



International Trade
and Forfaiting Association

THE SUSTAINABLE AUDIT COUNCIL WORKING GROUP

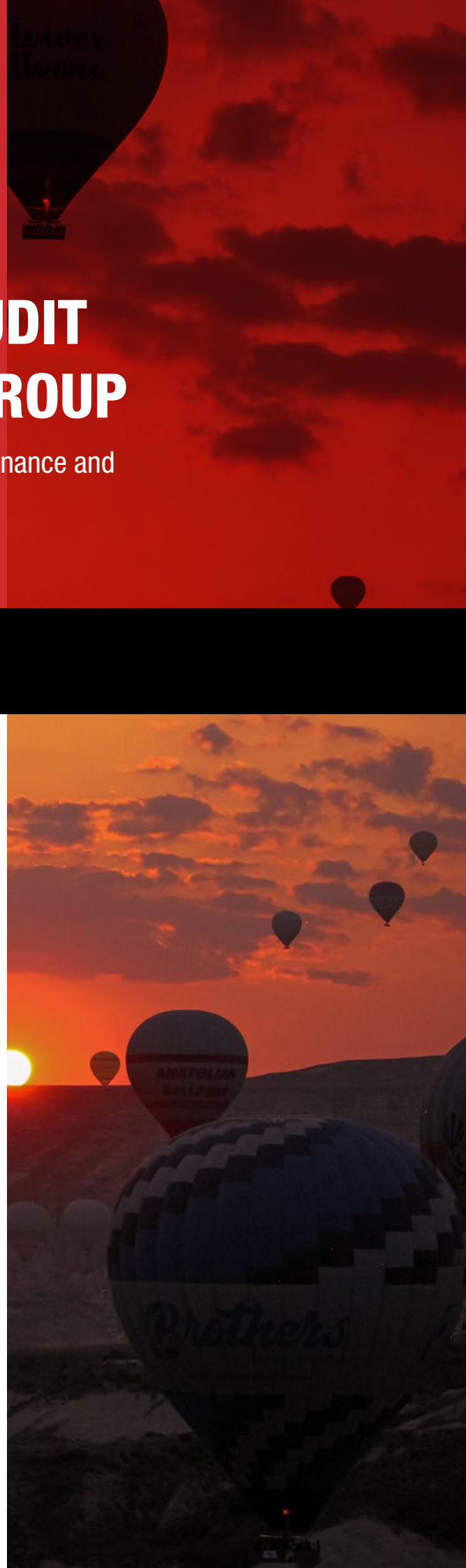
Creating a regulatory standard for ESG in trade finance and working capital

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ITFA ESG Committee

The ITFA-Sustainability Audit Council (SAC)

The ITFA-SAC is a cross-industry, independent and autonomous Working Group that is working to: a) establish a common standard for ESG disclosures; b) articulate the common standard to regulators on behalf of the business, banking, and trade finance sectors; c) establish an independent and approved audit mechanism for compliance based on common standards. The Audit Council is UK based but international in focus.

The SAC works with the ITFA ESG Committee to implement the recommendations of research conducted during 2023 that provided the business case for creating a common audit standard for ESG reporting. It also works independently across the industry to build a shared, collaborative dataset that will allow a transactions-level assessment of sustainability-related financial risk (SRFR) to be created. SAC work feeds into advocacy, regulatory and educational work as part of the ITFA-ESG Committee's remit and, separately, works across ITFA committees to ensure the interests of the Multilateral Banks and Africa are also taken into account.



The Vision

The SAC's vision is to provide a common standard for ESG reporting in the interests of transparency and achieving a measurable and reportable net-zero, avoiding greenwash on one hand, enabling comparability and regulatory ease on the other. In short, its vision is to understand the “what” and the “how” of regulatory reporting. In so doing, it is distinctive to other activities in the space because it is taking existing measurement standards and making them actionable in the form of common audit standards.

Aims and Objectives

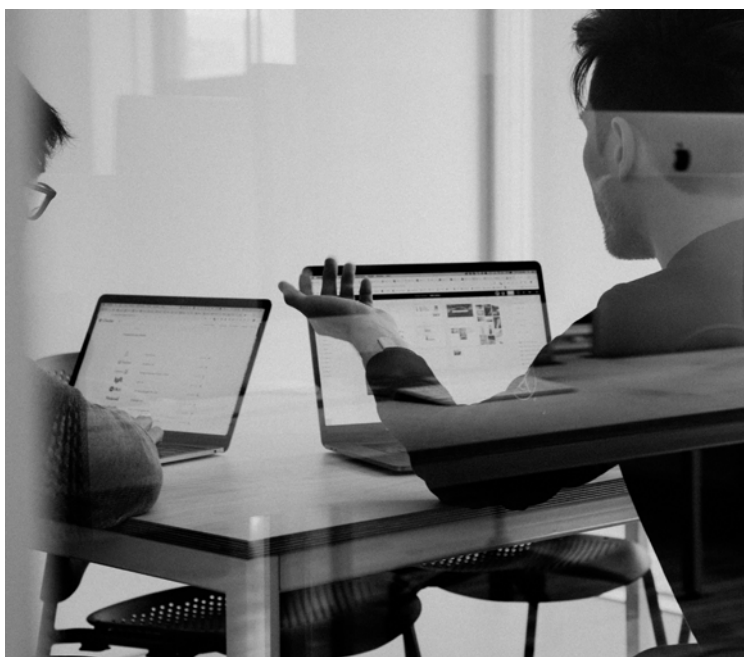
The overall aim of the SAC is to create a commonly understood and applied ESG framework or “passport” that works at both an entity and transaction level, for businesses, finance providers, and regulators. Its more specific aims are:

1. To provide a shared and collaborative understanding of the difficulties in “auditing” for ESG, by means of collaborative workshops and practitioner-led research.
2. To agree core measurement standards (and data points) for ESG such as sustainable development goals (SDGs) and taxonomy compliance.
3. To utilise OECD product code metrics and other tools for their practical application at an entity and transactions level.
4. To create an audit standard based on agreed, existing metrics and standards that will be supported by the industry and presented to the regulator.
5. To work with existing initiatives across the sector to implement these standards, (digitally, where possible).
6. To ensure inclusiveness by working with practitioners and representatives from emerging markets to understand their requirements in relation to ESG standardisation.

Why we need an Audit Council?

The SAC's collaborative and pre-competitive structure is required for three primary reasons. First there is a risk that the current approach to ESG leads to an ill-defined assessment of net-zero and carbon/ESG regulations, leading to incomparability of results. Comparability is essential to achieving the right outcomes and to close down greenwashing.

Second, there are only limited attempts to create a coordinated approach to regulatory standards. While this remains the case, it is more likely that



regulations are applied inconsistently. Businesses, trade bodies, and associations place varying priorities on ESG measurement and standardisation, on achieving net zero targets, and on developing the digital technology to enable measurement through supply chains. The proposal here is for a cross-industry Commission - working with the various rating/scoring agencies and businesses - to implement agreed reporting standards, similar to what is already in place for financial reporting.

Third, with an agreed auditable standard for scoring, we eliminate considerable inefficiency. Today there is considerable duplication of ESG assessments and reporting – similar to the current state of KYC assessments - where multiple parties produce similar analyses and reports on a single business/counterparty. Clarity around the definition of ‘standard compliance,’ the metrics used, and consistency of the standards themselves will drive superior outcome.

Regulations for financial disclosures are to be implemented in the UK and Europe over the next 12-18 months or are already implemented. ESG reporting is mandatory in over 30 countries around the world already. This provides an imperative for moving quickly to establish the proposed Commission.

SAC membership

The SAC is independently chaired by ITFA and its convening and research work is led by Dr. Rebecca Harding. Its membership would include, but is not limited to banks, businesses, trade associations, insurance providers and regulators with a view to expanding the Commission to include International Banks and regulators as the work progresses.



Approach

The Audit Council works with industry practitioners, representatives and regulators through:

- Regular workshop/working-group sessions
- Sub-committees on standards, metrics and data, and implementation
- Working group on diversity – eg emerging market metrics, multilateral banks and global standardisation/value projection
- Reports and advocacy work

SAC Board

The work of the Audit Council will be supervised and driven by an Advisory Board whose job will be to steer the work of the council and make recommendations to it in terms of the audit frameworks and data collection processes as they emerge. There will be a maximum of 10 Advisory Board members but there is no limit on the numbers of Audit Council members.

Timelines

The SAC's Advisory Board will start the standardisation process as soon as possible in 2024, with the first meeting of the full Audit Council planned during Q1 2024.

Once the standards are agreed, it will move to a convening role to create the technology and data ecosystem for sustainability scoring.

It is proposed that this group has its first meeting in Q1 2024 and agrees a working timeline to include future SIBOS and COP events during the course of the year. It is anticipated that the Audit Council will have at least 4 meetings during the course of 2024.

Costs

Audit Council Advisory Board membership:

Fee £10,000

Benefits Leading role in defining audit standards and data collection frameworks and methodologies; role in framing methods of Audit Council; branding on published outputs and events; attendance at Audit Council meetings; development of Audit Standards in ESG reporting and implementation; early access to work of Audit Council and access to all reports, emerging data collection frameworks and reporting frameworks, capacity to work on specific details (eg nature-based reporting and circular economy) as work develops

Audit Council membership:

Fee £5,000

Benefits Attendance at Audit Council meetings; development of Audit Standards in ESG reporting and implementation; early access to work of Audit Council and access to all reports, emerging data collection frameworks and reporting frameworks, capacity to work on specific details (eg nature-based reporting and circular economy) as work develops.

Outputs

1. Working papers ahead of each Council meeting
2. One interim report
3. One final report
4. One half day online workshop for all ITFA members
5. Final event
6. Input into Sibos and COP events and the ITFA Annual Conference as agreed
7. Thematic webinars around topics of special interest (eg nature based reporting; circular economy; social sustainability; emerging markets; governance)
8. Reports from thematic webinars

How your contributions will be spent

Fees for membership of the Audit Council will be allocated to:

1. Administrative costs of the working group (documentation, minutes of meetings, creating a central portal/repository for members, convening meetings, hosting meetings)
2. Marketing and PR work (independent agency fees to raise profile of SAC work and importance of audit standards within the global broadcast and print media)
3. Branding (independent branding to include Advisory Board member logos)
4. Research and Development work (including data investigation, auditable reporting frameworks, data analytics, report writing, surveys, interviews and thought-leadership, semantic language models/AI to develop and hone frameworks, integration with digital passporting frameworks such as LEIs)
5. Reporting, events and website/information portal.
6. Attendance at events, advocacy work and support to the ITFA ESG committee

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