Increasing Global Adoption of ISSB Standards

19 February 2025

Introduction

The EU's corporate sustainability reporting regime, the Corporate Sustainability Reporting Directive ("CSRD"), took effect from 1 January 2025 for large private EU companies, including those with non-EU parent companies. CSRD introduces a complete set of detailed reporting standards (the "ESRS") for large listed and large private companies, covering a range of environmental and social topics. In parallel, the International Sustainability Standards Board (the "ISSB") published its first two sets of disclosure standards in 2023 (the "ISSB Standards"):

- **IFRS S1** sets out the core requirements for sustainability-related disclosures, including the general requirements for content and presentation, and the requirement to disclose material information about all sustainability-related risks and opportunities that may impact a company's cash flows, access to finance or cost of capital over the short, medium and long term.

- **IFRS S2** covers physical and transition climate-related risks and opportunities that are reasonably expected to affect a company's financial prospects.

Disclosures under the ISSB Standards are designed to accompany financial reporting and to let users of general-purpose financial reports understand the impact of sustainability factors on a company's financial performance. The ISSB has released accompanying educational material, which offers guidance on topics such as how to assess whether information is material and the sustainability-related risks and opportunities which a company should disclose.

Overlap with CSRD

There is a high degree of overlap between the ESRS and the ISSB Standards produced to date, although it is also clear that the ESRS climate change reporting standard includes items that are not covered by the ISSB's equivalent standard. Once complete, the ISSB Standards are expected to cover the same topics as the ESRS—but it remains to be seen whether EU and non-EU states will regard the ESRS and the ISSB Standards as equivalent, granting world-wide companies the flexibility to use either standard to satisfy reporting in a jurisdiction. In particular, the principle of "double materiality" that underlies the EU standards, requiring companies to report on impacts as well as financial risks and opportunities, is not contained in the ISSB Standards. We discuss this topic in a separate Debevoise In Depth on World-Wide Sustainability Reporting – Current State of Play. In line with CSRD, reporting under ISSB Standards is likely to require assurance, and the International Auditing and Assurance Standards Board has published a draft form of sustainability assurance reporting standards.

The European Commission is expected to publish a proposal to reform its sustainability reporting framework, including CSRD, later this month. As part of that reform, the Commission may reduce the number of companies subject to CSRD and, in the interests of reducing the reporting burden, may take steps to recognise the ESRS and the ISSB Standards as equivalent, prospectively allowing an EU company to report under either ESRS or the ISSB Standards.

Overlap with California Disclosure Framework

There is also overlap between IFRS S2 and several climate-related reporting laws recently adopted by the State of California in the United States. These include the Climate Corporate Data Accountability Act, requiring reporting entities with over USD$1 billion in annual revenue that "do business" in California to disclose their annual Scopes 1 to 3 greenhouse gas emissions, and the Climate-Related Financial Risk Act, requiring covered entities with over USD$500 million in annual revenue that "do business" in California to disclose their climate-related financial risks and mitigation efforts. These acts were recently amended to alter the timing for companies to begin disclosing Scope 3 emissions and remove the requirement for subsidiaries to provide separate climate-related financial risk reports. Other U.S. states may implement similar laws, with New York currently considering a law for certain companies to report Scopes 1 to 3 greenhouse gas emissions.

Global Adoption

The ISSB Standards are growing in relevance, as countries adopt them for the purpose of mandatory sustainability reporting, especially in the Asia-Pacific region. We summarise below the current status of ISSB Standards adoption in several key jurisdictions.

Summary of ISSB Standards Adoption in Key Jurisdictions	
Jurisdiction	**Description**
Australia	The Australian Accounting Standards Board has published two finalised sets of standards: • AASB S1. This incorporates IFRS S1 without any modifications and addresses general sustainability-related financial disclosures. This is a **voluntary** standard, consistent with Australian government policy to mandate only climate-related disclosures for now. • AASB S2. This is based on IFRS S2 and covers climate-related disclosures. This is a **mandatory** standard. An important difference to IFRS S2 is that AASB S2 includes selected content from IFRS S1 to make AASB S2 function as a standalone standard, noting that AASB S1 is voluntary. This includes general requirements, such as the conceptual foundations for reporting sustainability information and disclosures relating to judgements, uncertainties and errors. An entity applying AASB S2 is not required to apply AASB S1. AASB S1 first applied for financial reporting periods beginning on or after **1 January 2025**. AASB S2 will be phased in for certain large listed and unlisted entities and their controlled entities as follows, depending on whether an entity falls into Group 1, Group 2 or Group 3 (with increasingly low thresholds, measured by consolidated revenue, gross assets and full time-equivalent employees): • 1 January 2025 for Group 1 entities; • 1 July 2026 for Group 2 entities; and • 1 July 2027 for Group 3 entities.

	AASB S2 will also apply to companies reporting under the Australian National Greenhouse and Energy Reporting Scheme, together with certain funds and investment schemes with over AUS$5 billion assets under management.
Canada	The Canadian Sustainability Standards Board ("CSSB") published its finalised Canadian Sustainability Disclosure Standards in December 2024, available in the CPA Canada Handbook - Sustainability. The new standards are CSDS 1 and CSDS 2 (together, the "CSSB Standards"), which largely correspond to IFRS S1 and IFRS S2. Modifications include: • Two years' transitional relief for reporting on sustainability matters beyond climate; • Three years' transitional relief for reporting on Scope 3 greenhouse gas emissions; and • Three years' transitional relief for reporting quantitative climate-related scenario analysis on a company's climate resilience. The CSSB Standards are voluntary unless required by regulators or provincial governments. However: • The Canadian Securities Administrator is expected to release a new climate-related disclosure rule for listed Canadian companies soon, which will "consider" the CSSB Standards, with modifications. • The Canadian government has announced a plan to require large Canadian private companies to make mandatory climate-related financial disclosures. The government will launch a regulatory process to determine the exact disclosures required, which will likely be based on the CSSB Standards.
Hong Kong	The Hong Kong Institute of Certified Public Accountants (the "HKICPA") published final versions of its HKFRS S1 and HKFRS S2 standards in December 2024 (collectively, the "HKFRS SDS"). These are fully aligned with IFRS S1 and IFRS S2 respectively. The HKICPA has proposed that HKFRS SDS apply from 1 August 2025. It has indicated that the standards should first apply to "publicly accountable entities" ("PAEs"), including listed entities and regulated financial institutions. Individual regulators and authorities will determine the timing and approach of adopting the

	HKFRS SDS. For example, the Stock Exchange of Hong Kong (the "HKEx") has imposed "New Climate Requirements" modelled on IFRS S2 to listed issuers. Implementation of the New Climate Requirements follows a phased approach: • For financial years commencing on or after 1 January 2025, all listed issuers are mandated to disclose information on Scopes 1 and 2 greenhouse gas emissions, Scope 3 greenhouse gas emissions and all other climate-related disclosures on a "comply or explain" basis. Issuers listed on the HKEx GEM are encouraged to make disclosures voluntarily. • Issuers that are Hang Seng Composite LargeCap Index constituents (Large Cap Issuers) are further required to disclose Scope 3 greenhouse gas emissions and all other climate-related disclosures on a mandatory basis starting from 1 January 2026. • The HKEx will consult the market in 2027 on mandating sustainability reporting against the HKFRS SDS for listed PAEs, with an expected effective date of 1 January 2028, under a proportionate approach. • Relevant financial regulators will require financial institutions carrying a significant weight (being non-listed PAEs) to apply the HKFRS SDS by no later than 2028.
Japan	The Sustainability Standards Board of Japan (the "SSBJ") has published three draft sustainability disclosure rules (the "Exposure Drafts"). They comprise a "universal" sustainability disclosure standard and two "theme-based" sustainability disclosure standards, covering general disclosures and climate-related disclosures respectively. The requirements under IFRS S1 are split between the universal standard and the theme-based standard covering general disclosures. The Exposure Drafts largely incorporate ISSB standards, albeit with some jurisdiction-specific requirements: • Under the ISSB Standards, an entity needs to provide information about any contractual instruments necessary to inform users' understanding of its Scope 2 greenhouse gas emissions. Under the Exposure Drafts, an entity may elect to disclose market-based Scope 2 greenhouse gas emissions, which are intended to reflect its efforts in reducing greenhouse gas emissions. • Under the ISSB Standards, for Scope 3 greenhouse gas emissions, an entity shall disclose additional information about its Category 15 greenhouse gas

	emissions or those associated with its investments (financed emissions) if it carries out asset management, commercial banking or insurance activities. The Exposure Drafts propose specific definitions for these activities and allow a reporting entity that is not regulated to conduct such activities in its jurisdiction to elect not to make such disclosures. If an entity chooses not to disclose such information, it shall disclose that fact. The SSBJ has not prescribed which companies will be required to apply these standards, although it has indicated that they may apply to companies which "center their business on constructive dialogue with global investors", such as listed companies or companies subject to reporting requirements under the Financial Instruments and Exchange Act. The SSBJ is expected to release finalised versions of the three standards by March 2025. Japan has discussed introducing mandatory reporting under the standards from 2027 at the earliest for large listed companies.
Singapore	Based on recommendations published by the Singapore Sustainability Reporting Advisory Committee, the Singapore Exchange Regulation has finalised amendments to its listing rules, requiring listed issuers to report information aligned with ISSB Standards. For financial years commencing on or after 1 January 2025, all issuers are required to report Scopes 1 and 2 greenhouse gas emissions. Their climate-related disclosures must also start incorporating the climate-related requirements in the ISSB Standards. For financial years commencing on or after 1 January 2026, large issuers will be required to make Scope 3 greenhouse gas emissions disclosures that are aligned with the ISSB Standards in addition to the existing requirements. ISSB reporting will also apply to large non-listed companies (defined as those with annual revenue of at least SG$1 billion and total assets of at least SG$500 million) from 2027 onwards, except for information on Scope 3 greenhouse gas emissions, with the same requirements as listed companies. They will be required to report information on Scope 3 greenhouse gas emissions by 2029.
UK	The UK has signalled its intention to adopt Sustainability Reporting Standards (the "SRS") based on ISSB Standards and will consult on drafts of this in Q1 2025. The consultation may address the requirement for companies in scope to adopt transition plans in line with recommendations published by the UK Transition Plan Taskforce. In December 2024, the Sustainability Disclosure Technical Advisory Committee, which was established by the UK government to review the inclusion of ISSB

	Standards under UK law, formally recommended adoption of the ISSB Standards with only minor amendments. Once the SRS are adopted, the Financial Conduct Authority will conduct its own consultation on requiring UK listed companies to report under the SRS. The UK government will also consult on whether to apply the SRS to other “economically significant” companies, which is likely to encompass large private companies. This will presumably replace existing requirements for UK companies to report under the Task Force on Climate-Related Financial Disclosures’ recommendations, given that these standards are already incorporated into IFRS S2.

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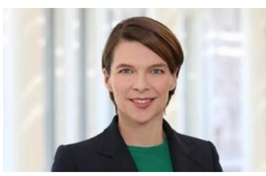
Please do not hesitate to contact us with any questions.



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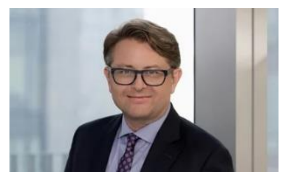

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