



Get ready for ISSB sustainability disclosures



Understanding the proposals

March 2022



Get ready for ISSB sustainability disclosures



What's the issue?

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



What's the impact?

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



What's next?

- The proposals are open for comment until 29 July 2022; the subsequent standards may be issued by the end of 2022.
- 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

10 questions to start getting ready



01

What has been released?

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What would need to be disclosed?

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What do you need to do now?

01 What has been released?

▶ The general requirements proposal sets the foundation

- General features of 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.

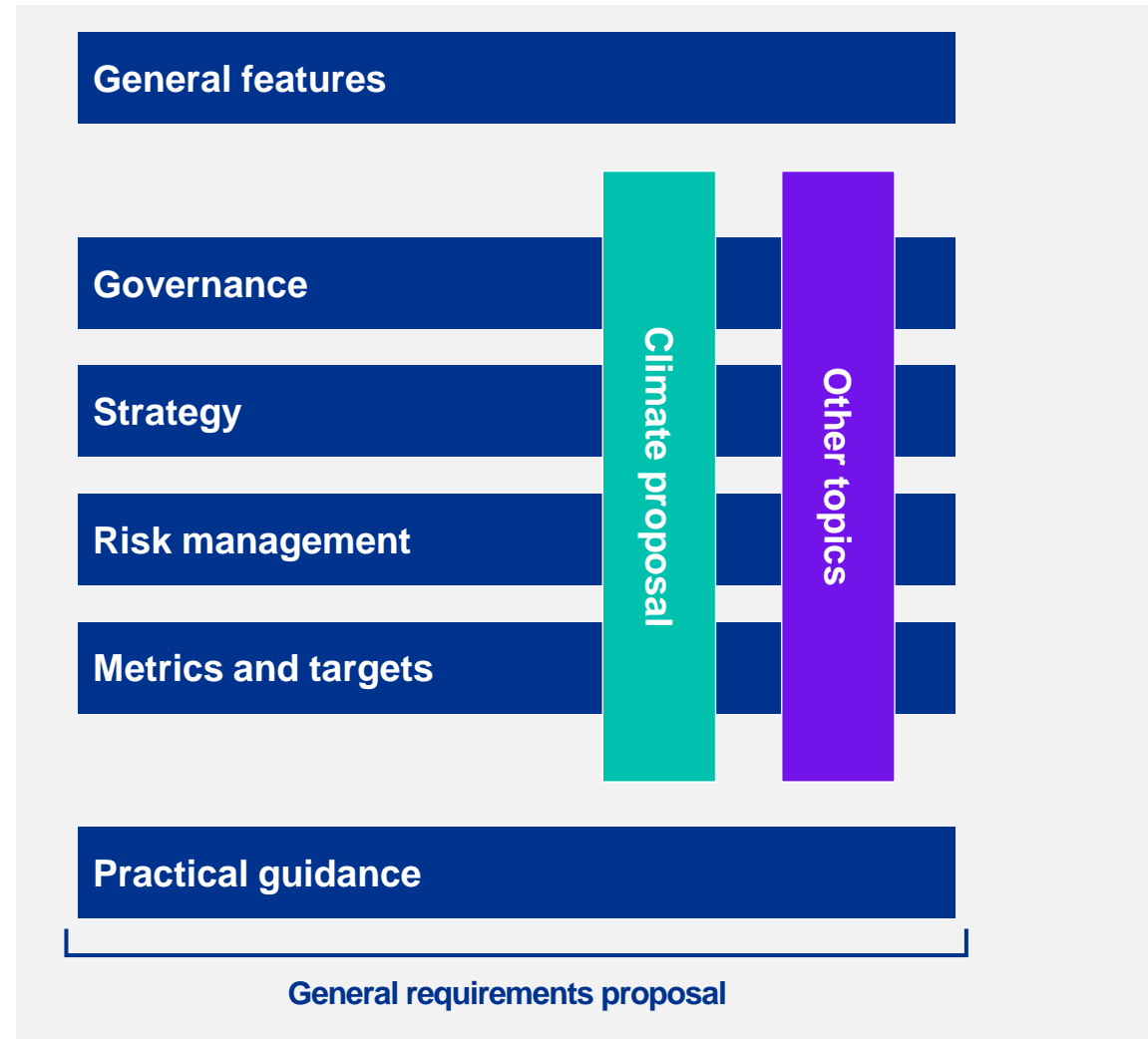
▶ The climate proposal provides additional detail

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

- Disclosure of risks, climate transition plans and scenario analysis;
- General and industry-specific metrics.

▶ Future proposals are expected to follow

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



02 What would need to be disclosed?

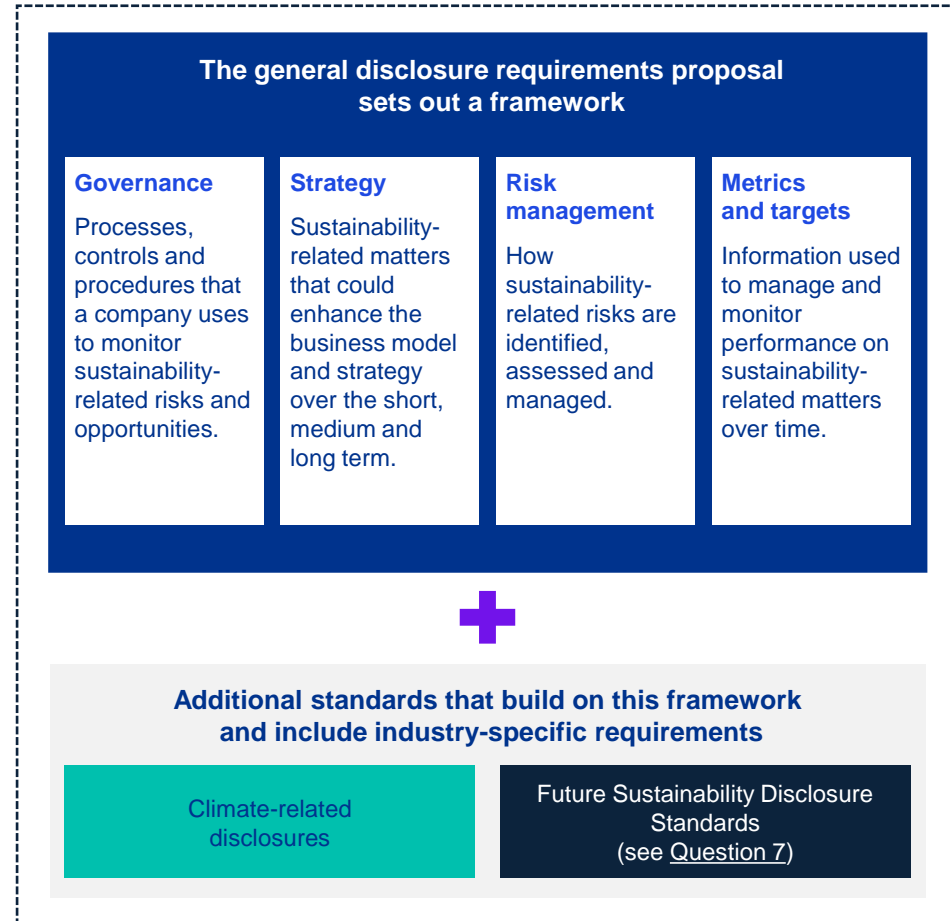
► Material information that:

- Provides a complete and balanced explanation of significant sustainability risks and opportunities.
- Covers governance, strategy, risk management and metrics and targets.
- Focuses on the needs of investors and creditors, and drivers of enterprise value.
- Is consistent, comparable and connected.
- Is relevant to the sector and industry.
- Is presented across time horizons: short, medium and long-term.

► Material metrics based on:

- Measurement requirements specified in the climate proposal or future standards.
- Metrics identified from other guidance – e.g. SASB (see [Question 8](#)).
- Other metrics used by the company.

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



03 What are the proposals based on?

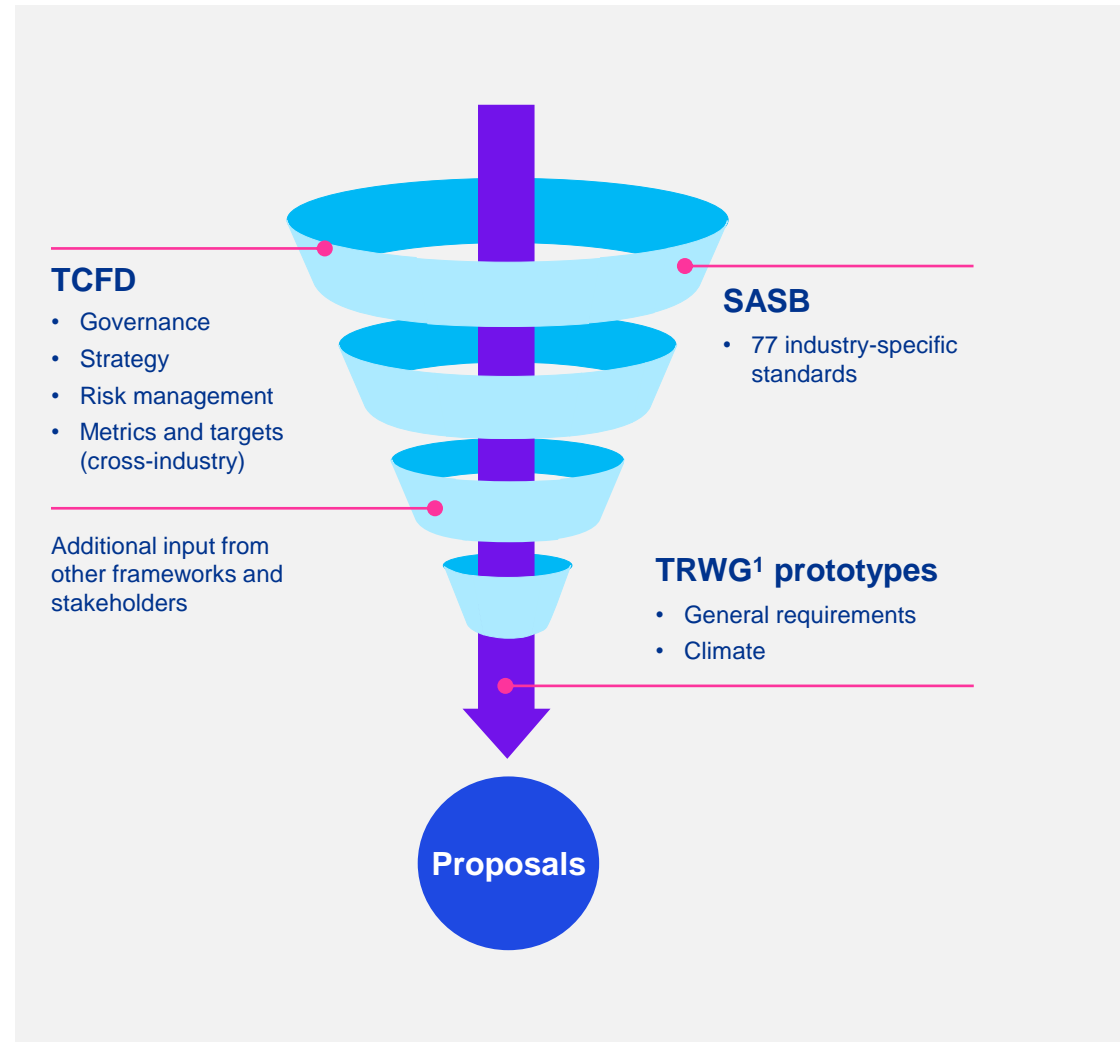
► Consolidate the latest thinking of existing frameworks and standards

- Build on prototype standards released by the TRWG¹.
- Follow the four pillars of the TCFD's recommended disclosures: governance, strategy, risk management, metrics and targets.
- Enhanced by climate-related industry-specific metrics derived from the SASB's 77 industry-specific standards.
- Additional input from other frameworks and stakeholders, including from the IASB Board's conceptual framework.

► Bring financial reporting concepts to sustainability reporting

- Built using a similar approach to IFRS Accounting Standards.

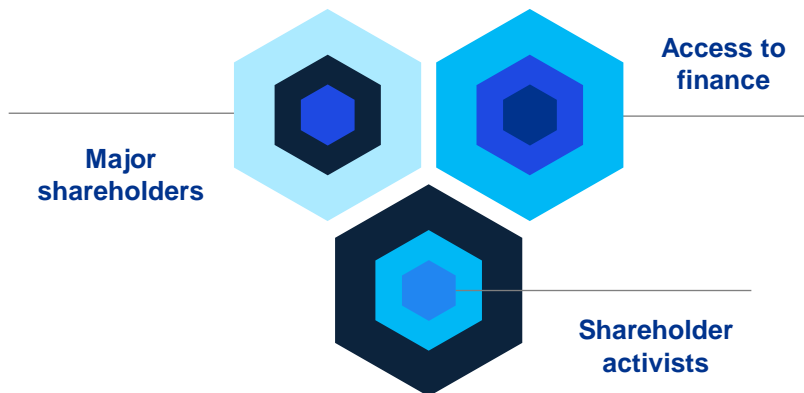
¹ The prototypes were released in November 2021 as a result of collaboration between the CDSB, IASB Board, TCFD, VRF (IIRC and SASB) and WEF, supported by IOSCO.



04 How and when could they affect you?

► Pressure from investors

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



► Regulatory requirements

- 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.

ISSB standards influence local standards

ISSB standards adopted; no local additions

ISSB standards adopted; local additions



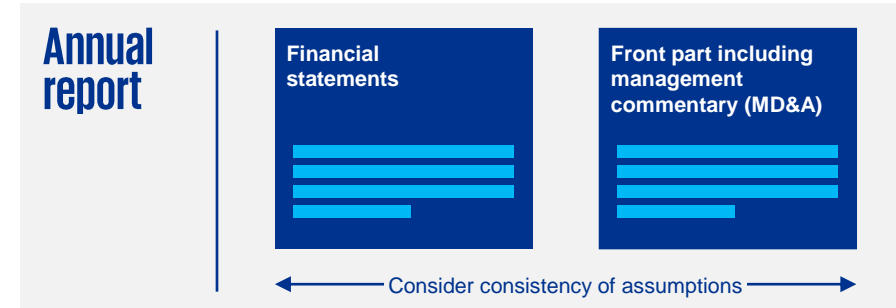
05 Would they require scenario analysis?

► What is scenario analysis?

- A structured way to consider how climate-related risks and opportunities could impact a company's governance framework, business model and strategy.
- Scenario analysis is used to answer 'what if' questions. It does not aim to forecast or predict what will happen.

► What is a climate scenario?

- A set of assumptions around how the world may react to achieving different degrees of global warming.
 - For example, the carbon prices and other factors needed to limit global warming to 1.5°C.
- By their nature, scenarios may be different from the assumptions underlying the financial statements. However, careful consideration needs to be given to the extent to which linkage between the scenario analyses and these assumptions is appropriate.



► Is scenario analysis required?

- Companies would need to use scenario analysis to assess their resilience unless they are unable to do so.

► Why is disclosure useful?

- It can help investors assess the possible exposures from a range of hypothetical circumstances.

06 Where would the information be disclosed?

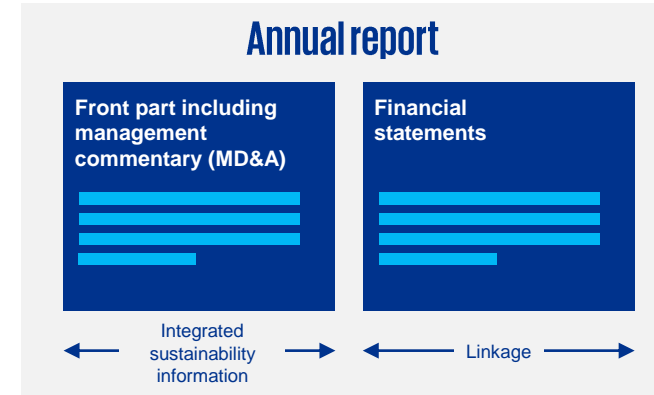
► It depends

- The proposals do not specify a single location.
- The proposals 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 may therefore already require material sustainability-related information.

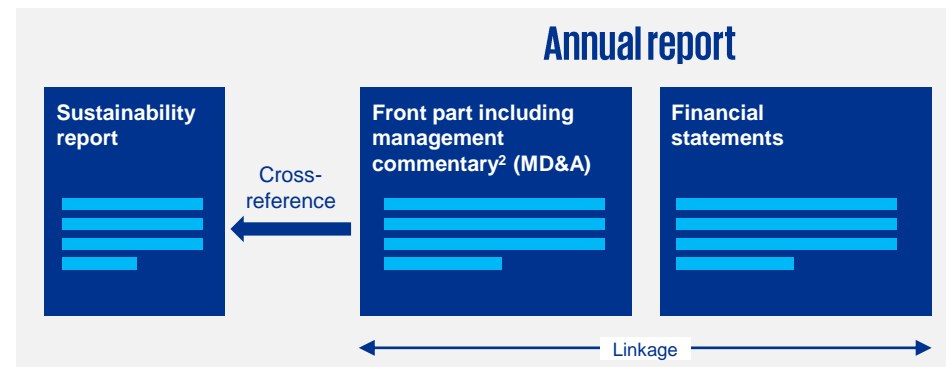
► Would it need to be audited?

- Audit 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 information, cross-referenced to and available on the same terms as management commentary



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

² Ensuring material information is not excluded from management commentary.

07

What about topics other than climate?

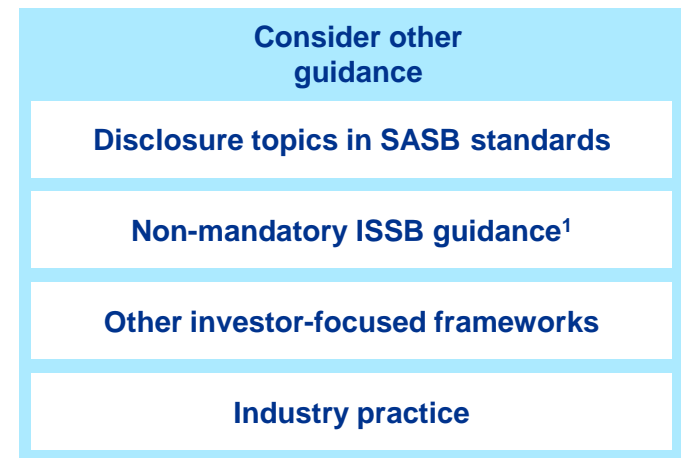
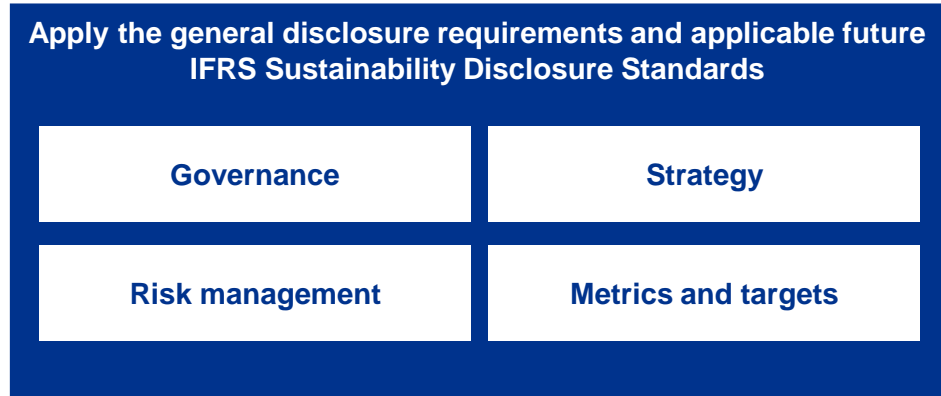
► The general disclosure requirements proposal would require disclosure on all relevant topics

This proposal helps companies by:

- Identifying sustainability-related information that could affect enterprise value.
- Illustrating the structure and form of disclosures on other topics.
- Providing guidance on the reporting entity, connecting information and materiality.
- Recommending the use of existing voluntary standards – e.g. SASB Standards.

► Public consultation

- The ISSB is expected to consult publicly on what to cover in future standards.

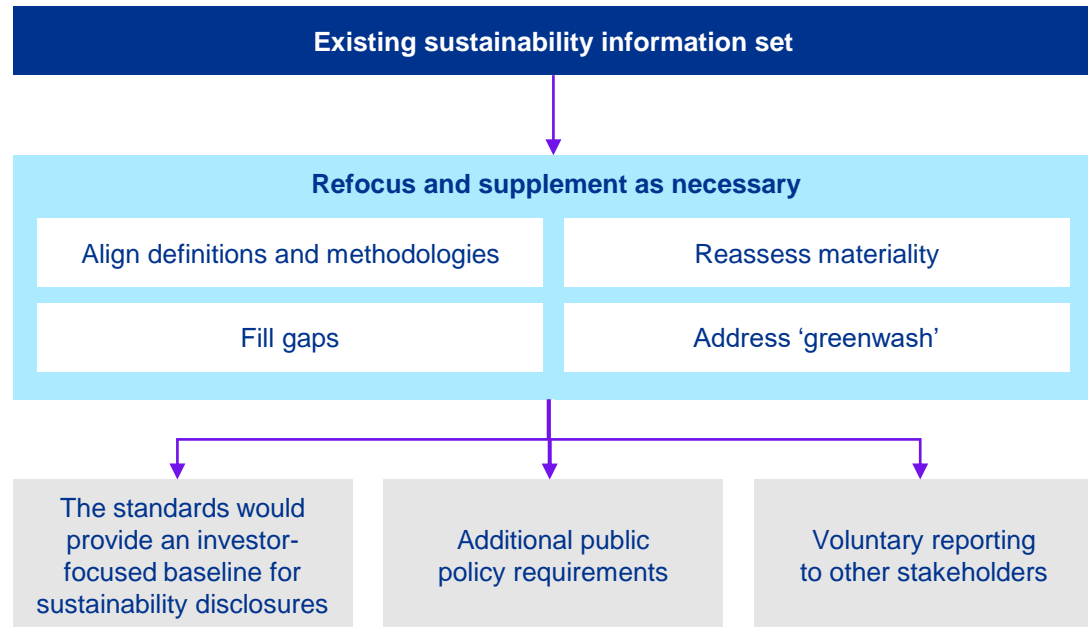


¹ For example, the CDSB Framework application guidance for water- and biodiversity-related disclosures

08 What if you've already adopted other frameworks?

► Build and adapt

- Consider specific jurisdictional guidance, including any recommendation to adopt or converge with IFRS Sustainability Disclosure Standards.
- Map how the proposals differ from current frameworks used.
- Focus on matters that affect the company's prospects and consider what would 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 proposal.

► 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 proposals 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 enterprise value-focused reporting frameworks.

► Reporting to meet public policy and other needs

- This is likely to continue as a separate strand of reporting.
- Some jurisdictions are developing 'green taxonomy' requirements for the classification of revenue and expenditure based on whether the activity meets certain sustainability criteria.

► Private companies

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



10 What do you need to do now?

Be prepared

The four things you should be doing now:



Educate
your organisation

on sustainability-related risks and opportunities and what they mean for the company.



Establish
a board-led governance structure

that brings both finance and sustainability reporting to the boardroom table when making commitments, decisions and reporting on sustainability-related issues.



Engage
with current process owners

and understand how information is being defined, captured and reported, and where there are control gaps.



Expand
your systems, processes and controls

to create efficiencies and move certain aspects of the data collection and calculation process into existing or new systems and processes.

Read our publication [New on the Horizon](#) for more detailed analysis.

Abbreviations and Key terms

CDSB

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



Enterprise value

Enterprise value focuses on the factors that drive companies' short-, medium- and long-term prospects, and the information the capital markets need to assess them



IASB Board

International Accounting Standards Board



IOSCO

International Organization of Securities Commissions



ISSB

International Sustainability Standards Board

SASB

Sustainability Accounting Standards Board



VRF

Value Reporting Foundation (which houses the Integrated Reporting Framework and the SASB Standards)



TRWG

Technical Readiness Working Group



TCFD

Task Force on Climate-related Financial Disclosures



WEF

World Economic Forum and in particular the Stakeholder Capitalism Metrics



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