International Sustainability Standards Board: The New Global Sustainability Climate and Reporting Standards

7 August 2023

On June 26, 2023, the International Sustainability Standards Board ("ISSB") issued its long-awaited standards, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ("IFRS S1") and IFRS S2 Climate-related Disclosures ("IFRS S2"), together, the "ISSB Standards."

IFRS S1 sets out the core requirements for sustainability-related disclosures, covering all sustainability-related risks and opportunities that may impact an entity's prospects. IFRS S2 focuses on climate-related risk and opportunities supplementing the general requirements laid out in IFRS S1. IFRS S2 is the first out of a series of thematic standards; ISSB announced that it plans to release additional standards covering aspects such as biodiversity and ecosystems, human capital, human rights, and integration in reporting.[1]

A number of governments and regulators have indicated their intention to formally endorse and adopt the standards, including the United Kingdom, Canada, Japan, Singapore and Nigeria. The form in which each jurisdiction will choose to implement the ISSB Standards remains to be determined. Provisions tailoring the standards to local requirements are a likely addition. Notably, the United Kingdom recently announced that it will divert from the ISSB Standards only "if absolutely necessary for UK specific matters," with full endorsement expected by July 2024.[2]

Many of the conceptual foundations and general requirements of IFRS S1 are adapted from the IFRS Accounting Standards[3] but have been developed to be used in

---

[1] ISSB prepares to consult on future priorities and international applicability of the SASB Standards, https://www.ifrs.org/news-and-events/news/2023/04/issb-prepares-to-consult-on-future-priorities-and-international-applicability-of-sasb-standards/.

[2] UK Sustainability Disclosure Standards, https://www.gov.uk/guidance/uk-sustainability-disclosure-standards.

[3] Project Summary, https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/project-summary.pdf.

conjunction with any accounting requirements.[4] Conversely, entities applying the IFRS Accounting Standards are not expected to apply the ISSB Standards.

Application

The ISSB Standards are expected to apply for annual reporting periods beginning on or after January 1, 2024. Entities may choose to adopt the standards earlier but will be required to disclose the fact and apply both standards at the same time. A transition period is envisaged for the first annual reporting period, providing a number of exemptions:

- Entities are not required to make any disclosures relating to prior periods and comparative information may be omitted;[5]
- Entities may choose to only disclose climate-related risks and opportunities under IFRS S2;[6]
- Sustainability-related disclosures may be published at a date after the general purpose financial statements;[7] and
- Entities may continue using their existing measurement methods for greenhouse gas emissions and reporting on Scope 3 emissions may be omitted.[8]

Further guidance is expected, as ISSB announced that it will set up a Transition Implementation Group to support entities applying the standards.[9]

The Alphabet Soup of Sustainability Reporting

The IFRS Foundation is a nonprofit organization founded in 2001 with a mission to improve economic and investment decisions by providing access to better information. In November 2021, following the UN Climate Change Conference in Glasgow (also

[4] Ten things to know about the first ISSB Standards, https://www.ifrs.org/news-and-events/news/2023/06/ten-things-to-know-about-the-first-issb-standards/.

[5] IFRS S1, E3; IFRS S2, C3.

[6] IFRS S1, E5.

[7] IFRS S1, E4.

[8] IFRS S2, C4.

[9] ISSB issues inaugural global sustainability disclosure standards, https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2.

known as "COP26"), the IFRS Foundation set up ISSB to focus on sustainability reporting.

The ISSB Standards represent a culmination of the efforts to consolidate the various initiatives in order to provide a "global baseline" for sustainability reporting. This continues the work of the Sustainability Accounting Standards Board ("SASB"), another nonprofit organization founded in 2011, which had a similar mission to develop sustainability accounting standards. The SASB Standards gained significant popularity, having been widely adopted by companies and investors. As of August 2022, ISSB assumed responsibility for the SASB Standards.[10]

Separately, the Financial Stability Board, an international body focusing on global financial systems set up following the 2009 G20 Summit, created the Task Force on Climate-Related Financial Disclosures (the "TCFD") to enhance market transparency. In 2017, the TCFD released a set of financial disclosure recommendations following four thematic areas that have since influenced the structure of most climate-related initiatives: governance, strategy, risk management, and metrics and targets. The IFRS Standards duly follow this structure. In July 2023, the Financial Stability Board decided to delegate monitoring of TCFD disclosures to the IFRS Foundation, considering that the ISSB Standards are "a culmination of the work of the TCFD."[11]

The aim of the ISSB Standards thus is to simplify the global network of sustainability reporting initiatives.

IFRS S1 Overview

IFRS S1 requires disclosure of all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows: its access to finance or cost of capital over the short, medium or long term. The standards aim to convey information helpful for users of general purpose financial reports (namely investors, lenders and creditors) and their decision-making.[12] The disclosures focus on an entity's

---

[10] SASB Standards overview, https://sasb.org/standards/

[11] FSB Plenary meets in Frankfurt, https://www.fsb.org/2023/07/fsb-plenary-meets-in-frankfurt/.

[12] IFRS S1 Basis of Conclusions, https://www.ifrs.org/content/dam/ifrs/publications/amendments/english/2023/issb-2023-c-basis-for-conclusions-on-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information-part-c.pdf?bypass=on ("IFRS S1 Basis of Conclusions").

dependencies on resources and relationships along the "value chain," which directly influence an entity's ability to generate cash flow.[13]

Scope. IFRS S1 requires an entity to disclose material information, namely information that, if omitted, misstated or obscured, would influence the decision of investors, lenders or creditors.[14] The information must be presented in a manner that shows the connection between the risks and opportunities and the other information disclosed.[15] For instance, if a manufacturer decides to adopt a net zero target for its greenhouse gas emissions, it will need to disclose how the strategy will be implemented (by using renewable energy? by improving its equipment to be more energy efficient?), explain the increase in capital expenditure to replace its previous machinery, and explain the impact of energy prices and the resulting increase in margins on product sales.[16]

To ensure that reporting is feasible, ISSB introduced a series of concepts to assist with the proportionality of the duty to disclose. This includes:

- The concept of "reasonable and supportable information… without undue cost or effort," which clarifies that an exhaustive search for information is not expected;
- Consideration of skills, capabilities and resources when preparing disclosures on the anticipated financial effects;
- Transition relief with respect to timing of reporting and other aspects exempted from the first annual reporting period;
- The concept of "unable to do so" in situations where the level of uncertainty is so high that it would make the information unhelpful; and
- Providing guidance and other supporting material to facilitate application.

Governance. IFRS S1 requires disclosure around how governance bodies—whether boards, committees or individuals—monitor, manage and oversee sustainability-related risks and opportunities. This includes information on the overseeing body's specific

---

[13] Defined as encompassing "the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates."

[14] IFRS S1.17-19. ISSB uses the same definition of "material" as the IFRS Accounting Standards.

[15] IFRS S1.21-24.

[16] For more examples, *see* IFRS S1 Basis for Conclusions, BC88.

expertise and experience on sustainability-related matters, governance processes, controls and procedures the entity uses to oversee sustainability-related risks and opportunities, and on how the body sets targets.

IFRS S1 further requires management to support and oversee the governance bodies. Entities must disclose whether they have specific roles dedicated to management and oversight of sustainability-related risks and opportunities, have controls and procedures to support that oversight, and how those functions are internally integrated.

Strategy. The information on strategy requires the entity to identify how the business model and decision-making address specific risks and opportunities, as well as disclose the effects on the entity's financial position. The entity must also disclose information on the resilience of its business model and strategy to sustainability-related risks.

Business model and value chain: IFRS S1 requires reporting on the effects or anticipated effects of sustainability-related risks and opportunities, including impact on business model and value chain, as well as details on where such risks and opportunities are concentrated.

Financial position, performance, cash flows: IFRS S1 further requires disclosing current or anticipated effects of sustainability-related risks and opportunities on the entity's financial position, financial performance and cash flows for current and future periods. There are exceptions to required quantitative disclosures, including where the entity does not have the skills, capabilities or resources to provide the information; where the effects are not separately identifiable; or where the "level of measurement uncertainty" in estimating the effects is too high. An entity may omit information about a sustainability-related opportunity if that is commercially sensitive, but must disclose that it made this omission. This narrow exemption applies only to sustainability-related opportunities, and not risks.[17]

Strategy and decision-making: Entities must disclose the strategy adopted to respond to sustainability-related risks and opportunities, how the plans progress, and what trade-offs are considered in decision-making.

Resilience: Entities must disclose both qualitative and quantitative information on resilience, including on how the assessment was made. This category of information is distinct from the disclosures on anticipated financial effects. Disclosures on resilience serve a different purpose, namely to inform users about the entity's ability to cope with sustainability-related uncertainties in different scenarios.[18] While a scenario analysis is

---

[17] IFRS S1 Basis of Conclusions, BC40.

[18] IFRS S1 Basis for Conclusions, BC113.

not required at this stage, entities are encouraged to consider whether it would be appropriate.

Risk Management. While the "Strategy" disclosures include information on how the management of risks and opportunities is part of the overall strategy, the "Risk Management" disclosures are more granular. They follow the TCFD recommendations, covering processes and policies to identify, assess, prioritize and monitor sustainability-related risks. In addition to the TCFD, IFRS S1 also requires disclosures on opportunities, which often result from the same source as the risk.

Metrics and Targets. IFRS S1 requires disclosures—subject to materiality—of metrics the entity uses to measure and monitor sustainability-related risk or opportunity and its performance in relation to that risk or opportunity.

IFRS S2 Overview

IFRS S2 takes a deeper dive into specific climate-related disclosures, divided across two familiar categories—risks (both physical and transition) and opportunities—that are "reasonably expected" to affect an entity's cash flows, access to finance or cost of capital over the short, medium, and long term.

Scope. Physical risks in scope may be acute, such as severe weather events, or chronic, such as shifts in climatic patterns. Transition risks refer to the shift to a lower-carbon economy, including changing consumer demand, development of new technology, regulatory changes and reputational risks. The same materiality threshold applies to IFRS S2 disclosures.

Governance. These requirements follow IFRS S1 closely. However, one of IFRS S2's main goals is to avoid duplication. If oversight of climate risks and opportunities is integrated into the entity's broader sustainability structure, no separate disclosures are needed.[19]

Strategy. In addition to the categories of information disclosed under IFRS S1, IFRS S2 requires more detailed disclosures on climate resilience. Under this category, an entity is required to disclose information that allows users to determine which are the areas of uncertainty and the extent of an entity's adaptability and mitigation efforts. IFRS S2 further requires an assessment based on scenario analysis. Entities must explain what

---

[19] IFRS S2.7; IFRS S2 Basis for Conclusion, https://www.ifrs.org/content/dam/ifrs/publications/amendments/english/2023/issb-2023-c-basis-for-conclusions-on-ifrs-s2-climate-related-disclosures-part-c.pdf?bypass=on ("IFRS S2 Basis for Conclusion"), BC32.

inputs they considered (such as variety of scenarios, time horizons or scope of operations tested) and key assumptions made (such as macroeconomic trends, policies, energy usage or technology). For guidance on scenario analysis, ISSB refers to the practice recommended by the TCFD.[20]

Risk Management. These requirements also follow IFRS S1 closely, with reporting entities expected to avoid duplication.

Metrics and Targets. The IFRS S2 disclosures on metrics and targets have been a major area of interest leading up to the ISSB Standards' release.

IFRS S2 requires separate disclosures of Scope 1, Scope 2 and Scope 3 greenhouse gas emissions. Scope 1 (direct emissions, occurring from sources controlled by the entity) and Scope 2 (indirect emissions, occurring from generation of energy consumed by the entity) may be reported together for the consolidated accounting group. Scope 2 emissions must be disclosed following a location-based approach, namely using data on the average grid emissions where the energy is used.

Scope 3 emissions (resulting from assets not owned or controlled by the reporting organization but that the organization indirectly effects in its value chain) are the widest-ranging category.[21] Inclusion of Scope 3 emissions was a hotly contested topic in the lead-up to the ISSB Standards' release, especially in the United States, because of the entity's lack of control over such emissions.[22] Moreover, Scope 3 emissions may easily represent the majority of an organization's emissions. IFRS S2 specifies that disclosures must also cover financed emissions, which are particularly relevant for asset managers, banks and insurers. Scope 3 emissions may be measured in accordance with the established Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).[23] ISSB further recommends that entities use data based on direct measurement, specific activities and data that has been verified.[24]

Entities must also disclose data on assets or activities vulnerable to physical and transition risks, aligned with opportunities, amount of capital deployed towards these risks and opportunities, and internal carbon prices. Finally, entities must include a

---

[20] In particular, the Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities (2017) and Guidance on Scenario Analysis for Non-Financial Companies (2020).

[21] For further details, *see, e.g.*, EPA Scope 3 Inventory Guidance https://www.epa.gov/climateleadership/scope-3-inventory-guidance#:~:text=Scope%203%20emissions%20are%20the,scope%201%20and%202%20boundary.

[22] *See, e.g.*, ISSB Takes The Lead On Global Sustainability Disclosure Standards—Will The U.S. Follow?, https://www.natlawreview.com/article/issb-takes-lead-global-sustainability-disclosure-standards-will-us-follow.

[23] IFRS S2, B23-25.

[24] IFRS S2, B40.

description of whether climate-related considerations are factored into executive remuneration and if so, what percentage of remuneration is tied to those factors.

IFRS S2 also lays out disclosures for climate change targets, but stops short of imposing any, deferring instead to applicable laws and the entities' preferences. Overall, IFRS S2 emphasizes that entities must disclose, justify and report methodologies for meeting climate-related targets.

Practical Implications

Implementation. There has been much discussion of the impact of disclosures on companies and institutions, as much of the data required to be disclosed may not be readily available. While ISSB has considered that the disclosures may be onerous, the impact will depend on how regulators decide to implement the ISSB Standards.

For instance, when the United Kingdom made TCFD disclosures mandatory, it chose to impose duties progressively. Premium listed companies were the first to report for accounting periods from January 1, 2021. The requirements were then expanded, eventually including companies and limited liability partnerships with more than 500 employees that are either listed, have a turnover of more than £500 million or are banks or insurers. Entities who were early adopters of the standards found the transition much smoother.

ISSB was preoccupied with simplifying the reporting process and deliberately built on the work of SASB, the TCFD and other frameworks.[25] Global Reporting Initiative ("GRI"), another leading global standard-setter, also collaborated with ISSB to ensure compatibility and interoperability of sustainability standards for a broad range of stakeholders.[26] Therefore, any prior sustainability-related measures taken by entities may likely be recycled (at least in part) for the purposes of disclosing under the ISSB Standards.

Some jurisdictions may choose to expand on the ISSB requirements. For instance, Singapore is consulting on a plan to mandate external assurance for Scope 1 and Scope 2 emissions in addition to external disclosure requirements, which is not currently

---

[25] SASB Standards and other ESG frameworks, https://sasb.org/about/sasb-and-other-esg-frameworks/.

[26] IFRS Foundation Signs Agreement with GRI, https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/; Progress towards a strengthened sustainability reporting system, https://www.globalreporting.org/news/news-center/progress-towards-a-strengthened-sustainability-reporting-system/.

required under the ISSB Standards.[27] Also, while ISSB and the European Commission have taken steps to align their efforts, the EU Corporate Sustainability Reporting Directive (the "CSRD") remains more far-reaching than the ISSB Standards.[28]

It is currently unclear how, if at all, the ISSB Standards will impact the Securities and Exchange Commission's (the "SEC"'s) final climate disclosure rule.[29] The SEC is considering whether to adopt an alternative reporting provision that would allow a foreign private issuer that reports under an alternative reporting regime to have satisfied the disclosure obligations under the SEC proposed rule.[30] If passed, this might allow foreign private issuers reporting under ISSB to satisfy its reporting obligations under the SEC by disclosing under IFRS S1 and S2.

Risks. As countries are developing their ESG regulatory frameworks, the resulting patchwork regulatory environment creates a compliance risk. Regulators have noticeably ramped up their review following the implementation of the enhanced disclosure regime. For instance, "greenwashing" has been a significant priority of the SEC Enforcement Division in recent months and years. The Federal Trade Commission has, at times, requested information on how a deal would affect ESG issues and reviewed ESG cooperation agreements regarding impact on competition.

At the same time, there has been an unprecedented increase in anti-ESG initiatives in the United States. Florida's anti-ESG law, one of the furthest reaching, prohibits state entities from issuing green bonds and mandates the Florida State Board of Administration and fiduciaries to consider only "pecuniary factors" when investing public monies or exercising shareholder rights.[31] It also includes an anti-boycott provision requiring state funds to be deposited only into financial institutions that "do[] not engage in the unsafe and unsound practice of denying or canceling its services" to a person on the basis of the person's failure to meet ESG standards, among other factors. Florida's stance contrasts with California's, where legislators proposed a plethora of pro-ESG bills requiring companies to conduct climate risks assessments, make certain

---

27 Public Consultation on Turning Climate Ambition into Action in Singapore, https://www.reach.gov.sg/Participate/Public-Consultation/Accounting-and-Corporate-Regulatory-Authority/public-consultation-on-turning-climate-ambition-into-action-in-singapore--recommendations-by-the-sustainability-reporting-advisory-committee.

28 EU Finalizes ESG Reporting Rules with International Impacts, https://corpgov.law.harvard.edu/2023/01/30/eu-finalizes-esg-reporting-rules-with-international-impacts/.

29 SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors ("SEC Proposed Rule"), https://www.sec.gov/news/press-release/2022-46. For more details, *see* An In-Depth Review of the SEC Proposed Climate Change Disclosure Rule, https://www.debevoise.com/insights/publications/2022/04/sec-issues-long-awaited-proposed-climate-change.

30 SEC Proposed Rule, p. 280.

31 CS/CS/HB 3: Government and Corporate Activism, https://www.flsenate.gov/Session/Bill/2023/3.

climate-related disclosures or prohibit investments in fossil fuel companies, among others. This polarization creates additional risk for U.S. companies.

Companies must also be mindful that the ISSB Standards require disclosure of information of interest to the public, under the scrutiny of NGOs, activists and media, alongside investors and regulators. This exposure is directly linked to a company's reputation. Considering that some of the disclosed information and data relates to sensitive topics, litigation in this space is almost certain to increase. This may be related to misrepresentations, so-called "greenwashing" claims, as well as "adverse impact" claims based on climate change, resource use and human rights allegations.

Conclusion. The ISSB Standards address several areas of sustainability and climate governance, underscoring an increasingly tight connection between sustainability and financial materiality. Overall, the ISSB Standards mark an important development, filling a regulatory gap related to the lack of standardized reporting in this area.

* * *

Please do not hesitate to contact us with any questions.

The authors thank New York Summer Associates Laura Hallas and Tess Kim for their contribution.

LONDON/FRANKFURT/PARIS

Patricia Volhard
pvolhard@debevoise.com

LONDON/PARIS

Samantha J. Rowe
sjrowe@debevoise.com

NEW YORK

Ulysses Smith
usmith@debevoise.com

LONDON

Diana Moise
dmoise@debevoise.com