



Get ready for ISSB™ sustainability disclosures



Understanding the standards

—
June 2023



Get ready for ISSB sustainability disclosures



What's the issue?

- The first IFRS® Sustainability Disclosure Standards¹ mark the next step towards equal prominence for sustainability and financial reporting.
- They are based on existing frameworks and standards, including TCFD and SASB.
- The aim is to create a global baseline for investor-focused sustainability reporting that local jurisdictions can build on.



What's the impact?

- Companies will report on all relevant sustainability topics (not just on climate) under a consistent global framework and focus on how these topics impact a company's prospects.
- Reporting will be connected to the financial statements. Therefore, companies will need processes and controls in place so that they can provide sustainability-related information of the same quality, and at the same time, as their financial information.



What's next?

- The standards are effective from 1 January 2024.
- Individual jurisdictions will decide whether and when to adopt but a rapid route to full adoption is expected in a number of jurisdictions.
- Some public and private companies may choose to adopt them voluntarily – e.g. in response to investor or societal pressure.

Abbreviations and key terms

¹ In this document we use 'the standards' to refer to the first IFRS Sustainability Disclosure standards – IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, both published 26 June 2023.

10 questions to start getting ready



01

What has been released?

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04

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10

What do you need to do now?

01 What has been released?

▶ The general standard sets the foundation

- General features of sustainability reporting, including on materiality.
- A content structure across the four areas of governance, strategy, risk management, and metrics and targets.
- Practical guidance, including on presentation of information.

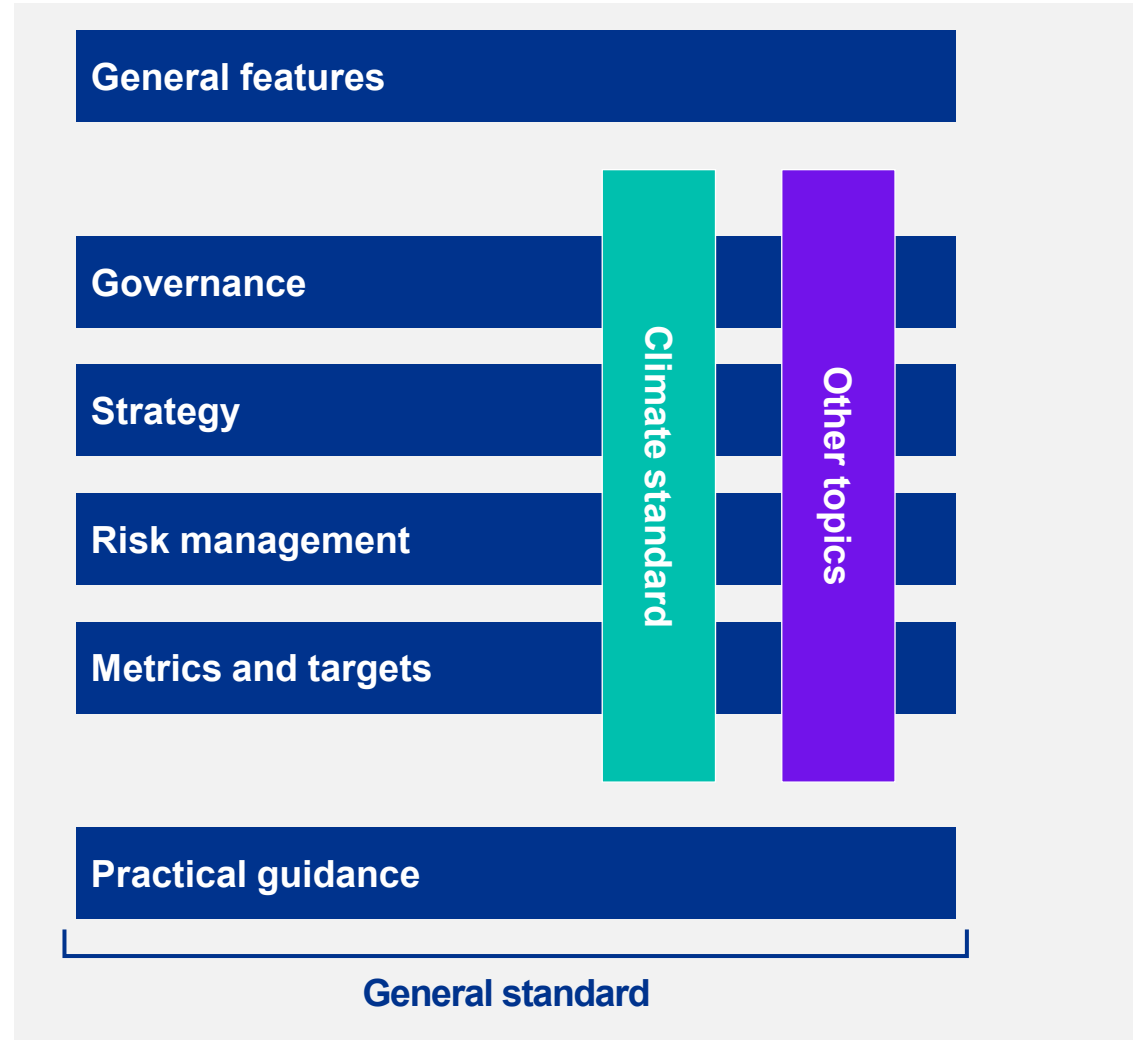
▶ The climate standard provides additional detail

It builds on the four content areas with additional guidance, particularly in relation to:

- disclosure of risks, climate transition plans, GHG emissions and scenario analysis; and
- general and industry-specific metrics.

▶ Future standards are expected to follow

- Additional standards are expected in the future, providing general and industry-specific guidance on other topics – e.g. biodiversity.



02 What will need to be disclosed?

► Material information

- Providing a complete and balanced explanation of sustainability-related risks and opportunities.
- Covering governance, strategy, risk management and metrics and targets.
- Focusing on the needs of investors and creditors.
- Reflecting consistent, comparable and connected disclosures.
- Presented across time horizons: short, medium and long term.
- Relevant to the sector and industry.

► Material metrics

- Based on measurement requirements specified in the climate standard or future standards.
- Identified from other guidance – e.g. SASB (see Question 8).
- Reflecting other metrics used by the company.

Transition reliefs

Companies are not required to:

- provide comparative information for any period before the date of initial application; or
- disclose Scope 3 emissions metrics or information on topics other than climate until the second period of reporting.



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.



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

Climate-related disclosures

Future standards (see Question 7)

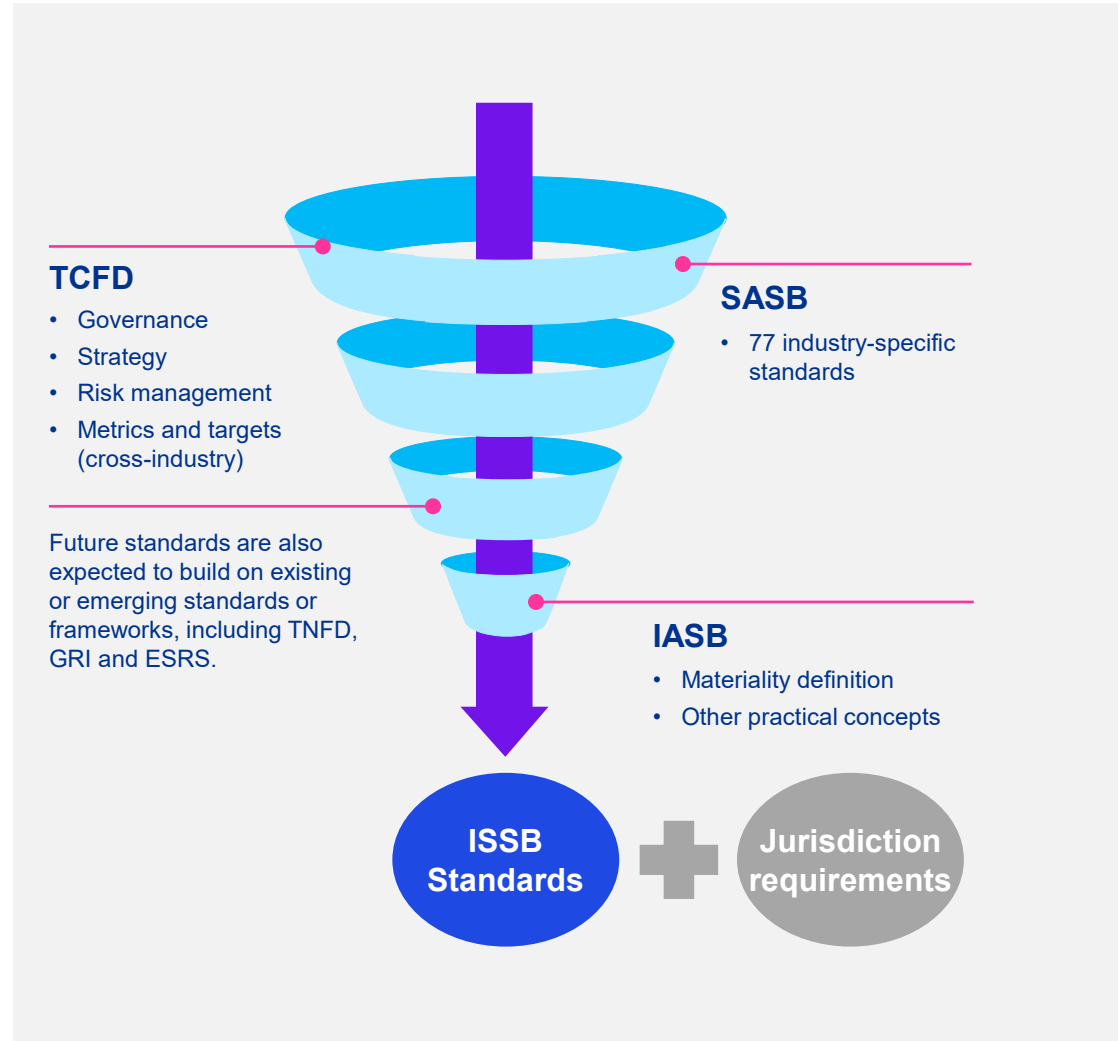
03 What are the standards based on?

► Consolidating the latest thinking of existing frameworks and standards

- Follow the four pillars of the TCFD's recommended disclosures: governance, strategy, risk management, and metrics and targets.
- Enhanced by climate-related, industry-specific metrics derived from the SASB's 77 industry-specific standards.
- Incorporate concepts and principles used in IFRS Accounting Standards from the IASB.
- Additional input from other frameworks and stakeholders, including CDSB and Integrated Reporting.

► Bringing financial reporting concepts to sustainability reporting

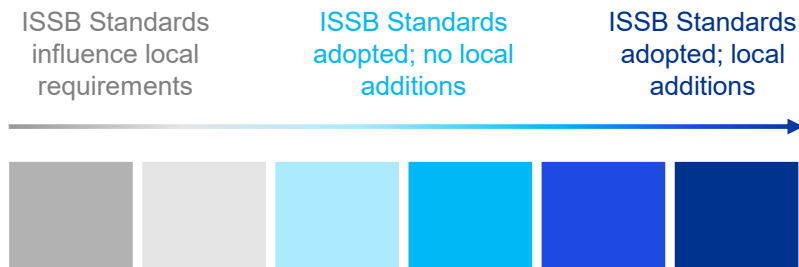
- Built using a similar approach to IFRS Accounting Standards.



04 How and when could they affect you?

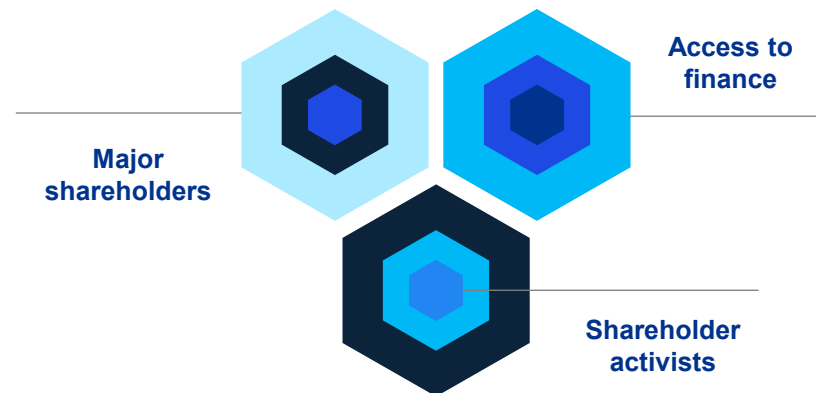
► Mandatory adoption

- The standards are effective for annual reporting periods beginning on or after 1 January 2024. Early application is permitted.
- However, adopting the standards is dependent on local jurisdictions, so the first application date might be different for companies around the world.
- With strong support from IOSCO, a rapid route to adoption is expected in a number of jurisdictions.
- In some jurisdictions, the standards will provide a baseline either to influence or to be incorporated into local requirements. Others are likely to adopt the standards in their entirety.



► Voluntary adoption

- Companies may choose to adopt the standards voluntarily.
- Investors are increasingly willing to use their voting power to drive transparency over sustainability-related matters, including transition plans and their impact.
- Investors have generally supported the adoption of TCFD and SASB Standards in the past. Therefore, they may be expecting companies to adopt the standards quickly.
- The ISSB brings the same focus, comparability and rigour to sustainability reporting as the IASB has done for financial reporting.



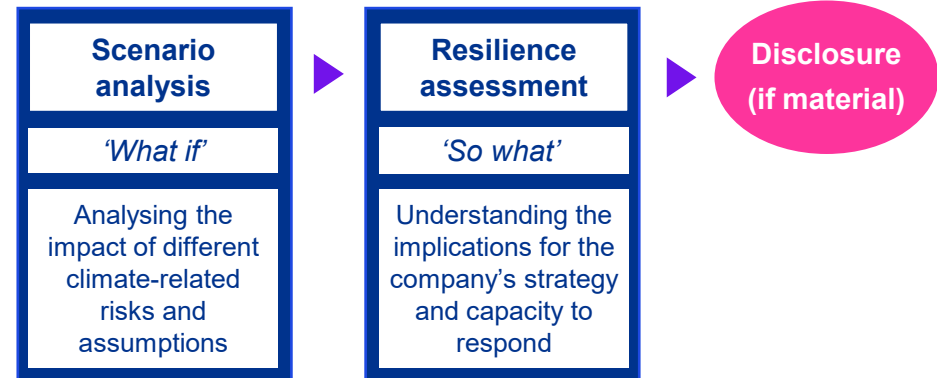
05 Will they require scenario analysis?

► Scenario analysis is required

- Companies will need to use scenario analysis when describing their assessment of climate resilience.
- The ISSB will provide guidance on the analysis that will be appropriate for different types of companies.
- This guidance will build on existing materials developed by the TCFD.

► What is a climate scenario?

- A set of assumptions around how the world may react to achieving different degrees of global warming – e.g. the carbon prices and other factors needed to limit global warming to 1.5°C.
- Scenarios may differ from the assumptions underlying the financial statements. However, management needs to consider carefully whether the extent of the linkage between scenario analyses and these assumptions is appropriate.



Why is the disclosure useful?

- It can help investors assess the possible exposures from a range of hypothetical circumstances.
- For companies, discussing impacts under different scenarios can help explain their assessment of resilience.

06 Where will the information be disclosed?

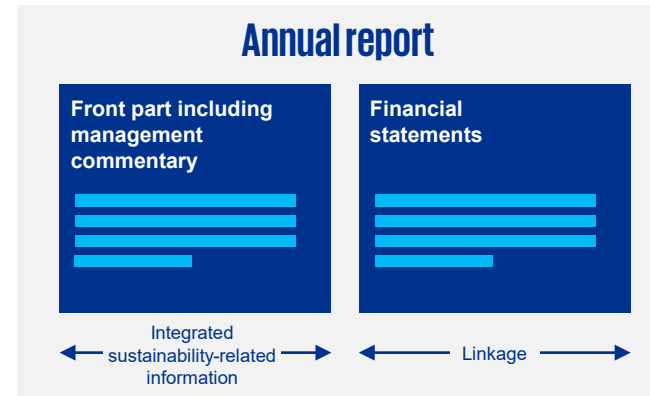
► It depends

- The standards do not specify a single location.
- 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.
- Many countries already include broad requirements for the disclosure of investor-relevant information¹ and therefore material sustainability-related information.

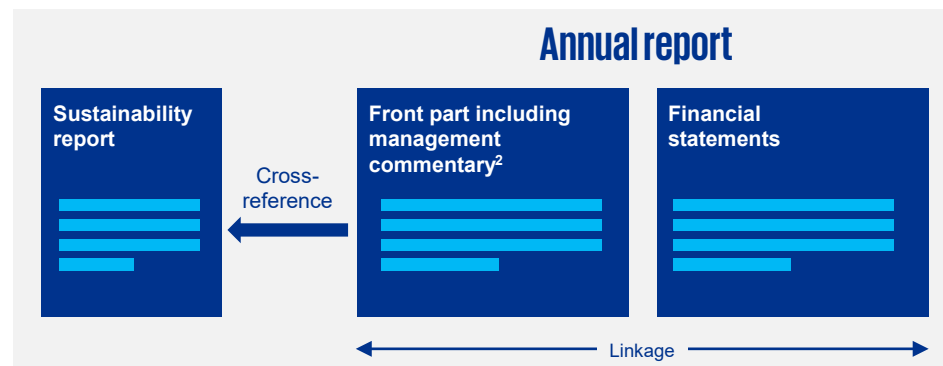
► Will you need to get assurance?

- Assurance requirements are not within the ISSB's remit.
- Regulators may choose to require assurance.
- Regardless of local assurance requirements, companies will need to ensure they have the processes and controls in place to produce robust and timely information.

Example 1:
Integration of information in management commentary.



Example 2: Separate report providing sustainability-related information, cross-referenced to and available at the same time and on the same terms as management commentary.



¹ For example, the management commentary or MD&A may be the most appropriate place to provide information.

² Ensuring material information is not excluded from management commentary or MD&A.

07

What about topics other than climate?

► The general standard 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 reporting; and
- practical details – e.g. how to update estimates or report comparatives.

► ‘Climate first’ relief

- The standards introduce a relief from providing disclosures on topics other than climate in the first year of reporting.
- Companies still need to get ready to report on other topics from the second year.

¹ The standards differentiate between sources that companies “shall” consider and those that they “may” consider. For further information see [our article](#).

² For example, the CDSB Framework application guidance for water- and biodiversity-related disclosures.

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

Governance

Strategy

Risk management

Metrics and targets



Companies “shall” consider¹

Disclosure topics and metrics in SASB Standards

Companies “may” consider¹

CDSB Framework²

Other investor-focused frameworks

Industry or local practice

ESRS and GRI



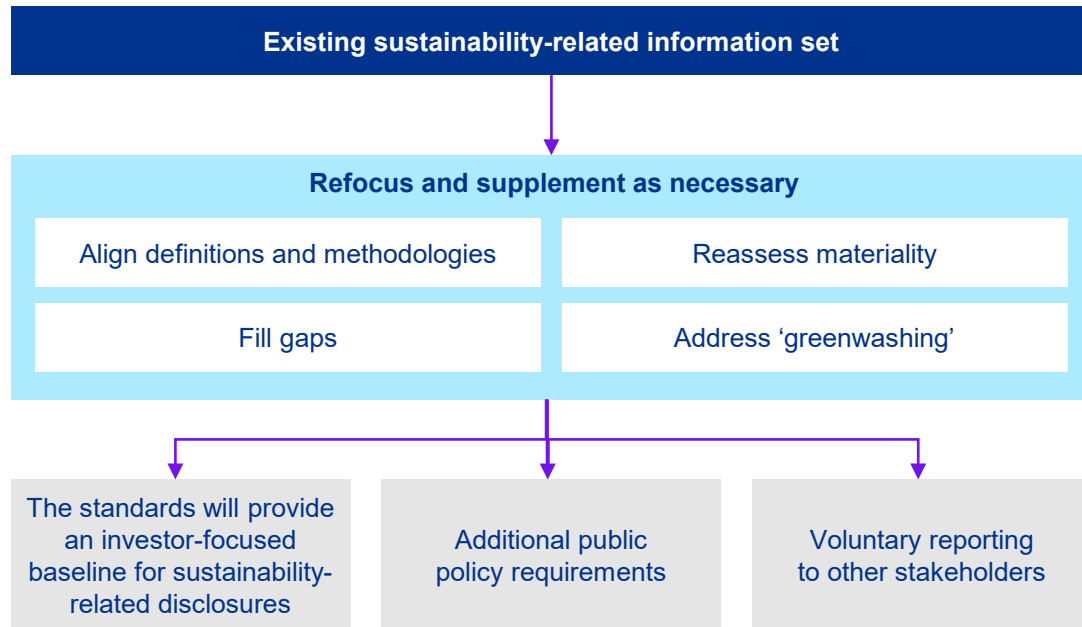
Public consultation:

- The ISSB has an [ongoing public consultation](#) on what to cover in future standards.
- The comment period is open until 1 September 2023.

08 What if you've already adopted other frameworks?

► Build and adapt

- Consider specific jurisdictional guidance, including any recommendation to adopt or converge with ISSB Standards.
- Map how the standards differ from current frameworks used.
- Focus on matters that affect the company's prospects and consider what will impact an investor's assessment of those prospects.
- Consider where additional data is needed.



► Items to consider if previously adopted TCFD

- Identify and present material information on topics other than climate and focus on sector and industry metrics.
- For climate-related reporting specifically, prepare for more granular disclosures, and align the bases of calculation and presentation to the climate standard.

► Items to consider if previously adopted SASB Standards

- Focus on strategic and process-related requirements related to governance, strategy and risk management.
- Use data collection processes for industry-specific metrics.

09 What do they mean for broader sustainability reporting?

▶ Evolution

- The standards are part of the evolution from fragmented, voluntary frameworks to authoritative standard setting.
- The formation of the ISSB provides a natural focal point for the consolidation of investor- and creditor-focused reporting frameworks.

▶ Reporting to meet public policy and other needs

- This is likely to continue as a separate strand of reporting.
- Some jurisdictional standards are building on the global baseline and incorporating broader content – e.g. in the EU.
- Some jurisdictions are developing 'green taxonomy' requirements for the classification of revenue and expenditure based on whether the activity meets certain sustainability-related criteria.

▶ Private companies

- Some private companies are under pressure from investors, lenders, customers and others to improve their sustainability-related credentials and reporting.
- Therefore, they may be called on to comply with the standards. This could be as part of or in addition to local jurisdictional requirements.



10 What do you need to do now?

1 Understand the impact

- Research and understand current and emerging requirements.
- Understand when, where and how this will impact your company.

2 Determine what is material

- Determine which topics are relevant to report on.
- Decide what information is material about those topics.

3 Assess maturity

- Assess the maturity of processes, the control environment, data model and policies.
- Understand the current distribution of roles and available knowledge and capacity.

4 Transform reporting

- Design the future state of your reporting.
- Deploy your target operating model, including training as well as support for change management.

5 Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation to support assurance.
- Rectify issues ahead of the formal assurance process.



Abbreviations and key terms

CDSB

Climate Disclosure Standards Board – an initiative of CDP (formerly the Carbon Disclosure Project)

ESRS

European Sustainability Reporting Standards

GHG

Greenhouse gases

GRI

Global Reporting Initiative

IASB

International Accounting Standards Board

IOSCO

International Organization of Securities Commissions

ISSB

International Sustainability Standards Board

ISSB Standards

IFRS® Sustainability Disclosure Standards

MD&A

Management discussion and analysis (also known as management commentary)

SASB

Sustainability Accounting Standards Board

TCFD

Task Force on Climate-related Financial Disclosures

TNFD

Task Force on Nature-related Financial Disclosures

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Whether you are new to sustainability reporting or a current user, you can find digestible summaries of recent developments and more detailed guidance on the current proposals.

ISSB | Sustainability reporting resource centre

Tracking the development of IFRS Sustainability Disclosure Standards



ESRSs | Sustainability reporting resource centre

Practical guidance on the ESRSs



ISSB priorities

Understanding the future focus



ESG reporting

US resources for financial reporting professionals



First Impressions – IFRS S1 and IFRS S2

Insights and illustrative examples



Comparing sustainability reporting proposals

Comparing proposals from the ISSB, EU and US





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