

## The International Financial Reporting Standards Foundat...

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I noted that the International Financial Reporting Standards Foundation had issued, through its International Sustainability Standards Board, two new standards on accounting for environmental change [on Friday](#).

I admit that I have still not read all of these in every detail as yet, but one training as an academic that comes in very useful is to find the key arguments in a piece of work very quickly.

In this case, the first standard relates to what it describes as '[The General requirements for the disclosure of sustainability-related financial information](#)'. This suggests that a review of three things that they have to say really matters.

The first is what is sustainability-related financial information. This they define as follows:

*Sustainability-related financial information is broader than information reported in the financial statements and could include information about:*

- (a) an entity's governance of sustainability-related risks and opportunities, and its strategy for addressing them;*
- (b) decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements;*
- (c) the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them;*
- (d) the entity's development of knowledge-based assets.*

An alternative more succinct definition also provided is:

*Information that gives insight into sustainability-related risks and opportunities that*

*affect enterprise value, providing a sufficient basis for users of general purpose financial reporting to assess the resources and relationships on which an entity's business model and strategy for sustaining and developing that model depend.*

The second issue of significance is who the users of this data are meant to be, as it will be defined for their benefit. These primary users are stated to be:

*Existing and potential investors, lenders and other creditors.*

You have to read in the words 'of the reporting entity' for this statement to make sense.

The third issue to consider is where it is suggested that this disclosure is to be made. The following is said:

*Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general-purpose financial reporting in which to disclose sustainability-related financial information. Sustainability-related financial disclosures could be included in an entity's management commentary when management commentary forms part of an entity's general purpose financial reporting. Management commentary complements an entity's financial statements. It provides insights into the factors that have affected the entity's financial performance and financial position and the factors that could affect the entity's ability to create value and generate cash flows. Management commentary can be known by or incorporated in reports with various names, including management's discussion and analysis, operating and financial review, integrated report and strategic report.*

*An entity might disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. The entity shall ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.*

So, what do we learn as a result of this consideration of just three key issues?

First of all, sustainability-related financial information is not what might be called accounting data. That conclusion is confirmed by the evidence from the third review, which suggests that wherever this financial information might be supplied it is not in the income statement or balance sheet of any reporting entity covered by this new accounting standard. At best, this is data designed for inclusion in the front end of the accounts, where most information is closer to a public relations press release than it is to useful data of verifiable use to the person interested in the activities of a reporting entity. At worst, it need not even be in the accounts at all, but can be included in another statement that the reporting entity might produce.

Why is that? The second issue answers that point. This data, it turns out, is not

general-purpose accounting information (although the IFRS standards relate to the production of what they call general-purpose financial statements). It is instead highly specific data intended to assist one very limited appraisal to be undertaken by a tiny proportion of the users of accounts, of who there are at least seven groups in all:

- \* Shareholders
- \* Other suppliers of capital
- \* Trading partners
- \* Employees
- \* Regulators
- \* Tax authorities
- \* Civil society in all its forms

Just the first, and maybe the second of these groups are considered by this standard: the rest are left without any useful information at all, which is because, as the very first sentence of the proposed standard says:

*These proposals respond to calls from primary users (investors, lenders and other creditors) of general purpose financial reporting for more consistent, complete, comparable and verifiable sustainability-related financial information **to help them assess an entity's enterprise value.***

I added the emphasis. I do so deliberately. It is firstly because of the poverty of this ambition, which has nothing to do with climate change or sustainability or the impact of a business on society, and secondly is because nothing that I can see so far in the proposal made comes remotely close to achieving this stated aim. After all, how can you indicate the impact of an event on the scale of climate change and not require that the accounting consequences of it be reflected in the actual financial reporting (i.e. the income statement and balance sheet) of the entity it impacts?

And how, come to that, can anyone without a measure of that impact on the balance sheet have any chance of appraising the impact of the demand for sustainability in a way that might let them meaningfully allocate their capital?

How even can they tell if the reporting entity might survive the process of transition demanded of them?

I do, of course, [\*\*address all these issues in my alternative draft standard that happened to be published on the same day last week\*\*](#) as the International Financial Reporting Standards Foundation chose to publish their own draft standard. I would suggest only one of them met their own stated, and decidedly limited, goal, and that is mine. I would also suggest that whilst doing so my own version went a lot further in seeking to provide information

**to meet the needs of all users of accounts.**

**The International Financial Reporting Standards Foundation is failing society with its proposals. And that is not good enough.**