



WHITE PAPER

# International Sustainability Standards Board (ISSB) inaugural Standard – What Companies Need to Know

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## What happened

The International Sustainability Standards Board (ISSB) finalized its inaugural set of global reporting standards on June 26, 2023 following an extensive consultation process with various stakeholders over the past months (with a particular aim to also ensure compatibility and interoperability across different jurisdictions). Whilst the first standard (S1) is a set of general disclosure requirements, the second standard (S2) outlines climate-specific disclosure requirements:

- **IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information**

Provides a set of disclosure requirements designed to cover a range of ESG sustainability-related risks and opportunities faced in the short, medium, and long term by companies. The ISSB IFRS S1 additionally describes how these sustainability-related disclosures related to a company's financial statements as part of established financial reporting. In the final provision, the ISSB has provided an option to companies to delay reporting on S1 requirements for up to a year (to focus resources on climate-related reporting).

- **IFRS S2 Climate-related Disclosure**

Details climate-related specific disclosure requirements, based on the TCFD framework. The final draft of the IFRS S2 is accompanied by 2 additional non-binding guidance documentation:

- *IFRS S2 Accompanying Guidance* – provides additional non-binding guidance on aggregation and disaggregation of GHG emissions and industry-based guidance on materiality, identification of risks and opportunities and reporting of respective metrics.
- *Consolidated Industry-based Guidance* – provides non-binding industry-specific guidance developed from the Sustainability Accounting Standards Board (SASB) standards, maintained by the ISSB, and includes metric codes used by SASB for ease of reference.

To further advance their offering, the ISSB is currently evaluating an expansion of their current scope to non-climate related ESG topics which – amongst others – may include biodiversity, ecosystems and ecosystem services, human capital and human rights.

## Why this matters

The ISSB standards will establish a common set of disclosures for climate-related risks and opportunities to improve investor decision-making. These disclosures will be required by regulators around the world to enable compatibility of climate-related information with financial statements. It is anticipated thousands of companies will soon apply these standards for the purpose of integrating financial and climate-related reporting. ISSB Standards have been developed to work with any accounting requirements, but they are built on the concepts underpinning IFRS Accounting Standards, already required for use by more than 140 jurisdictions.

The ISSB's standards have received strong international support from companies, investors, policy makers and market regulators alike, including the International Organization of Securities Commissions (IOSCO), the Financial Stability Board, the G20 and the G7 Leaders.

*"We have consulted closely with the market to ensure the standards are proportionate and will result in disclosures that are relevant for investment decision-making."* said chair of the ISSB, Emmanuel Faber.

## What Should Companies Do Now

While the new mandatory disclosures will be phased in over the next few years, companies must prepare now. Many companies already prepare voluntary sustainability reports. Utilizing these reports as a baseline, companies should evaluate the gaps in their content and reporting processes to develop an action plan. This is particularly the case, given the necessary business process transformation can take several reporting cycles to meet the timing and rigor required for climate-related disclosure.

In addition, such disclosures will be subject to third party assurance (limited assurance initially, then reasonable assurance). Companies need to engage a qualified assurance provider and integrate the new disclosures in their internal control processes.

Our Center for Climate & Sustainability Policy and Regulation is well positioned to support clients in their journey to ensure regulatory compliance whilst – at the same time – also addressing the strategic implications that emerge from this further evolution of ESG reporting standards.

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