



# SITUATION UPDATE BRIEF

## ESG Reporting

12 April 2023



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## THE ESTABLISHMENT OF A UNIVERSAL ESG REPORTING FRAMEWORK: PREPARING FOR THE ISSB DISCLOSURES

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### Key points

- The mission of the International Sustainability Standards Board (ISSB) is to establish a common set of sustainability disclosure standards that are globally comparable, consistent and reliable.
- The International Financial Reporting Standards (IFRS) S1: 'General Requirements for Disclosure of Sustainability-related Financial Information' requires entities to disclose information about all significant sustainability-related risks and opportunities; IFRS S2: 'Climate-related Disclosures' requires the identification, measurement and disclosure of all climate-related risks and opportunities.
- The first two finalised disclosures will be issued at the end of June, meaning reports aligned with the frameworks will need to be issued from early 2025.

### Context

The presence of numerous sustainability reporting frameworks which do not provide a uniform perspective, as well as a lack of robust Environmental Social and Governance (ESG) data, will significantly impact the ability of investors and other key stakeholders to identify and measure the most pertinent ESG risks and opportunities affecting business operations. Since its announcement at COP26, the ISSB has subsequently come under increasing pressure to deliver a global baseline of sustainability disclosures. The scale of this task cannot be understated. Consolidating a plethora of voluntary disclosure standards into a set of comparable and universally acceptable and applicable disclosure standards is a hugely significant task. However, it is imperative that a universal set of standards is created. These can then be employed as an effective foundation for mandatory global reporting regulations.

### Timeline

In March 2022, the ISSB published exposure drafts of its initial two standards: '*General Requirements for Disclosure of Sustainability-related Financial Information*' (IFRS S1) and '*Climate-related Disclosures*' (IFRS S2). Following an extensive consultation period that resulted in more than 1,400 responses, the ISSB finalised the technical content of the first two standards at its meeting on 16 February in Montreal (Canada). These standards, as unanimously agreed by the ISSB, will now enter a thorough drafting and formal 'balloting' process ahead of their likely issuance at the end of Q2 2023. This involves drafting, reviewing and a final approval to ensure the standards accurately capture the decisions of the board.

Notably, sustainability-related financial information must be reported as part of a company's general-purpose financial reporting; it must also be disclosed at the same time as its financial statements. This emphasises the equal value which the ISSB holds for both sustainability and financial reporting. Another crucial outcome of the Montreal meeting was that these standards will become effective for the period commencing on or after 1 January 2024. This timeline represents a strong statement from the ISSB in response to the growing and urgent demands of investors and stakeholders for companies to disclose reliable and comparable sustainability-related data and information. Therefore, the first sustainability reports produced under the new standards will likely be published in 2025.

## **IFRS S1**

The first of the ISSB's two standards, IFRS S1, establishes a comprehensive baseline of sustainability-related financial information. It requires the disclosure of material information about an entity's sustainability-related risks and opportunities, which will allow the primary users of general-purpose financial reporting to assess enterprise value. The core content of the standard is built around a company's consideration of its governance, strategy and risk management, as well as the metrics and targets it uses to measure, monitor and manage significant sustainability-related risks and opportunities. This framework is consistent with the four-pillar architecture of the Task Force on Climate-Related Financial Disclosures (TCFD).

If a relevant IFRS disclosure standard is absent, IFRS S1 includes requirements and guidance to identify relevant sustainability-related risks and opportunities, as well as related metrics. In addition to standards applied by the Sustainability Accounting Standards Board (SASB), the ISSB recently voted to reference standards from the Global Reporting Initiative (GRI) and the European Sustainability Reporting Standards (ESRS) in its final set of standards.

## **IFRS S2**

The second of the ISSB standards, IFRS S2, sets out the reporting standards for a company to identify, measure and disclose information specifically about its climate-related risks and opportunities. Adopting the same approach as the General Requirements Exposure Draft, the standard's disclosures are based on the TCFD framework. In addition, IFRS S2 includes industry specific metrics across 11 sectors and 68 industries, derived from the SASB standards. It also mandates the disclosure of information about:

1. Physical risks
2. Transition risks
3. Climate-related opportunities

To achieve an effective global baseline of sustainability reporting standards, jurisdictions must fully embrace the ISSB's standards. Acknowledging the enormity of the change this will bring, the ISSB recently announced a guidance package to support the adoption of these standards. The aim is to allow companies time to scale up their approach vis-à-vis the employment of these standards, while simultaneously taking into consideration a company's 'skills, capabilities and resources' to determine the best approach to providing information.

Ahead of the highly anticipated release of the standards in June, the ISSB will continue to focus on developing further guidance, training material and illustrative examples to support companies in the application of both IFRS S1 and IFRS S2. Key features of this guidance will include scenario analysis using TCFD recommendations, and Scope 1, 2 and 3 greenhouse gas (GHG) emission measurements in accordance with the GHG Protocol Corporate Standard.

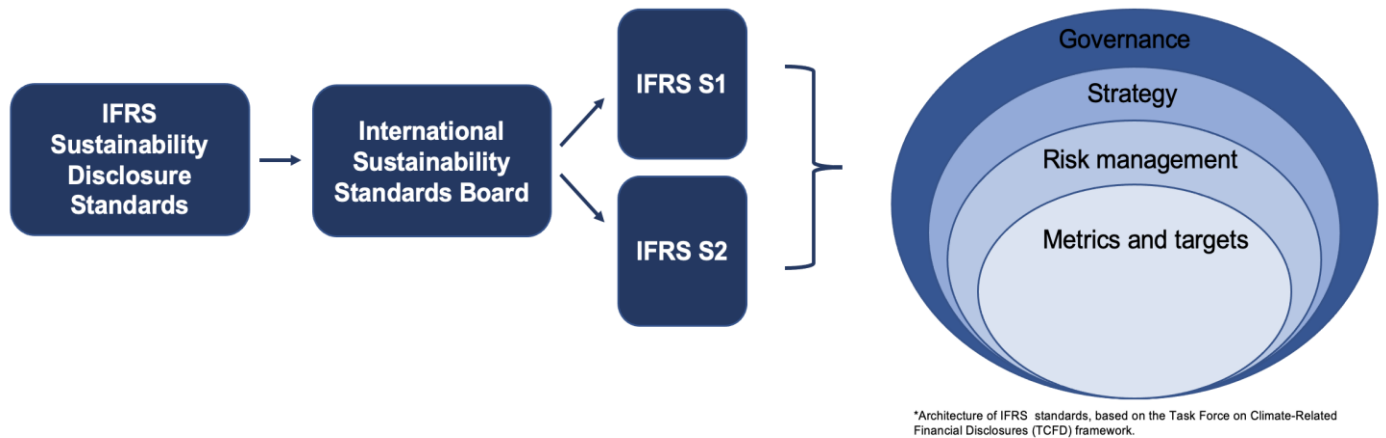


Figure 1: IFRS Sustainability Disclosure Standards

### Forecast

While the ISSB cannot mandate the use of its standards, many international bodies, existing disclosure frameworks and jurisdictional authorities have already committed to ensuring their regulatory adoption. The Carbon Disclosure Project (CDP), for instance, announced that it will incorporate the IFRS S2 climate-related disclosures requirements into its global environmental disclosure platform. As a result, this will likely reduce the reporting burden for over 18,000 of the CDP’s business users (currently worth half of global market capitalisation). It will also likely accelerate the early adoption of the standards, and facilitate the consolidation of sustainability reporting at an international level.

As the ISSB becomes the new norm, companies need to start assessing the impact these upcoming standards will have on their business operations. We anticipate that corporate entities which have already implemented the appropriate internal processes to produce timely and qualitative sustainability-related information will likely be able to employ the new reporting requirements easily and swiftly. This will enable them to prepare for future regulations while all the while enhancing their business resilience.

Please **contact us** if you would like more information on how our strategic risk information could work for your organisation.

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