manager**	50	8,7%	45	90%	5	10%	-	-
5	**A&F Regulatory body**	49	8,5%	47	96%	2	4%	-	-
6	**Academic**	42	7,3%	13	31%	28	67%	1	2%
7	**NGO / Not-for-profit org**	33	5,7%	29	88%	4	12%	-	-
8	**Accountancy / Consultancy firm**	22	3,8%	17	77%	5	23%	-	-
9	**Research Group / Institute**	21	3,6%	20	95%	1	5%	-	-
10	**Bank / Central Bank**	19	3,3%	18	95%	1	5%	-	-
11	**Market Regulator / Regulatory body**	16	2,8%	16	100%	-	-	-	-
12	**Public sector**	14	2,4%	13	93%	1	7%	-	-
13	**IGO Intergov. Org.**	8	1,4%	5	63%	2	25%	1	13%
14	**Student**	7	1,2%	3	43%	4	57%	-	-
15	**Accountant**	6	1,0%	5	83%	1	17%	-	-
16	**Stock Exchange**	5	0,9%	5	100%	-	-	-	-
17	**University**	5	0,9%	5	100%	-	-	-	-
18	**Big Four Accounting Firms**	4	0,7%	4	100%	-	-	-	-
19	**Auditing Firm**	2	0,3%	2	100%	-	-	-	-
20	**Politician**	1	0,2%	0	-	1	100%	-	-
	Totals	**577**	**100%**	**393**	**68%**	**179**	**31%**	**5**	**1%**

Source: prepared by the author.

The stakeholder groups that sent the most submissions were Individuals, with 123 submissions, Associations / Confederations / Institutes with 96 submissions, and organisations in the Private / Corporate sectors with 54 submissions. Only 18% of individuals were supportive of the IFRSF's proposals. In contrast, 88% of Associations / Confederations / Institutes were supportive, as were 74% of organisations in the Private / Corporate sectors. The results show that 100% of market regulators, stock exchanges, universities, the big four accounting firms, and auditing firms, were supportive of the creation of the ISSB, followed by 96% of Accounts and Finance (A&F) Regulatory Bodies, 95% of Research Groups / Institutes, and 95% of Banks / Central Banks. Even though the IFRS Foundation proposals did not encompass the public sector, 93 % of entities in this stakeholder group were also supportive.

Graph 2 illustrates the results totals, showing that the supportive responses, represented by the bottom green line (393 responses, 68%), outnumbered the opposing responses represented by the bottom red line (179 responses, 31%).

Graph 2 – Results of the manual analysis on whether the IFRSF should establish the ISSB



Source: prepared by the author.

As evidenced in Graph 2, even though most academics and individuals opposed the proposals, they represented a minority in comparison to the other stakeholder groups that represented the supportive majority. Based on the results of the count of supportive and opposing responses on whether the IFRSF should establish the ISSB, it could be argued that the IFRSF obtained legitimacy, mainly from entities directly involved with investors, for its proposals to establish the ISSB.

Chart 6 provides an overview of the geographic locations of the respondents, where 47 countries were identified. However, for the presentation of results, only the top 20 countries (ranked in order of number of submissions) are listed, and the remaining 27 are under "other". Some respondents did not state their locations, and some others are internet-based, therefore it was not possible to establish their geographic locations.

Chart 6 – Results by regions on whether the IFRSF should establish the ISSB

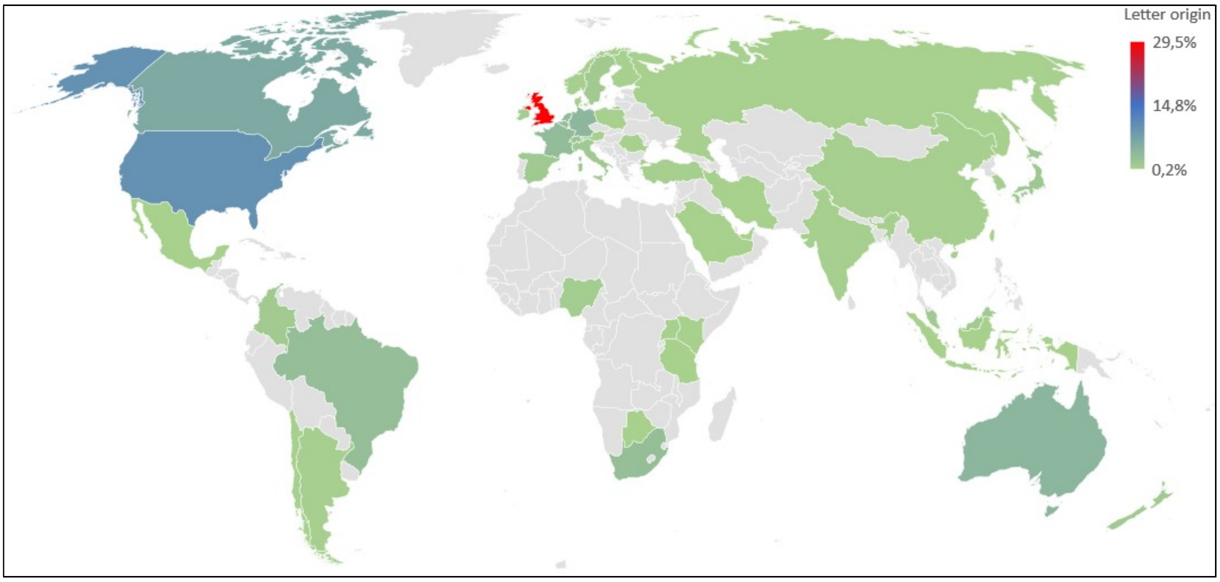
	Country/Region	total	% of letters	Supportive		Opposed		N/A	
1	**UK**	170	29,5%	79	46%	90	53%	1	1%
2	**USA**	58	10,1%	48	83%	10	17%	-	-
3	**Canada**	36	6,2%	35	97%	1	3%	-	-
4	**Australia**	25	4,3%	14	56%	9	36%	2	8%
5	**Germany**	24	4,2%	20	83%	4	17%	-	-
6	**France**	20	3,5%	11	55%	9	45%	-	-
7	**The Netherlands**	19	3,3%	18	95%	1	5%	-	-
8	**Belgium**	18	3,1%	14	78%	4	22%	-	-
9	**Brazil**	18	3,1%	17	94%	1	6%	-	-
10	**South Africa**	17	2,9%	15	88%	2	12%	-	-
11	**Hong Kong**	14	2,4%	13	93%	1	7%	-	-
12	**Switzerland**	12	2,1%	10	83%	1	8%	1	8%
13	**Japan**	9	1,6%	9	100%	-	-	-	-
14	**Italy**	8	1,4%	6	75%	2	25%	-	-
15	**Spain**	8	1,4%	7	88%	1	13%	-	-
16	**New Zealand**	7	1,2%	5	71%	2	29%	-	-
17	**Colombia**	6	1,0%	3	50%	3	50%	-	-
18	**Malaysia**	6	1,0%	5	83%	1	17%	-	-
19	**Sweden**	6	1,0%	5	83%	1	17%	-	-
20	**Ireland**	5	0,9%	4	80%	1	20%	-	-
	Others	52	9,0%	49	93%	3	7%	-	-
	Unknown	35	6,1%	3	9%	31	89%	1	3%
	Multiple locations	4	0,7%	3	75%	1	25%	-	-
	Totals	**577**	**100%**	**393**	**68%**	**179**	**31%**	**5**	**1%**

Source: prepared by the author.

As presented in Chart 6, the jurisdiction that sent the most submissions are the UK (170), the USA (58) and Canada (36), resulting that, of the submissions sent from the UK, 46% were supportive, 83% sent from the USA were supportive and 97% sent from Canada were supportive. Even though the IFRS standards are not permitted in the USA, this jurisdiction is home to the world's largest capital markets (which include The New York Stock Exchange), and the number of responses submitted demonstrate that the stakeholders in this jurisdiction were supportive of the establishment of a new board (the ISSB) to set sustainability reporting standards.

Figure 9 illustrates the respondents' country of origin (jurisdiction), which provides an overview of the global spread of participation in a world map diagram.

Figure 9 – The spread of respondents' country of origin



Source: prepared by the author.

In the world map shown in Figure 9, the darker the shade of green and blue, the more submissions were sent, and the jurisdiction with the most submissions was coloured red (The UK). Most of these geographical regions are jurisdictions that permit or require the International Financial Reporting Standards (IFRS) and therefore are likely to be impacted by new regulations or standards set out by the ISSB.

4.2 Python model analysis results

As explained in section 3, five codes were selected for the computational analysis, and code no.2 is the one that was also analysed manually. Examples of each code (supportive and opposed) were fed into the model during the training session, and thereafter the model was run in all the 577 letters. The results of the Python model analysis are displayed in Chart 7.

Chart 7 – Python model results

	Python model		
	Code	Opinion	
1	IFRSF's engagement *	Supportive	37%
		Opposed	63%
2	Establishment of a new board	Supportive	61%
		Opposed	39%
3	Existing Relationships	Supportive	61%
		Opposed	39%
4	A Climate-first approach	Supportive	73%
		Opposed	27%
5	Focus on investors' needs	Supportive	41%
		Opposed	59%

Source: prepared by the author.

In Chart 7, the section highlighted red represents the code where both manual and computational analyses were conducted. The manual content analysis of all 577 letters referring to Code 2 - Establishment of a new board resulted in Supportive 68% Opposed 31% and Neutral 1% (letters where the respondent did not address the topics presented). In comparison, the computer analysis resulted: Supportive 61% Opposed 39 % Neutral: N/A (because neutral paragraphs were classed as 'code 0 - other content'). A comparison between the two analyses is shown in Chart 8.

Chart 8 – Comparison of the results for Code 2

Polarity	Manual Content Analisys	Python Model Analysis	Variance
Supportive	68%	61%	-7%
Opposed	31%	39%	8%
Neutral	1%	N/A	N/A
	100%	100%	

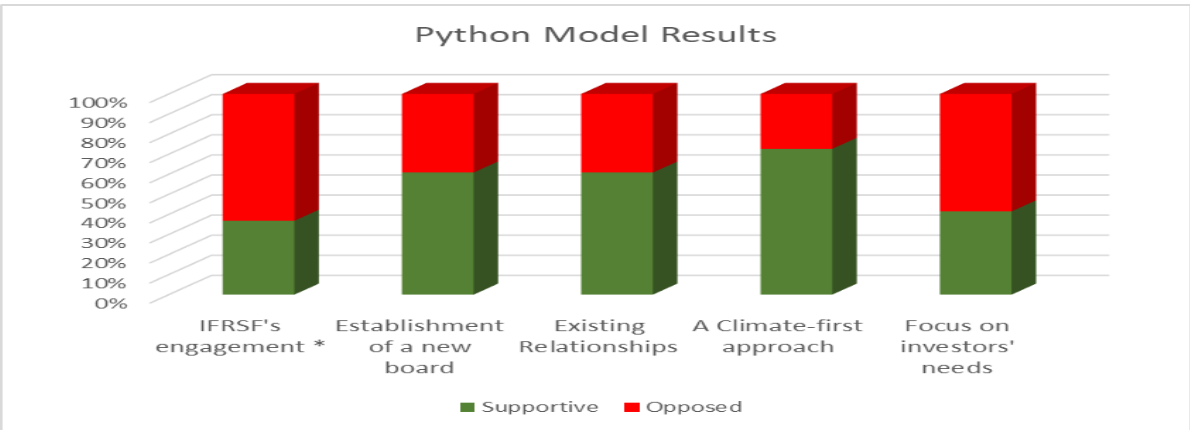
Source: prepared by the author.

The most likely cause for the difference in results shown in Chart 8 is that, even applying the probability cut-off filter, where only sentences/paragraphs within the probability fraction of 97.5% or above were considered, the model still makes wrong predictions (as seen in the histogram in section 3.6, evidenced by the presence of the pink column in this probability range at the background of the green) which biases the results. Therefore, it could be argued that, despite the differences between the analysis, the results of the manual analysis results were confirmed by the computational analysis. This means that both analyses returned similar and complimentary results, without the intention of establishing which of the two analyses was the most effective.

It was observed that the result for code 1 (IFRSF's Engagement) differs substantially from the results of code 2 (Establishment of a new board). During computational analysis, it is possible that when the model encounters the term 'IFRS Foundation' with no positive attributes linked to the paragraph, it may be classified as 'opposed' or 'undefined/neutral'. For example, all letters were addressed to the IFRS Foundation, so this term may have appeared in the address or elsewhere in the letters outside the research context. The justification is also found that in both manual and computational analyses, at least 61% of the respondents were supportive of the creation of the new board (code 2), therefore they, theoretically, agreed with the involvement of the IFRS Foundation, and then it would be expected that at least 61% of respondents were supportive of the Foundation's involvement, but the analysis of the model shows exactly the opposite (it shows opposed 63%), evidencing a limitation of the Python model.

Graph 3 illustrates the percentage of respondents' polarity (supportive/opposed) identified by the Python model concerning the five codes selected.

Graph 3 – Python model results



Source: prepared by the author.

For each code in Graph 3, representative arguments (original paragraphs) that were extracted from the comment letters are provided as examples of the main supportive arguments made by the respondents. The results of the analysis are discussed in the following section.

4.3 Summary of the supportive arguments

This section addresses the main points raised by the respondents in their supportive arguments. The arguments under the 5 codes identified were analysed in 3 broad themes, as shown in Chart 9.

Chart 9 – Codes grouped into three broad themes

Codes	Themes
1. IFRSF´s engagement 2. Establishment of a new board	1. Obtaining legitimacy to establish the ISSB.
3. Relationships	2. The switch from voluntary to mandatory sustainability disclosures.
4. A climate-first approach 5. Focus on investors' needs	3. The sustainability report under the ISSB.

Source: prepared by the author.

As explained by Saldaña (2013), the themes arising from coding synthesize the explicit (manifest) and/or implicit (underlying) meanings of the data. From the themes, it is possible to progress towards the concepts and theories that guided the initial coding process, providing a database for analyses and inferences (SALDAÑA, 2013).

4.3.1 Theme 1 – Obtaining legitimacy to establish the ISSB

Theme 1 comprises the arguments found under codes 1 and 2. The most recurrent supportive arguments identified in the comments regarding IFRSF's engagement refer to:

- The multitude of frameworks led to confusion in the market ('alphabet soup');

- The IFRSF's expertise and success in developing accounting standards could be used to set sustainability standards;
- The IFRSF has the best governance structure for the role;
- The IFRSF will create a link between sustainability reporting (non-financial information) and financial statements (financial information);
- The IFRSF must act fast to integrate with work being developed in the European Union, which is ahead in regulating sustainability information disclosure.

Examples of supportive arguments are found in Chart 10. These are listed as highly representative examples of supportive arguments as results of both manual and Python analysis.

Chart 10 – Supportive comments regarding the IFRSF's engagement (Code 1)

"In our view the IFRS Foundation is uniquely well placed to set high-quality standards for sustainability-related financial disclosure [...]. Moreover, it can do so with appropriate urgency, given its existing global reach and recognized standard-setting authority." (Submission 480)
"There is not only a need for a global set of internationally recognized sustainability reporting standards, but there is an urgent need.[...]This urgency establishes the IFRS Foundation as an ideal candidate to set these standards due to their existing standard-setting infrastructure and ability to enact real change in a timely manner.[...] The IFRS Foundation could facilitate the diffusion of sustainability reporting standards because it already bears credibility and reputation for its role in financial reporting.[...] Because the IFRS Foundation has a proven track record of success in creating globally-accepted financial reporting standards, I believe it should also apply the same corporate governance structure to its sustainability standards board.[...] By managing financial and non-financial reporting standards under one organization, the IFRS Foundation can also maintain a degree of order and alleviate potential confusion among reporting companies." (Submission 423)
"Some initiatives, such as GRI or SASB, are already relatively advanced with their reporting approaches, but most lack the endorsement of legislators and regulators. Other initiatives, such as the Non-Financial Reporting Directive of the European Union (NFRD), have led to a variety of different reporting requirements due to the federal situation in Europe, which differs from country to country in terms of granularity and strictness." (Submission 369)
"There is a strong momentum particularly in Europe to widen entities' disclosures to sustainability information. If the IFRS Foundation does not act now, there will probably be little opportunity for action later." (Submission 149)

"Among the standard-setters of corporate reporting around the globe, we believe that the IFRS Foundation is the most legitimate organization to play such a role. [...] Given this, we believe there is a high probability that the IFRS Foundation will be able to assert leadership in the area of sustainability reporting by leveraging its brand and reputation, thereby contributing to improving the quality of sustainability reporting standards as well as their consistency and comparability." (Submission 292)

Source: IFRS FOUNDATION (2021a)

The respondents that provided supportive arguments concerning the engagement of the IFRS Foundation include the perception that the Foundation was successful in establishing accounting standards, and this know-how towards setting standards could be used to set standards for sustainability reports. Also, because the IFRS Accounting standards were accepted globally, it is expected that the IFRS Sustainability Standards will too, reducing the confusion of frameworks because the Foundation will harmonise the aspects of existing frameworks into one global standard. This perception is consistent with the studies of Camfferman and Zeff (2007) that described how the IASC / IASB consolidated various accounting practices and developed standards that were eventually accepted as world standards by most jurisdictions (CAMFFERMAN; ZEFF, 2007). Finally, the IFRS Foundation may accelerate the adoption of the standards due to its existing relationships with governments and regulatory bodies. Therefore, one of the key aspects of why the IFRS received support was because, under the perception of the majority of respondents, the IFRS is best suited to lead the consolidation of sustainability frameworks due to its previous accounting standard-setting history that is expected to lead to high-quality sustainability standards.

The most recurrent supportive arguments identified in the comment letters regarding the establishment of a new board (Code 2) include the following points, and examples of the supportive arguments are found in Chart 11:

- A new board should be established to guarantee separate funding, and the IFRSF monitoring board has public authority membership, which in turn will endorse the standards;
- Financial Reporting (IASB) and Sustainability reporting (SSB) should be under the same umbrella (IFRSF) for consistency in standards;
- It would prevent regulatory fragmentation;
- It would provide important information to investors and therefore enable enterprise value creation;
- It would enable comparability between organisations and industries.

Chart 11 – Supportive comments regarding the establishment of a new board (Code 2)

"The IFRS Foundation should create a new sustainability standards board alongside the IASB. A coordinated, global approach for developing high-quality sustainability standards, led by the SSB, can prevent regulatory fragmentation, can address global sustainability topics like climate, and can best foster consistency and global comparability." (Submission 34)
"We support the IFRS Foundation's proposed approach, to create a separate SSB. The IASB and the SSB would operate within a common governance structure, and there would be shared learning and conceptual alignment in working through the development of a conceptual framework [...]." (Submission 480)
"The IFRS is in a better position to establish a SSB than any other party. This is so because the monitoring board has public authority membership. There is maturity in this structure and years of experience in standard setting on a global basis. There is an understanding of consistency in reporting and the need for comparable information whilst having an existing relationship with national regulators and governments in the corporate reporting space in 144 jurisdictions." (Submission 31)
"We recommend that the SSB has a structure that does not allow conflict of interest and is completely independent from the IASB: with its own board, separate budget and specific advisory boards." (Submission 515)
"The establishment of the Sustainability Standards Board as a second pillar under the IFRS Foundation would favour consistency with financial reporting under the IFRS. There is currently a risk that sustainability reporting may be commonly perceived as less relevant than financial reporting." (Submission 130)

Source: IFRS FOUNDATION (2021a)

As noted in the responses, most respondents agreed and encouraged the IFRSF to establish a separate board (SSB) rather than developing sustainability standards under the IASB. The main reasons include guaranteeing separate funding and that the IASB does not lose focus on developing accounting standards. The respondents also believe that the current three-tier governance structure of the IFRSF is appropriate and can accommodate the SSB, which will also be under the oversight of the monitoring board, and many respondents expressed confidence that the IFRSF can take on this new role. These are some of the key arguments that legitimised the creation of the ISSB.

4.3.2 Theme 2 – The switch from voluntary to mandatory sustainability disclosures

Theme 2 comprises the arguments found under code 3. The Python model results returned 61% supportive and 39% opposed the IFRS Foundation making use of its existing relationships. The most recurrent supportive arguments identified in the comments regarding the IFRSF making use of its existing relationships include the following points, and examples of the supportive arguments are found in Chart 12:

- In the statement of intent, the group of 5 (GRI, CDSB, CDP, IIRC, SASB) announced their intention to develop a harmonised sustainability reporting framework, in collaboration with the IFRSF, which means the Foundation can extensively use the expertise of the 5 rather than 'reinvent the wheel' for sustainability standards;
- The IFRSF initiative was endorsed by IOSCO, and therefore the SSB standards can be made mandatory in jurisdictions that choose to do so;
- The IFRSF has existing good relationships with governments, which will speed up the adoption of its sustainability standards.

Chart 12 – Supportive comments regarding IFRSF's existing relationships (Code 3)

"The global adoption of the IFRS has shown that standards set as soft law are 'hardened' at the jurisdictional level by support from a diverse range of international actors. Specifically, recent history of IASB tells us that leveraging the IFRS Foundation's relationships with the International Organization of Securities Commissions (IOSCO), World Bank and International Monetary Fund (IMF) will be critical for worldwide dissemination and adding early layers of scrutiny over jurisdictions' successful adoption of standards set by the SSB. Additionally, the IFRS Foundation has longstanding relationships with large jurisdictions, such as the United States (US) and the European Union (EU). Support from these jurisdictions will build network effects and act as catalysts for adoption across the world." (Submission 74)
"It is only the practice of disclosure of sustainability impacts of the company on people and planet that truly allows progress towards the goals of the Paris Agreement and achievement of the ambitious 2030 Sustainable Development Agenda. [...] sustainability reporting should become mandatory and the IFRS is well placed to advance mandatory disclosure through its reputation and relationships." (Submission 226)
"IOSCO could facilitate the creation and application of global NFI (non-financial) standards to improve market transparency, as it did 20 years ago with IFRS." (Submission 62)
"We, therefore, believe that the IFRS Foundation should seek close cooperation with EU authorities, reflecting this in regular outreach programmes and the geographical composition of the SSB, and to build a framework that is fully compatible with the work carried out by the European Commission and the EFRAG's project task force developing an EU standard." (Submission 153)

"This year, five sustainability standard setting institutions, namely, the Global Reporting Initiative (GRI), CDP (formerly the Carbon Disclosure Project), Climate Disclosure Standards Board (CDSB), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) announced an intent to develop a joint sustainability reporting framework. These five entities stated their desire to work closely with the IFRS Foundation and the International Organization of Securities Commissions (IOSCO) to contribute to a more comprehensive global sustainability reporting system." (Submission 136)

Source: IFRS FOUNDATION (2021a)

In the respondent's opinion, a key aspect of why the IFRSF is best suited for the role is that the relationship with the group of 5 means the Foundation can count on the expertise of the 5 organisations and deliver high-quality standards, which will enable the SSB to develop and deploy the standards more quickly, and with the support of IOSCO, the standards will be enforced and may be made mandatory by local governments. These are other key arguments that legitimised the involvement of the IFRS Foundation in developing standards for sustainability reporting, leading to the creation of the ISSB.

4.3.3 Theme 3 – The sustainability report under the ISSB

Theme 3 comprises the arguments found under codes 4 and 5. The Python model results returned 73% supportive and 27% opposed a climate-first approach. The most recurrent supportive arguments identified in the comments regarding adopting a climate-first approach (code 4) include the following points, and examples of the supportive arguments are found in Chart 13:

- There are many (voluntary) frameworks. Climate change is an urgent issue and global standards are urgently needed;
- The standards developed by the TCDF have been globally accepted; however, implementation is voluntary. The TCFD standards can be used by the IFRSF and therefore will speed up the deployment of standards relating to climate-change disclosure;
- The TCDF needs 'a new home' as the initiative was not set up on a permanent basis;
- This approach is the most pragmatic one as a start because addressing other sustainability aspects would delay the delivery of standards.

Chart 13 – Supportive comments regarding adopting a climate-first approach (Code 4)

"[…] climate-related disclosures are among those areas, which urgently need global standards. Successful standardization is likely to be easier and quicker in climate-related disclosures than in other areas where convergence is still lacking. Building on the experience of working with other initiatives and upon acceptance of such a standard, the SSB could then add further issues to its agenda. Thus, starting with sustainability standards on climate-related disclosures is a reasonable and pragmatic approach." (Submission 149)
"Beginning with climate could also foster greater global collaboration on standardized reporting in financial filings and reports. In the U.S., there is greater momentum towards mandatory climate risk disclosure than is apparent at first glance, and enhanced IFRS collaboration with U.S. regulators would accelerate that momentum." (Submission 256)
"We agree that the SSB could in the first instance focus on climate-related disclosures and seek to consolidate the progress already made in this field by existing organisations, such as the TCFD. Since the development of climate related disclosures is already well progressed, we believe the SSB should bring together existing guidance rather than proliferate new standards." (Submission 92)
"[...] by starting with the TCFD framework, investors would have consistent and comparable information on the climate change risks and opportunities facing reporting entities. One advantage of the TCFD is that it already has broad global support from governments, regulators, central banks, public authorities, and investors. Given this public and private momentum, the support the TCFD has already received would facilitate SSB's role in developing climate-related financial disclosures." (Submission 74)
"Despite many other environmental and social sustainability issues existing, to secure support and widespread adoption we believe it's important that the standard focuses exclusively on climate related disclosures initially. The markets are very much on board with carbon-based reporting and measures, not for their philanthropy but due to the desire to reduce risk. Therefore, to introduce an array of sustainability reporting measures all at once risks significantly reduced uptake." (Submission 39)

Source: IFRS FOUNDATION (2021a)

The supportive responses illustrate that the adoption of a climate-first approach by the IFRSF was pragmatic, and because the ISSB should have a starting point, and later expand to address other sustainability issues. As the IASB participated in the oversight of the TCFD's work when the TCFD was established, and the TCFD "is a private-sector task force without any mandate or ability to set international standards and has not been established on a permanent footing" (IFRS FOUNDATION, 2020a, p. 10), the ISSB can both make use of the existing standards, endorse them, and deliver ISSB's first standard (S1) quickly.

The Python model results returned 41% supportive and 59% opposed keeping a focus on investors' needs. The most recurrent supportive arguments identified in the comment letters regarding keeping the focus on investors' needs (code 5) refer to the following points, and examples of the supportive arguments are found in Chart 14:

- The remit of the IFRSF has always been focused on financial information, and therefore it should continue to be so;
- Addressing the needs of other stakeholders would complicate things and make the standards 'vague' and not good enough for any stakeholder groups;
- Initially, the information on the standards developed by the ISSB should meet the needs of investors and other market participants;
- Focusing on invertors' needs will mean quick adoption and acceptance of standards.

Chart 14 – Supportive comments regarding the focus on investors' needs (Code 5)

"We agree with stakeholder sentiment that supports focusing on the importance of gaining legitimacy and acceptance with investors and market-focused public authorities such as IOSCO. This focused approach is consistent with the work of the IASB, will help the new SSB to move in a timely manner, and will attract the broadest global support from regulators, investors, and other stakeholders." (Submission 34)
"Given the role and track record of the IFRS Foundation in the area of financial reporting, we believe that the primary audience for sustainability reporting should be capital market participants, with investors at the center, and other users of financial information. Furthermore, we are of the view that the scope of materiality should be based on the impact on corporate finance, that is, single materiality" (Submission 14)
"[...] supports the proposal that the IFRS Foundation provide useful sustainability information that is most relevant to investors and other market participants. If the primary audience of the sustainability reporting is extended beyond capital market participants, the IFRS Foundation will need to radically reconfigure its mission and structure, which may undermine the reputation and credibility that the IFRS Foundation has built up." (Submission 99)
"The sustainability information needs of all stakeholders (incl. investors, employees, customers, NGOs, regulators, and civil society) cannot be fully satisfied by one specific set of reporting standards because their needs are divergent. Therefore, it would be pragmatic for the IFRS Foundation to focus on the expectations of its primary target audience, i.e., investors and other capital providers. Otherwise, standards intended to be good for all will not be good for anyone as a result." (Submission 421)
"Sustainability reporting standards viewed through the lens of investors and capital market participants (i.e., materiality focused on enterprise value/financial materiality) will attract the broadest range of global support and promote the international consistency needed by global capital markets. Consequently, we support the approach proposed in paragraph 50 that "the SSB would initially focus its efforts on the sustainability information most relevant to investors and other market participants." (Submission 17)

Source: IFRS FOUNDATION (2021a)

The respondents believe that it would complicate things for the ISSB if the IFRSF worked towards meeting the needs of stakeholders other than investors and that the remit/mandate of the IFRSF is to provide financial information and this should not change.

4.4 Discussion

In April 2021, the Foundation published a feedback statement asserting that the responses “The responses also illustrated widespread support for the IFRS Foundation to play a role in global sustainability reporting*”* (IFRS Foundation, 2021b, p. 2). The Trustees provided a summary of the supportive and opposing points raised in response to the Consultation Paper, as well as the Trustees’ views on those matters. The Trustees concluded that, following the supportive feedback received, “The Trustees are, therefore, continuing their work to create a new board to set IFRS sustainability standards.” (IFRS Foundation, 2021b, p. 3). This is consistent with the findings of both manual and python analysis where it was identified that most submissions were supportive of the creation of the SSB under the governance structure of the IFRS Foundation.

The Trustees of the Foundation were also encouraged by the statement made by IOSCO, which explained that IOSCO “sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards” (IOSCO, 2021). In the statement, IOSCO’s board also set its priorities and vision for a new board under the IFRS Foundation to encourage globally consistent standards, promote comparable metrics and narratives, and coordinate across approaches. Also, in a letter to G20 Finance Ministers and Central Banks, the Financial Stability Board (FSB) welcomed the actions taken by IFRS Foundation Trustees to expedite the harmonization of global sustainability reporting standards, with an initial emphasis on climate. For this, an experimental model was developed, following the recommendations of the FSB’s Task Force on Climate-Related Financial Disclosures (TCFD) (IFRS FOUNDATION, 2021b).

The existing relationship with IOSCO and governments will mean these will very likely enforce the new standards and make the disclosure mandatory in jurisdictions that choose to do so. This is consistent with the work of Deegan and Unerman (2006) and Unerman and O'Dwyer (2007) concerning the advantages of regulation and mandatory disclosure. In the context of the ISSB, the IFRS Foundation can mobilise appropriate mechanisms (through national financial reporting standard regulatory bodies and IOSCO) to regulate and make sustainability standards mandatory (ADAMS; ABHAYAWANSA, 2022). In most jurisdictions that adopt IFRS standards, the new standards are likely to become mandatory and regulated (therefore not voluntary anymore). Due to this change, costs will be inevitably incurred (to adapt to the new compulsory regulation) and the level of disclosure is expected to increase nevertheless (IOANNOU; SERAFEIM, 2017). Furthermore, firms whose goal is to signal that they are 'good corporate citizens' will further increase disclosure given that competitors will also be forced to increase their disclosure by the new regulation (VERRECCHIA, 2001). The supportive responses are also consistent with the findings of Adams and Mueller (2022), where in their study about the academic engagement with the IFRS public consultation on sustainability reporting, the authors state that "notably, across both those in support and those opposed, there was broad and strong support for mandatory sustainability reporting" (ADAMS; MUELLER, 2022)

As the sustainability reporting requirement switches from voluntary to mandatory disclosure, organisations that have established sustainability disclosure programs stand a good chance of meeting the increasingly stringent requirements of regulators and business stakeholders. However, according to the research by Beske Haustein and Lorson (2020), legitimacy theory assumes that voluntary reports are directed to the general public, as opposed to just a few specific groups. Thus, it becomes evident that the imposition of mandatory sustainability reporting can compromise the legitimacy of the organisations (BESKE; HAUSTEIN; LORSON, 2020). Moreover, the recent study by Abela (2022) raises concerns about the dominance of financial reporting concepts in implementing mandatory sustainability reporting. This dominance can lead to an accounting of sustainability that favours investors over other stakeholders and prioritizes the production of information for economic decision-making over social and environmental responsibility (ABELLA, 2022). The author warns that the use of these concepts in sustainability reporting can result in an inflexible structure that does not encourage entities to account for their unique context and to be responsible for their social and environmental impact. This can lead to a disconnection between the entity and its context, with an exclusive focus on profit and little interest in environmental and social impact (ABELA, 2022).

The alternatives proposed by the Trustees on whether to focus on investors' needs or multi-stakeholders' needs and to adopt a single or double materiality approach were by far the most controversial issue found in both supportive and opposing responses. The controversy may have influenced the results of the Python model analysis which returned that most submissions (59%) were opposed to the IFRS Foundation adopting a focus on investors' needs, whereas the remaining (41%) were supportive for the reasons illustrated in chart 14. A key opposing argument was that the developments in the European Union by EFRAG adopt a double-materiality and multi-stakeholder approach, therefore if the ISSB did not follow suit, its standards would not be implemented/accepted. For example: *"We acknowledge that it is pragmatic for SSB to start with sustainability information most relevant to investors and other market participants. However, in determining how quickly to address it, SSB may wish to consider dual materiality's importance to adoption and acceptance of its standards internationally, in light of the following developments: The European Union has taken a strong stance in favor of dual materiality. A misaligned approach may undermine the uptake of corporates and investors from the region; With proliferation of responsible investment strategies, we observe a clear trend towards a desire to measure impact. An approach limited to financial materiality could fail to deliver to this growing need in the market"* (Submission 211, IFRS FOUNDATION, 2021b).

The European Financial Reporting Advisory Group (EFRAG), established in 2001 at the encouragement of the European Commission (EC), is a private entity whose aim is to serve the public interest (EFRAG, 2023). In 2022, EFRAG expanded its mission to match the new role assigned to it in the Corporate Sustainability Reporting Directive (CSRD). As a result, EFRAG now provides technical advice to the EC through the preparation of full drafts for the EU Sustainability Reporting Standards or amendments to those standards. By introducing disclosure requirements that cover an organisation's effects on the environment, society, and climate, EC/EFRAG demonstrates a more comprehensive approach towards certain crucial aspects of the report, such as the target audience, relevance, and scope of the report, compared to the IFRS Foundation (GINER; LUQUE-VÍLCHEZ, 2022). EFRAG's activities are divided into two areas: the first is the Financial Reporting Pillar, which aims to influence the development of IFRS Standards from a European perspective, aiming at the efficiency of capital markets. In addition, it offers endorsement advice to the EC on any changes to the IFRS Standards. Secondly, there is the Sustainability Reporting Pillar, which aims to develop draft EU Sustainability Reporting Standards and related amendments, which will subsequently be submitted to the EC. (EFRAG, 2023). As mentioned in Submission 211, referring to the approach taken by EFRAG and the IFRS Foundation, "A misaligned approach may undermine the uptake of corporates and investors from the region" (Submission 211, IFRS FOUNDATION, 2021a).

Large economies have incorporated the IFRS accounting standards in different proportions. While in the EU the adoption of the IFRS is subject to an endorsement process of technical evaluation and political approval, in the USA, national companies are not authorized to use the IFRS (they use US GAAP instead), and the prerogative of using IFRS being restricted only to foreign companies listed on the stock exchanges of the USA (WINGARD; BOSMAN; AMISI, 2016). The concern that the ISSB standards may not be adopted in the USA (the same way the IFRS accounting standards were not) is also a concern that was expressed in supportive submissions, for example*: "Although [...] supports global standards of reporting, we note that IFRS do not extend to the United States, the world's largest capital market. Hence, we see an opportunity for the SEC to work in parallel to the Foundation in order to galvanize work at FASB in relation to U.S. Generally Accepted Accounting Principles (GAAP) and corporate reporting more broadly. Such parallel work would integrate sustainability reporting into the regulatory provisions of the United States. Whilst we support global accounting and audit standards, with integration of relevant sustainability factors, we appreciate that IFRS and U.S. GAAP will continue on separate tracks and do not see a new SSB as having a mandate to override SEC provisions, but instead to coordinate and cooperate through established channels"* (Submission 507, IFRS FOUNDATION, 2021a).

Public opinion in the United States was solicited regarding mandatory requirements for the disclosure of greenhouse gas emissions (ABHAYAWANSA; ALEKSANYAN; TSALAVOUTAS, 2022). The SEC suggested rule changes for companies to disclose information about climate risks that may affect their business, as well as climate-related financial metrics in their audited financial statements. Crucial information about climate risks also encompasses a registrant's disclosure of greenhouse gas emissions, which has become a standard metric for assessing its exposure to these risks. Suggested disclosures are similar to the content many businesses already disclose, following standards such as the Task Force on Climate-Related Financial Disclosures (TCFD) and the Greenhouse Gas (GHG) Protocol. This would apply for the 2023 fiscal year to be filed in 2024 (SEC, 2022).

The concerns about the mismatch between the approaches to developing sustainability standards between the SEC, The ISSB and EFRAG are consistent with the work of Abhayawansa (2022). The author explains that there are two approaches for the disclosure of climate and sustainability information: one based on financial materiality, which aims to disclose the environmental and social risks and opportunities that affect businesses (outside-in perspective: the impact of the environment and society (the 'outside') on the businesses), and this approach is the one adopted by the SEC and ISSB. Under the second approach, importance is also attributed to disclosing information about the companies' impacts on society and the environment (inside-out perspective). Following this approach, the idea of double materiality is supported, which considers disclosure of sustainability information essential not only to meet the needs of investors but also of other stakeholders (ABHAYAWANSA, 2022). Such an approach was adopted by the European Commission (EC) and for the sustainability standards being developed by the EFRAG (ABHAYAWANSA; ALEKSANYAN; TSALAVOUTAS, 2022).

Giner and Luque-Vílchez (2022), argue that the two key contenders competing for mandatory adoption of a worldwide set of standards are The ISSB and EC, via EFRAG. While the EC/EFRAG have a broader perspective, The ISSB takes a more restrictive view regarding the target audience, scope, materiality, and boundaries of sustainability reporting, focusing on setting standards that reflect economic reality, without trying to influence the behaviour of organisations, and that EFRAG takes the opposite view. The authors also state that there is an area of convergence and potential for collaboration between the two entities, and both will likely co-exist for some time (GINER; LUQUE-VÍLCHEZ, 2022). Current attempts for the convergence of sustainability reporting standards may seem a 'repetition' of debates about standardising accounting reporting in the USA and EU in the late 1990s. Discussions resulted in the creation of the IASB and mandatory adoption of IFRS standards for consolidated financial statements in the EU in 2005, and the insights of these historic changes for financial reporting may help policymakers and standard-setters address today's challenges in harmonizing sustainability reporting (ABHAYAWANSA; ALEKSANYAN; TSALAVOUTAS, 2022).

Another concern that was raised by supportive respondents is that the IFRS Foundation proposal did not encompass the public sector: *"The IFRS Foundation should seek to engage all significant stakeholders, both public and private, in the development of sustainability reporting standards. The IFRS Foundation should take action to avoid the potential pitfall of designing standards primarily for the investor community" (Submission 572, IFRS FOUNDATION, 2021b).*

However, as stated in the IFRS Foundation Feedback Statement in April 2021, The Trustees announced their decision for the strategic direction for the new board, using the feedback received from the Consultation Paper and encouraged by the statement from IOSCO to support the Trustees' views:

> - *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.
> - *sustainability scope, prioritizing climate*: due to the urgent need for better information about climate-related matters [...].

> \- *building on existing frameworks*: the new board would build upon the well-established work of the TCFD, as well as work by the alliance of leading standard-setters in sustainability reporting focused on enterprise value [...]; and
> \- *building blocks approach:* by working with standard-setters from key jurisdictions [...] to prepare for this work, the IFRS Foundation will engage with key jurisdictions and start a process of structured engagement to explore the creation of a multi-stakeholder expert consultative committee (IFRS FOUNDATION, 2021b, p. 4).

The strategic decision taken by the Trustees is consistent with the findings of Ram and Newberry (2013), where The IFRS Foundation/IASB maintains its autonomy to make decisions, even after receiving feedback comments (RAM; NEWBERRY, 2013). Chart 15 lists a summary of examples of supportive arguments submitted to the IFRSF that might have influenced the strategic decision taken by the Foundation.

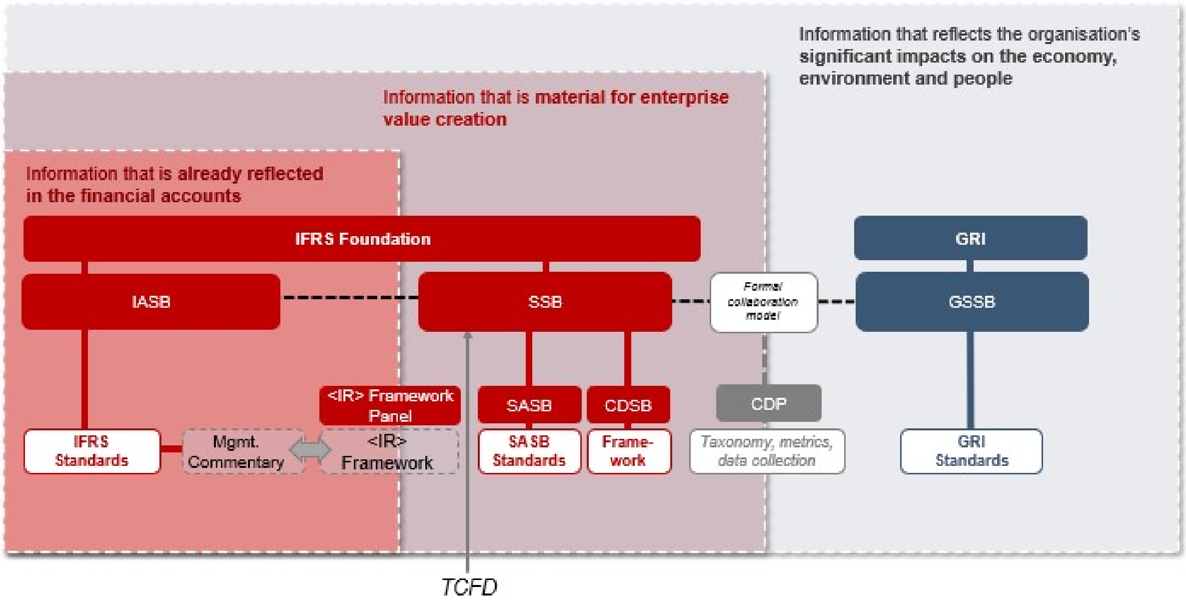
Chart 15 – Summary of the supportive feedback - IFRSF strategic decision

"We believe that key success factors for a future SSB include the following: *- Continue to focus on investors' needs. This would also require a clear mandate backed by effective, independent governance. Departing from the IFRS Foundation's core mission could potentially undermine the IASB's work and create pressure on the SSB to promote public policy objectives.* *- Maintain integrity of the IASB's financial reporting work.* *- Promote global standards focused on long-term enterprise value creation as a baseline for wider corporate reporting […].* *- […] focusing initially on individual aspects such as climate and gradually addressing broader ESG matters.* *- It is important for the IFRS Foundation to act quickly to establish the SSB, and that the SSB move expeditiously to produce quality standards, given increasing demand for global consistency and calls to reduce complexity in sustainability reporting."* (Submission 152)
"There is a specific, capital provider-oriented demand for coherent corporate reporting, comprising both financial standards and sustainability-related financial disclosure standards. The IASB already provides the former, and it is well placed to complement this with the latter. Capital provider-oriented standards (Type A) are therefore the obvious organizational priority for the IFRS Foundation in terms of agenda and workflow. [...] In our view, the IFRS Foundation should declare itself responsible for sustainability reporting that adopts a single materiality focus (Type A).) In so doing, the IFRS Foundation should continuously engage with any future standard-setters for Type B reporting, since information that falls at one time under Type B can quickly move to Type A, as when societal impacts become material to investors." (Submission 472)
"[…] the IFRSF proposal focuses on climate-related risks with a single materiality approach while European regulatory initiatives cover social and environmental risks and require a double materiality assessment. Considering those significant differences in scope and considering that the European Commission has already mandated the EFRAG to carry out preliminary technical work in view of potential forthcoming European non-financial reporting standards, we are of the opinion that the Sustainable Standard Board endeavour to build convergence towards a single set of international sustainability standards on climate related reporting should go along with broader regional initiatives." [...] IFRS Foundation should take advantage of and build on the work already done in more advanced jurisdictions like the European Union." (Submission 376)

Source: IFRS FOUNDATION (2021a)

A diagram proposed in submission 42 illustrates the outcomes of the public consultation. As shown in Figure 10, the area highlighted in pink is the original remit of the IASB. The area highlighted in light purple will be the remit of the ISSB, the 'Type A' disclosure as explained in submission 472, whereas the area highlighted in blue remains out of the remit of both the IASB and ISSB ('Type B' disclosures), seeing GRI (and the GSSB) still being used by organisations that choose to voluntarily disclose information adopting a double-materiality and multi-stakeholder approach.

Figure 10 – The resulting scope of sustainability reporting under the ISSB



Source: Submission 42, IFRS FOUNDATION (2021b)

The perspective in Figure 10 suggests that organisations may look to the ISSB standards as a starting point for their reporting, rather than an exhaustive list of information to be disclosed, as the disclosure within the scope of the IASB / ISSB standards may not cover sustainability-related information sought by stakeholders, including investors. The results of the support the IFRS Foundation received, and confirmed by the strategic route the Foundation has opted for, suggest that with the creation of the ISSB, the IFRS Foundation has only partially attended the call for harmonization of frameworks, as the disclosure of information other than that relating to enterprise value creation (outside-in approach), will still need to be addressed by the use of other frameworks, which encompass a multi-stakeholder perspective and adopt a double-materiality approach, such as the perspectives adopted by the GRI and EFRAG.

As evidenced in the illustration, the scope of the IFRS Foundation, incorporating the ISSB, is consistent with the arguments made by Barker and Eccles (2018, p. 32) who suggested that "The natural focus for both FASB and IASB would be on integrating nonfinancial information […] an emphasis on how financial and nonfinancial information should be integrated with each other, thereby enhancing the usefulness of both." The authors also suggest that the IFRS Foundation should address investors' needs and not develop public policy (that addresses various stakeholders and require the disclosure of the impact of the business on the environment) as this is not their remit, and it should be developed by another organisation (BARKER; ECCLES, 2018). However, as argued by Adams and Abhayawansa (2021), "the IFRS Foundation Trustees do not consider the merits of a multi-stakeholder perspective, perhaps preferring to reinvent what sustainability reporting is, from an investor's perspective, their area of expertise". The authors explain that to meet the Sustainable Development Goals (SDGs) a double-materiality approach is needed, as organisations also need to disclose information on how the business impacts the environment, and not only the other way around as a metric of enterprise value creation (ADAMS; ABHAYAWANSA, 2022).

According to Adams and Abhayawansa (2021), the motivation behind calls for harmonisation before and during the public consultation was to transfer the responsibility for establishing sustainability reporting standards from a multistakeholder process, such as the one used to develop the GRI standards, to a process controlled by a private accounting regulator, in this case, the IFRS Foundation, with the objective of meeting the demands of investors, without an evidence-based examination of the resulting impact on sustainable development (QIAN; SCHALTEGGER, 2017) and the achievement of SDGs. (ADAMS; ABHAYAWANSA, 2022; BEBBINGTON; LARRINAGA, 2014; ABELA, 2022). Abhayawansa (2022) argues that the IASB's financial approach to materiality that will be adopted by IFRS Foundation for the ISSB limits the scope of sustainability reporting to cover the effects of companies on the environment and society, as well as their contribution to achieving the 17 SDGs (ABHAYAWANSA, 2022). Furthermore, despite calling for the involvement of FASB and IASB to set standards for sustainability reporting, Barker and Eccles (2018) queried the appropriateness of these institutions as nonfinancial standard-setting bodies, as the authors argued "it is not obviously the case that expertise in setting financial accounting standards 'translates' into a corresponding capacity to set nonfinancial standards." (BARKER; ECCLES, 2018, p. 33). Most of the accounting academics who participated in the IFRS Foundation's consultation on sustainability reporting shared these concerns, arguing that, to safeguard the interests of investors, accountants must give priority to protecting economies, including less developed ones, as well as society and the environment. (ADAMS; MUELLER, 2022). The conclusions of the study conducted by Adams and Mueller (2022) point to the importance of the legitimacy of policymakers in sustainability-related initiatives, which need to be aligned with the relevant scientific community (LAUGHLIN, 2011), and a legitimation problem would occur if the key underlying principles employed in the public consultation were to be discredited (ADAMS; MUELLER, 2022).

The success of the IFRS Foundation in establishing accounting standards is well-documented (PACTER, 2005; BARKER; ECCLES, 2018) and the supportive responses list important aspects of how the IFRS got legitimacy (public support) to establish the ISSB. As explained by Suchman (1995) an organisation is legitimate when it obtains public approval. However, Ashforth and Gibbs (1990) explain that an institution's credibility is often consolidated and maintained through symbolic gestures that form part of the organisation's public image (ASHFORTH AND GIBBS, 1990), while Tandy and Wilburn (1992) argue that standard-setters recognize the importance of public participation, as it allows them to assess how stakeholders might respond to proposed standards, and that, the involvement of the public in the process of setting these standards is essential to ensure the legitimacy of a regulatory body and its standards (TANDY; WILBURN,1992).

As explained by De Fine Licht (2014) “Perceptions of transparency are [...] largely shaped by transparency cues (e.g. statements provided by external sources)”, meaning that citizens' views on the proposals may not fully represent the actual contributions of stakeholders, but rather be influenced by information disseminated in the media, such as the publication of several documents by powerful stakeholders in the media before the IFRS Foundation launched its public consultation in 2020 as documented in section 2.2.2. It could, therefore, be argued that the public consultation was a symbolic gesture to improve the perception of stakeholders at large (DOWLING & PFEFFER, 1975; NEU; WARSAME; PEDWELL, 1998). However, since its inception in 2001, the IFRS Foundation / IASB have included formal public consultation as part of its accounting standard-setting process, therefore public consultations are part of the Foundation’s due process (WINGAR; BOSMAN; AMISI, 2016) given that policy-making procedures that include stakeholder consultation are considered more acceptable than those that do not, and public consultations can increase the legitimacy of policies, as they allow a positive evaluation of formulation procedures and greater acceptance of policies (BEYERS; ARRAS, 2021). According to Abela

(2022), through a retrospective analysis of events leading up to current developments, the growing popularization of the sustainability report is being driven by three interconnected factors: the emphasis on the entity that is making the report (the organisation); a shift in focus from stakeholders to prioritizing providers of financial resources (aimed at decision-making); and a shift in disclosure of impact (responsibility) information to focus on the creation of enterprise value (ABELA, 2022). Additionally, consistent with the findings of Burlaud and Colasse (2011) and Ram and Newberry (2013), the IFRS Foundation's due process, including public consultations, creates an impression of transparency and inclusion of all voices, but ultimately it is the support from powerful stakeholders that usually prevail (BURLAUD; COLASSE, 2011; RAM; NEWBERRY, 2013).

In the feedback statement published in April 2021, The Trustees of the IFRS Foundation explained the next necessary steps for formalising a new board, and, in parallel with releasing the feedback statement, launched the second stage of the public consultation and released an exposure draft for public comment, with proposed amendments to the Foundation's constitution. The exposure draft requested public opinion on the strategy set out by the foundation to accommodate an International Sustainability Standards Board (ISSB) to set IFRS sustainability standards (IFRS FOUNDATION, 2021c). The proposed amendments contained four questions and were exposed for comment until 29 July 2021. One hundred and seventy-six (176) comment letters were published on the foundation´s website (IFRS FOUNDATION, 2021d).

4.5 The creation of the ISSB

The accusation directed at accounting expertise is that it can mitigate environmental effects by standardising technical procedures that associate managerial choices with socio-environmental impacts on financial markets (MALSCH, 2013; THISTLETHWAITE, 2015). However, in consonance with a growing demand for reporting on ESG aspects, and that sustainability reporting lacks standardisation (IOANNOU; SERAFEIM, 2017; HOANG, 2018; AMEL-ZADEH; SERAFEIM, 2018), the IFRS Foundation, after public consultation, announced the creation of the ISSB in November 2021 to set international sustainability reporting standards (ADAMS; ABHAYAWANSA, 2022).

The ISSB formally consolidated with the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF), resulting in the formation of a new global standards setter. The Trustees' decision considered supportive feedback from two public consultations, in addition to maintaining a constant dialogue with the IFRS Foundation Monitoring Board and obtaining the support of IOSCO and other entities (IFRS FOUNDATION, 2021f). The Technical Readiness Working Group (TRWG) made the publication of prototype climate and general disclosure requirements (IFRS FOUNDATION, 2021g). As described on the IFRS Foundation website,

> The ISSB has set out four objectives: a) developing standards for a global baseline of sustainability disclosures; b) meeting the information needs of investors; c) enabling companies to provide comprehensive sustainability information to global capital markets; and d) facilitating interoperability with disclosures that are jurisdiction-specific and/or aimed at broader stakeholder groups (IFRS FOUNDATION, 2023c).

The ISSB has achieved a critical amount of support from established market participants, which makes it capable of providing the same uniformity (and therefore usefulness) for sustainability reporting that currently exists for standard financial reporting. (ALEXANDER, 2022). While the documentation produced so far suggests that the current plan of the ISSB is to focus on data relating to the financial value of the company, what is commonly referred to as "financial materiality", there remains the possibility that other relevant information could also be included in the standards developed in the future. ISSB documentation explicitly states its opposition to double-materiality approach, which is the approach adopted by European regulators that combines financial materiality with information intended to provide data to other interested parties (ALEXANDER, 2022).

The IFRS Foundation also explains that, in 2022, the IFRS Foundation fully consolidated the resources of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VFR), which includes the Integrated Reporting Framework (IIRC) and SASB Standards, in terms of content, staff, technical expertise and other resources:

a) The International Integrated Reporting Council (IIRC):

Established in 2010 in response to the global financial crisis and as a request by HRH The Prince of Wales (Charles III). There had been attempts to integrate the different views presented in corporate reports, to obtain a more comprehensive view of the organisation as a whole (IIRC; KIRKSHHOFF, 2020). Whereas General Purpose IFRS Financial Statements focus primarily on investors and offer a limited financial perspective, the Sustainability Report can reach a broader audience and provide information about the organisation's impact on society and the environment. The most popular initiative that stipulated companies to produce Integrated Reports (IR) is the IIRC which released the International Integrated Reporting Framework in 2013 (BESKE; HAUSTEIN; LORSON, 2020).

In 2012, the first version of the International Integrated Report Framework was released as a prototype to improve the quality of information provided to financial capital providers. In this way, it would be possible to promote communication about the creation, preservation, and erosion of value, allowing for a more efficient and productive allocation of capital. The guidance approach is based on principles that foster the transformation of organisations, favouring the circulation of information in management reports and stimulating integrated decision-making. In addition, a financial materiality perspective is adopted. (ADAMS; ABHAYAWANSA, 2022).

b) The Sustainability Accounting Standards Board (SASB):

Established in 2011 "to help businesses and investors develop a common language about the financial impacts of sustainability" (SASB, 2022). The SASB is an independent non-profit entity that defines criteria for companies to disclose sustainability data to investors and other providers of financial resources. SASB follows a rules-based approach, and it focuses on financial materiality, and its approach to materiality is specifically different from those adopted by the GRI and the IIRC: "SASB standards surface sustainability information […] reasonably likely to affect the financial performance of the typical company in an industry […] SASB standards produce information that is decision-useful for investors." (SASB, 2022). The SASB bases its approach to identifying what is material in financial information on compliance with the requirements of the US federal securities laws, along with multiple Securities and Exchange Commission (SEC) regulations (SASB, 2022). SASB standards cover topics and disclosure indicators in five areas of sustainability: Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance. By providing clear information on how companies address sustainability risks and opportunities related to business value creation, the SASB standards help establish resilient financial markets that can more efficiently price risks and opportunities and create value for companies, investors, and society in general in a mutually beneficial way (WU; SHAO; CHEN, 2018).

c) Value Reporting Foundation (VRF):

In November 2020, two institutions, SASB and IIRC, revealed their plan to merge into one organisation in 2021 – the Value Reporting Foundation (JØRGENSEN; MJØS; PEDERSEN, 2022). Indeed, the VRF was established in 2021 to merge efforts of the two organisations, SASB and IIRC, internationally (JØRGENSEN; MJØS; PEDERSEN, 2022).

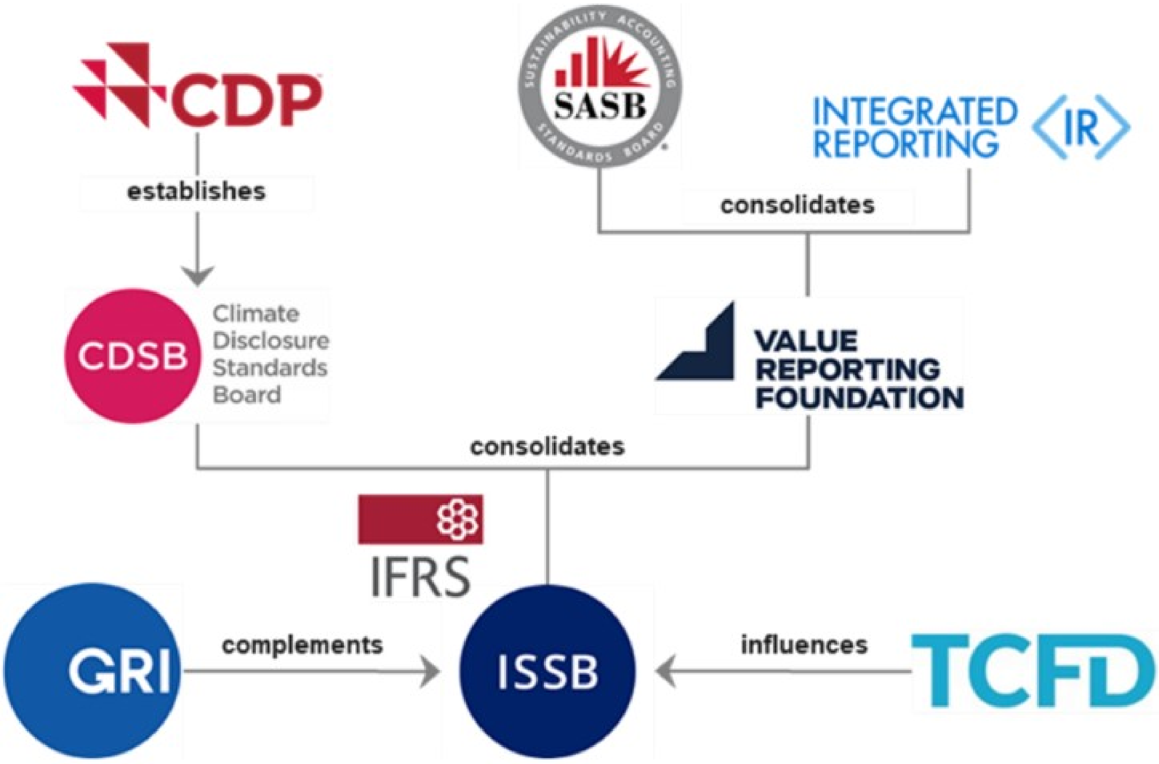
The Value Reporting Foundation, a non-profit organisation, provides comprehensive resources to help companies and investors gain a common view of a company's value, including its creation, preservation, or degradation over time (IFRS Foundation, 2022a).

d) Climate Disclosure Standards Board (CDSB):

Established in 2007 at World Economic Forum, 2007 and the first edition of the CDSB Framework was published in 2010. The objective was to make useful environmental information available to investors, aiming to improve the efficient allocation of capital through a conventional corporate report. For this, the approach used was based on rules and had an emphasis on financial materiality (ADAMS; ABHAYAWANSA, 2022). The CDSB emerged in 2007 through a collaboration between professional accounting organisations and various entities responsible for setting standards related to climate change risks, such as the Carbon Disclosure Project (CDP), the Coalition of Environmentally Responsible Economies (CERES), the California Climate Registry and the GHG Protocol. CDSB's main objective was to incorporate information about climate change in the most important financial reports, focusing its mandate on this purpose. Accounting experts were invited to form a Technical Working Group (TWG) to act as a neutral link in the design of a new standard that aligned existing approaches with the demands of international financial reporting (THISTLETHWAITE, 2015).

The Trustees of the IFRS Foundation announced that the Value Reporting Foundation (VRF) and the Climate Disclosure Standards Board (CDSB) would be incorporated into the IFRS Foundation (IFRS Foundation, 2022). SSB will also work closely with the Global Reporting Initiative (GRI) and the Task Force on Climate-Related Financial Disclosures (TCFD) (IFRS FOUNDATION, 2023c). Figure 11 illustrates the consolidation of the initiatives and influences for the standards to be developed by the ISSB.

Figure 11 – The consolidation of initiatives under the ISSB



Source: KIRKLAND & ELLIS (2022)

IFAC, in its 2020 publication argued that "the ISSB should engage with both IFRS and non-IFRS jurisdictions to encourage global adoption and use", also stating that "The IASB must remain focused on financial reporting standards. Coordination between the ISSB and IASB will be necessary to avoid overlaps and gaps (e.g., Management Commentary)" (IFAC, 2020). However, following the feedback they received on the comment letters opposing keeping a focus on invertors' needs and adopting a double-materiality approach, in March 2022, The IFRS Foundation announced a collaboration with GRI via a memorandum of understanding (MoU) where the ISSB would coordinate with the GSSB on standard-setting activities (GRI, 2022), stating that

> By working together, the IFRS Foundation and GRI provide two 'pillars' of international sustainability reporting – a first pillar representing investor-focused capital market standards of IFRS Sustainability Disclosure Standards developed by the ISSB, and a second pillar of GRI sustainability reporting requirements set by the GSSB, compatible with the first, designed to meet multi-stakeholder needs (GRI, 2022).

In March 2022, the ISSB released two exposure drafts for public comment, one with the proposed framework with general requirements for disclosure of sustainability-related financial information and the other relating to climate-related disclosure, both keeping a focus on enterprise value creation (ABELA, 2022; ABHAYAWANSA; ALEKSANYAN; TSALAVOUTAS, 2022). Meanwhile, EFRAG developed the European Sustainability Reporting Standards (ESRS) independently of the ISSB, and in April 2022 the first draft was published. In June 2022, the Council and the European Parliament reached a preliminary agreement on the Corporate Sustainability Reporting Directive (CSRD), which will require large organisations to disclose sustainability information (ABHAYAWANSA; ALEKSANYAN; TSALAVOUTAS, 2022).

ISSB's objective is to establish its position as the main setter of the initial global standards for sustainability reporting and many jurisdictions will likely enforce sustainability reporting and follow ISSB’s guidelines. Even though 53% of submissions sent from the UK opposed to the creation of the ISSB, the UK government supports the work of the ISSB and may base its sustainability disclosure requirements on its standards. (ABHAYAWANSA; ALEKSANYAN; TSALAVOUTAS, 2022). According to Abela (2022), despite the ISSB focusing on the information needs of providers of capital, there is a persistent issue, once the elements of the sustainability report are not clearly defined in ISSB initial standards, leaving a wide margin for subjectivity and a variety of potential metrics that can be included. This contrasts with financial reporting, which has more established criteria (ABELA, 2022). Thus, countries such as the UK that have shown an interest in ISSB’s standards but also wish to encompass dual materiality in sustainability reporting will need additional standards, such as those from the Global Reporting Initiative, to ensure organisations report their impact on society and the environment (ABHAYAWANSA; ALEKSANYAN; TSALAVOUTAS, 2022).

In February 2023, The ISSB announced that its initial IFRS Sustainability Disclosure Standards, IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-Related Disclosures), will become effective starting January 2024 and that The ISSB will provide support programs for companies applying its sustainability standards while infrastructure and market capacity is developed, as sustainability disclosure is still new to many organisations around the world. The ISSB also stated “We have built from existing market-accepted frameworks and standards. This means that the thousands of companies already using the TCFD Recommendations and SASB Standards will be in a strong position to use S1 and S2” (IFRS FOUNDATION, 2023c).

4.6 Additional concerns (Education and Training)

While reading the comment letters as part of the manual analysis, many additional topics outside the scope of public consultation emerged. However, these are also outside the scope of this research. However, one of these topics relates to the additional education /training that will be required for accountants (or accountancy organisations) to cope with recent developments in sustainability reporting. These concerns are summarised in Chart 16.

Chart 16 – Concerns raised about the education of accountants

"The accounting profession may not have nor be able to acquire the necessary skills to address the complex nature of climate risk, diversity and social inequality." (Submission 476)
"The basic requirement for change is education, and IFRS Foundations should capitalise on its strength in enabling accountants, auditors, and other professionals to undertake ongoing training throughout their careers to keep abreast of new developments in accounting practices. This education infrastructure is well suited to serving the function of bringing this new sustainability reporting skillsets to accounting practitioners and needs to be updated as a matter of urgency." (Submission 531)
"**Professional accountancy organisations:** professional accountancy organisations will need to adjust their entry level and professional development requirements so that their members are equipped to play their role in the converged corporate reporting system, including integrated as well as sustainability reporting, whether as accountants in business, professional advisers, assurance providers, or otherwise as business leaders. We are no longer talking about 'the future'. This is already 'the present' and significant changes are urgently required in these requirements and accreditations, particularly given the timelines for converging corporate reporting, which will test the resources and capabilities of professional accountancy organisations. **Tertiary and higher education institutions:** the business / accounting curricula of universities are today dominated by financial and management accounting, as required by the professional accountancy organisations who recruit their graduates. Sustainability reporting is now approaching the mainstream curricula of many universities, although this is often as an add on and not integrated with the teaching of integrated reporting. The teaching of integrated reporting is in its infancy and has been incubated by the IIRC under its global training partner plan [...] To date, it has only been possible to introduce integrated reporting as an under-graduate and post-graduate elective at Deakin University, UK. That must change." (Submission 73)

Source: IFRS FOUNDATION (2021a)

It is important that professional accountants and companies continue to develop their skills to prepare for and ensure the accuracy of sustainability information following the recent developments covered in this research, and as argued by Thistlethwaite (2015, p. 970), "Research has yet to assess empirically how accounting expertise is deployed as a 'public practice' to influence sustainability reporting."

5 FINAL CONSIDERATIONS

Sustainability reporting is a mainstream practice of companies worldwide. Nevertheless, defining which organisation sets international sustainability reporting standards is a complex process which requires debate, public observation, and participation in obtaining its legitimacy. An important component of this process is the solicitation of comment letters, a channel where supportive, neutral, or opposed opinions can be expressed.

In 2020, The IFRS Foundation launched a public consultation, which was an invitation to comment on whether the Foundation should establish a new board to develop international standards for sustainability reporting (IFRS FOUNDATION, 2020a). Following the public consultation in 2020, which received 577 (supportive and non-supportive) comment letters in response (IFRS FOUNDATION, 2021a), the Foundation announced the creation of the International Sustainability Standards Board (ISSB), on the third of November 2021, at the 26th U.N. Climate Change Conference (COP26), stating that the ISSB would set international standards for sustainability reporting. Furthermore, the IFRS Foundation released a feedback statement on the results of the public consultation, claiming the proposals received widespread support, using this last assertion as an argument to legitimise the creation of the ISSB (IFRS FOUNDATION, 2021b).

However, the Trustees have not published a detailed analysis of the comment letters resulting from the 2020 consultation (ADAMS; ABHAYAWANSA, 2022). Thus, this research analysed the 577 comment letters and address the main supportive arguments concerning the IFRS Foundation's proposal to establish the ISSB, focusing on the responses to question 2 of the public consultation questionnaire. It was under question 2 that the Foundation specifically asked whether a new board should be established. The *corpus* entailed 393 supportive comment letters, and this research is limited to a quanti-qualitative content analysis of the comment letters that were published on the IFRS Foundation website as a response to the first stage of the public consultation on sustainability reporting in 2020.

In parallel to the manual analysis, a computer-aided analysis was also conducted, adopting an inductive approach and interpretive perspective. The computer-aided content analysis employed Python, machine learning, Natural Language Processing, Sentiment Analysis, and BLOOM-560m, to compare the two analyses to determine the accuracy of the manual qualitative content analysis. The quanti-qualitative content analysis steps were based on the perspectives of Krippendorff, Weber, Saldaña and Mayring. The results of the manual analysis, confirmed by the computational model, show that 68% of respondents were supportive of the creation of the ISSB, while 31% opposed and 1% were neutral. The analysis of supportive responses shed light on the key arguments that legitimised the IFRS Foundation to establish the ISSB. Among the main arguments were that The IFRSF's expertise and success in developing accounting standards could be used to set sustainability standards; the Foundation has the best governance structure for the role; Financial Reporting (IASB) and Sustainability reporting (ISSB) should be under the same umbrella (IFRSF) for consistency in standards, creating a link between sustainability reporting (non-financial information) and financial statements (financial information); the Foundation can extensively use the expertise of the existing sustainability reporting frameworks rather than 'reinvent the wheel' for sustainability standards.

As per the KPMG report of October 2022, the GRI remains the most dominant standard used by organisations worldwide. However, the analysis of the supportive comment letters evidenced that, in the respondents' opinion, sustainability reporting should be made mandatory, and the adoption of GRI guidelines (as well as all other frameworks) remains voluntary. Therefore, other key supportive arguments were that the initiative of the IFRS Foundation was endorsed by IOSCO, and therefore the ISSB standards can be made mandatory in jurisdictions that choose to do so, also pointing that the IFRSF has existing good relationships with governments, which will speed up the adoption of ISSB's sustainability standards. This suggests that, based on the respondents' opinion, the IFRS Foundation, with the endorsement of IOSCO, can mobilise appropriate mechanisms to make sustainability standards mandatory, even though the GRI also has a robust governance structure, its standards are the most used worldwide (KPMG, 2022), and they encompass a broader perspective in comparison to IFRSF's proposals. The possibility of the GRI Standards becoming mandatory is not an alternative that the IFRS Foundation contemplated in the public consultation in 2020 (ADAMS; ABHAYAWANSA, 2022).

As evidenced by Adams and Mueller (2022), who analysed the submissions made by academics, most academics with research background in sustainability reporting were critical of the IFRSF's proposals and opposed the initiative, claiming that The IFRS Foundation's consultation paper did not consider the relative strengths of other approaches, the proposals did not actually address sustainability reporting but enterprise value creation, and that proposals were not aligned with achieving the Sustainability Development Goals (SDGs). Regarding the disclosure of sustainability reports, the authors indicate that "notably, across both those in support and those opposed, there was broad and strong support for mandatory sustainability reporting" (ADAMS; MUELLER, 2022). In other words, supporters and opponents alike agree on mandatory sustainability reporting disclosure, pointing out that organisations must take greater responsibility for the impacts of their operations on society, the economy, and the environment.

Regardless of the scientific academic criticism submitted to the public consultation, the IFRS Foundation established the ISSB as other stakeholder groups such as market regulators, accounts & finance regulatory bodies, and the big four accountancy, among others, were highly supportive of the proposals, representing 393 (68%) supportive responses against 179 (31%) that opposed. Since the Foundation has no experience in the discipline of sustainability (BARKER; ECCLES, 2018), as part of the creation of the ISSB, the IFRS Foundation fully consolidated the resources of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VFR), which includes the Integrated Reporting Framework (IIRC) and SASB Standards, in terms of content, staff, technical expertise and other resources. In most jurisdictions that adopt IFRS standards, the new ISSB standards are likely to become mandatory and regulated (therefore not voluntary anymore) in jurisdictions that adopt the IFRS (ADAMS; ABHAYAWANSA, 2022). Due to this change, costs will be inevitably incurred (to adapt to the new compulsory regulation) and the level of disclosure is expected to increase (IOANNOU; SERAFEIM, 2017).

The Trustees released their decision on ISSB's strategic direction in April 2021, based on the feedback received in the public consultation and inspired by the IOSCO statement that corroborated their views, stating that the ISSB would keep a focus on the information needs of investors, initially concentrating on climate risk by building upon the work of the TCFD which prioritizes enterprise value creation (IFRS FOUNDATION, 2021b). The strategic decision taken by the Trustees were based on the proposals they had put forward in the consultation paper, which is consistent with the findings of Ram and Newberry (2013), indicating the IFRS Foundation/IASB maintains its autonomy to make decisions, even after receiving feedback comments (RAM; NEWBERRY, 2013). In light of Legitimacy theory, it could be argued that the IFRSF's public consultation in 2020 was a symbolic gesture aimed at improving the perception of stakeholders in general (DOWLING; PFEFFER, 1975; NEU; WARSAME; PEDWELL, 1998). In other words, the consultation could be seen as a superficial measure that had more to do with public image than a genuine effort to listen and consider the views of the parties involved. It could also be perceived that the key stakeholder groups the IFRSF sought approval from (legitimacy) were those directly involved with investors (for example consultancy firms, the Big Four, and market regulators). This means that regardless of sustainability reporting being of interest to society as a whole, and investors are just one of several stakeholder groups, the IFRSF legitimised the creation of the ISSB based on the supportive letters mainly received from entities that serve investors. However, since its inception in 2001, the IFRS Foundation/IASB have included formal public consultation (with society at large) as an essential step in its due process of developing accounting standards (WINGAR; BOSMAN; AMISI, 2016).

The strategic route the Foundation has opted for suggests that with the creation of the ISSB, the IFRS Foundation has only partially attended the calls for harmonisation of frameworks, as the disclosure of information other than that relating to enterprise value creation (outside-in approach), will still need to be addressed by the use of other frameworks, which encompass a multi-stakeholder perspective and adopt a double materiality approach, such as the perspectives adopted by the Global Reporting Initiative (GRI), and by the European Financial Reporting Advisory Group (EFRAG). As a result, in March 2022, The IFRS Foundation announced a collaboration with GRI via a memorandum of understanding (MoU) where the ISSB would coordinate with the GSSB on standard-setting activities (GRI, 2022). This is an attempt of the IFRS Foundation to address multi-stakeholder needs other than investors and widen its approach to materiality.

The two key contenders competing for mandatory adoption of an international set of sustainability standards are the ISSB and the European Commission, through EFRAG (GINER; LUQUE-VÍLCHEZ, 2022). The EFRAG and the ISSB have different perspectives regarding the target audience, scope, materiality, and limits of the sustainability report. While the ISSB takes a narrower view and focuses on setting standards that reflect economic reality, without trying to influence the behaviour of organisations, the EC/EFRAG has a broader perspective and intends to influence organisations to adopt sustainable practices. However, there is an area of convergence and potential for collaboration between the two entities and they will likely coexist for some time (GINER; LUQUE-VÍLCHEZ, 2022).

It may be noted that current attempts at the convergence of sustainability reporting standards resemble earlier debates on accounting standardisation in the US and EU in the late 1990s. This dialogue resulted in the formation of the IASB and the mandatory adoption of IFRS standards for consolidated financial statements in the EU in 2005. Lessons learned from these historic changes in financial reporting can help the IFRS Foundation and other regulators to address today's challenges in harmonising sustainability reporting (ABHAYAWANSA; ALEKSANYAN; TSALAVOUTAS, 2022).

Finally, this research, added to the empirical and theoretical literature review, is expected to have a dual impact. Firstly, considering that ISSB standards may become mandatory in jurisdictions that adopt IFRS standards, this study may offer scientific support to qualify professional accounting organisations that provide guidance on accounting procedures. Secondly, it may also contribute to the advancement of academic research on the ISSB and the standards it will set, generating insights and perspectives for the academic community. This study's results provide evidence that the creation of the ISSB marks an additional step towards the standardisation of sustainability reports, although a long debate around this topic is still underway.

Due to the limitations of this research scope, the findings of the content analysis were interpreted in light of Legitimacy Theory and Public Consultations, the core objectives of Sustainability Reporting, the impacts of switching from voluntary to mandatory disclosures, and repercussions for the accounting profession. Institutional Theory, Stakeholder Theory, and Lobbying could potentially provide a basis for further analysis of the ISSB's formation. Other topics addressed in the IFRSF's public consultation in 2020, such as Auditing and external assurance, were not explored in this research, and these may present opportunities for future research.

The ISSB announced that its initial IFRS Sustainability Disclosure Standards, IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-Related Disclosures), will become effective starting January 2024 (IFRS FOUNDATION, 2023c). Therefore, future research could be an analysis, employing alternative techniques and/or Natural Language Processing (NLP) models, of the comment letters submitted to the subsequent public consultations that were conducted in 2022, regarding the first two standards, S1 and S2.

The Foundation also announced that the ISSB will support businesses that adopt its sustainability standards, while infrastructure and market capacity are still being developed, as disclosing sustainability-related information is a relatively new practice for many organisations worldwide. This represents another suggestion for future research, which could be on the quality and depth of the guidelines proposed by the Foundation concerning both the education and training of professional accountants, to meet the recent requirements of the new sustainability standards. In addition, future research could also be on the costs organisations will have upon implementing the new standards, as well as on the adequacy of the standards, given the different industries and local idiosyncrasies of organisations worldwide.

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ANNEX A – Public Consultation Questions

IFRS Foundation Consultation Paper on Sustainability Reporting—September 2020

Questions for consultation

Question 1
Is there a need for a global set of internationally recognised sustainability reporting standards? (a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area? (b) If not, what approach should be adopted?
Question 2
Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?
Question 3
Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?
Question 4
Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?
Question 5
How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?
Question 6
How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?
Question 7
If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?

Question 8
Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?
Question 9
Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?
Question 10
Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?
Question 11
Stakeholders are welcome to raise any other comment or relevant matters for our consideration.

Source: IFRS FOUNDATION (2020a)