CHAPTER 1

ISSB issues global sustainability disclosure standards

This article aims to:

- Provide a brief overview and impact of the ISSB sustainability disclosure standards

In recent years, there has been a growing demand among stakeholders and investors for more consistent and comparable information on sustainability-related disclosures. Sustainability factors are becoming an integral part of investment decisions by stakeholders in the capital markets. There is a pressing need for companies to provide high-quality, globally comparable information on sustainability-related risks and opportunities.

In this regard, on 26 June 2023, the International Sustainability Standards Board (ISSB) issued the final version of the first two IFRS Sustainability Disclosure Standards (the standards):

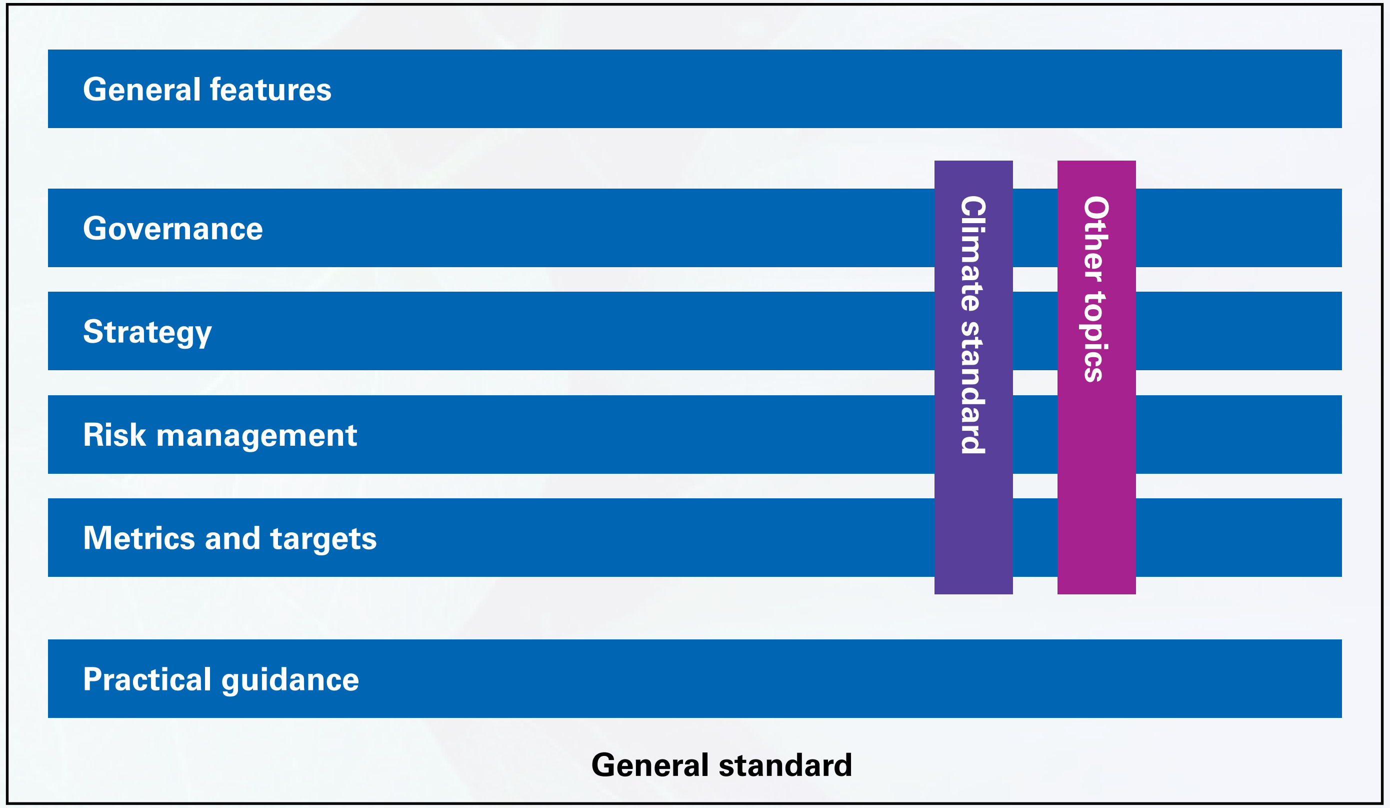
- IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1)
- IFRS S2, *Climate-related Disclosures* (IFRS S2)

The standards aim to put sustainability reporting on an equal footing with financial reporting and facilitate the much needed connectivity between sustainability-related financial information and the financial statements. They are based on existing frameworks and standards, including that of Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB).

Brief overview of the standards:

- **IFRS S1:** The objective of this standard is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity. This standard sets the foundation for implementation. It contains general features of sustainability reporting, including on materiality. The disclosure of information should be provided across four areas of:
  - Governance,
  - Strategy,
  - Risk management, and
  - Metrics and targets.

  The standard also includes practical guidance, including guidance on presentation of information.
- **IFRS S2:** This standard requires an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity. It provides additional details over and above the IFRS S1 and is also based on the above-mentioned four focus areas with additional guidance, particularly in relation to:
  - Disclosure of risks, climate transition plans, Greenhouse Gas (GHG) emissions and scenario analysis and
  - General and industry-specific metrics.



(Source: ISSB Talkbook issued by KPMG International Standards Group, dated 26 June 2023)

- **Topics other than climate:** The general requirements standards will require disclosure on all relevant topics. This standard helps companies by providing:
  - A framework of disclosures relevant for reporting on all sustainability-related topics
  - Suggested reference materials for topics other than climate
  - Key principles, including materiality and connected information and
  - Practical details – e.g. how to update estimates or report comparatives.

  The standard provides a climate ‘first’ relief. The standard introduces a relief from providing disclosures on topics other than climate in the first year of reporting. Companies still need to report on other topics from second year.

Apply the general disclosure requirements and applicable future IFRS Sustainability Disclosure Standards

Governance | Strategy | Risk management | Metrics and targets

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Companies ‘shall consider’

- Disclosure topics and metrics in SASB standards

Companies ‘may consider’

- CDSB* Framework
- Other investor-focused frameworks
- Industry or local practice
- ESRS** and GRI***

*CDSB – Climate Disclosures Standard Board

**ESRS - European Sustainability Reporting Standards

***GRI – Global Reporting Initiative

(Source: ISSB Talkbook issued by KPMG International Standards Group, dated 26 June 2023)

Key elements of the standards:

- **Disclosure of material information and material metrics:** Companies should provide a complete and balanced explanation of sustainability-related risks and opportunities. They should consider the four focus areas and should provide only such information which is relevant for investors and creditors. The entities should specify the time horizons—short, medium or long term—over which the effects of each of those sustainability-related risks and opportunities could reasonably be expected to occur. Further information disclosed should be relevant to the sector and industry in which the company operates.

  The metric would be based the measurement requirements specified in the climate standard or future standards to be introduced.

Disclosures focus on matters that are critical to the way a company operates

The general disclosure requirements standard sets out a framework

Governance

Processes, controls and procedures that a company uses to monitor sustainability related risks and opportunities

Strategy

Sustainability related matters that could enhance the business model and strategy over the short, medium and long term

Risk management

How sustainability related risks are identified, assessed and managed

Metrics and targets

Information to explain the company's performance on sustainability related matters over time

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Additional standards that build on this framework and include industry-specific requirements

Climate-related disclosures

Future standards to be issued

(Source: ISSB Talkbook issued by KPMG International Standards Group, dated 26 June 2023)

- **Scenario analysis:** Companies are required to undertake scenario analysis when describing their assessment of climate resilience. For this purpose, ISSB will provide guidance on the analysis that will be appropriate for different types of companies which will be based on existing materials developed by the TCFD. Such disclosures would help investors assess the possible exposures from a range of hypothetical circumstances. Companies discussing impacts under different scenarios would provide an understanding of their assessment of resilience.
- **Placement of the disclosure:** The standards do not specify a single location. The disclosures are required to provide as part of its general-purpose financial reports. Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general-purpose financial reports in which to disclose sustainability-related financial information. The standards allow for cross-referencing to information presented elsewhere, but only if it is released at the same time as the general-purpose financial report. However, the entity should ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.
- **Effective date for application:** The standards are effective for annual reporting periods beginning on or after 1 January 2024, with early application being permitted. However, adopting the standards is dependent on local jurisdictions, so the first application date might be different for companies around the world. In some jurisdictions, the standards will provide a baseline either to influence or to be incorporated into local requirements. Companies may choose to adopt the standards on a voluntary basis also.
- **Timing of reporting:** An entity will report its sustainability-related financial disclosures at the same time as its related financial statements. The entity's sustainability related financial disclosures should cover the same reporting period as the related financial statements.
- **Comparative information:** Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity is required to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. If such information would be useful for an understanding of the sustainability-related financial disclosures for the reporting period, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial information.
- **Statement of compliance:** An entity whose sustainability-related financial disclosures comply with all the requirements of IFRS Sustainability Disclosure Standards should make an explicit and unreserved statement of compliance. An entity should not describe sustainability-related financial disclosures as complying with IFRS Sustainability Disclosure Standards unless they comply with all the requirements of IFRS Sustainability Disclosure Standards.
- **Transitional relief:** The standards provide transitional relief as companies are not required to provide comparative information for any period before the date of initial application. Further they are not required to disclose Scope 3 emissions metrics or information on topics other than climate until the second period of reporting.

Impact on companies

It is important to note that first two standards are required to be applied together. Therefore, the companies should identify and report only such information that investors need for informed decision making i.e. the information that would affect the investor's assessments about a company's future cash flows. Accordingly, companies should adopt a consistent global framework to report on all relevant sustainability topics and not just on climate related standard. For this purpose, companies should assess how these topics impact its prospects.

Companies will need to implement processes and controls so that they can provide sustainability-related information of the same quality, and at the same time, as their financial information.

Some key points to consider are:

- **Understand the impact:** Companies should conduct necessary research and understand current and emerging requirements of the new standards. They should assess and understand when, where and how this will impact the company.
- **Determine what is material:** Determine which topics are relevant to report on and decide what information is material about those topics should be evaluated by companies and those charged with governance.

- **Assess maturity:** Companies should assess the maturity of processes, the control environment, data model and policies. The management should understand the current distribution of roles and available knowledge and capacity.
- **Transform reporting:** Companies should design the manner of reporting to be adopted. For this, companies should consider deploying target operating model, including training as well as support for change management. In case a company has already adopted other frameworks for sustainability reporting, they may map how the standards differ from current frameworks used.
- **Assurance requirements:** It should be noted that the assurance requirements are not within the ISSB's remit. Further, regulators may choose to require assurance. However, despite the local assurance requirements, companies will need to ensure they have the processes and controls in place to produce robust, accurate and timely information.

Next steps

Establishing a global baseline for corporate sustainability disclosures is a key ambition of the International Organization of Securities Commissions' (IOSCO's) Workplan for Sustainable Finance, which aims to increase transparency and mitigate greenwashing in financial markets. IOSCO has been actively involved in the IFRS Foundation and has welcomed these new standards.

There are 140 IOSCO member jurisdictions, and as the ISSB standards follow a building blocks approach, this is likely to encourage these jurisdictions to adopt these standards. ISSB standards facilitate the addition of requirements that are jurisdiction specific or a with the basis to decide how they might adopt, apply or be informed by the ISSB standards.

Additional standards by ISSB are expected in the future which would provide general and industry-specific guidance on other topics such as biodiversity. Companies should keep track of all the developments and announcements about adoption of these standards.

Currently, top 1,000 listed companies in India are required to furnish a Business Responsibility and Sustainability Report (BRSR) to the stock exchanges as part of their annual report. The BRSR seeks disclosures from listed companies on their performance against the nine principles of the National Guidelines for Responsible Business Conduct (NGRBC). As per the BRSR guidance note, listed companies can prepare and disclosure sustainability reports (as part of annual report) based on internationally accepted reporting framework such as GRI, SASB, TCFD, Integrated Reporting (<IR>) and can cross-refer the disclosures made under such frameworks to the disclosures sought under the BRSR. The mandatory reporting under BRSR does not restrict companies from adopting the ISSB framework and companies can look to adopt these standards on a voluntary basis as it will help in producing globally comparable sustainability disclosures. This will also aid in cross border transactions and securing sustainable finance.

SEBI has recently introduced the 'BRSR Core' which consist of limited set of Key Performance Indicators (KPIs) under each E, S and G attributes/areas. The BRSR Core would include attributes such as change in GHG footprint, change in water footprint, environmental footprint, waste management, etc. Companies should watch out for further developments from regulators in this space.