

Deloitte.



Making sense of ISSB:
Navigating climate regulation,
compliance and reporting

September 2022



“The world is at an incredible turning point with the emergence of the ISSB exposure drafts ... [ISSB] matters to all companies and all directors; and not just listed, because it will eventually affect everybody.”

ASIC Deputy Chair Karen Chester
at the Australian Institute of Company Directors,
Climate Governance Forum

Contents

Executive summary	2
Making sense of ISSB	3
What is the ISSB?	4
What are the ISSB standards?	5
Why are the ISSB standards important?	8
What do the changes mean for Australian business?	9
What is Deloitte’s view of the ISSB initiative?	10
About us	13
Appendix	14
Footnotes	15

Executive summary

The global landscape of climate and sustainability reporting and disclosure requirements is complex, presenting a significant challenge to preparing and communicating disclosures across industries, sectors and time horizons.

There has been pressure from investors and financial institutions on the need for more consistent and comparable data across all sectors and industries to support investment decision making. The International Sustainability Standards Board (ISSB) has been set up by the International Financial Reporting Standards (IFRS) Board of Trustees to develop a consistent global baseline for sustainability-related financial disclosures. An exposure draft of these standards was released earlier this year.

Over time we anticipate that Australia will align mandatory climate disclosure requirements with major global markets including New Zealand, the United Kingdom and the European Union and that the ISSB standards will become a regulatory requirement.

This will have profound and far-reaching impacts on Australian business in that it will require organisations to disclose the following as part of general-purpose financial reporting:

- *Future* financial positions and company strategy around climate and sustainability;
- Scope 3 emissions reporting (along with Scope 1 and 2);

- Specific details relating to the use of carbon offsets in achieving targets; and
- Details of the organisation's approach to climate and sustainability related risks and opportunities, including governance and risk assessment methodologies.

Standardising sustainability and climate disclosures is a critical step to accelerating to a net zero future. For most Australian organisations, meeting these reporting standards will require a step change in the how they measure, model, assess and report – which in itself can be a catalyst for change.

The standards are about so much more than disclosure – with an emphasis on the future and the most material risks to enterprise value. ISSB is fundamentally about strategy. It will support continued access to capital and improved decision making in assessing the impact of climate and other material sustainability on the business. It also provides the opportunity to integrate these considerations into existing governance mechanisms and capital allocation decisions. It will require a commensurate investment in systems to support better and more timely access to climate and sustainability data.



Making sense of ISSB: Navigating climate regulation, compliance and reporting

Now more than ever, businesses are committing to greater measurement and reporting on climate and sustainability performance. Indeed, this clarity is expected by all stakeholders: customers, investors, regulators, boards and employees. But the global landscape of climate and sustainability reporting and disclosure requirements is complex and disparate, presenting a significant challenge to preparing and communicating consistent and comparable disclosures across industries, sectors and time horizons.

The International IFRS Board of Trustees, which developed the global accounting standards, is now taking the lead. It has established the ISSB to develop a consistent global baseline for sustainability-related financial disclosures. These proposed standards, and what they mean for Australian business should not be underestimated and are outlined in this guide.

ACRONYMS	
AASB	Australian Accounting Standards Board
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
ISOCO	International Organisation of Securities Commissions
ISSB	International Sustainability Standards Board
SASB	Sustainability Accounting Standards Board
TCFD	Taskforce on Climate-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosures

What is the ISSB?

In November 2021, at the UN Climate Change Conference (COP26), IFRS launched the ISSB – a body tasked with developing a globally consistent approach to sustainability reporting, outlining its role in developing a comprehensive global baseline of sustainability and climate disclosure standards.

Exposure drafts of the standards were released in April 2022 and were open for comment until late July 2022. They are designed to give stakeholders (particularly investors) clear, consistent and comparable information about a company's sustainability and climate-related risks and opportunities. The proposed standards:

- Leverage the existing TCFD¹ framework's four pillars of governance, strategy, risk management, and metrics and targets;
- Require disclosure of the governance structures, strategic choices and risk management approaches the company has invested in, in order to respond to identified sustainability and climate risks and opportunities;
- Specify that ESG and financial metrics and data be disclosed across thematic and industry-specific domains; and importantly
- Propose that this information is disclosed as a part of general-purpose financial reporting.

Upon finalisation in early 2023, it is expected that the ISSB standards will be released for voluntary adoption in Australia (regulatory change will be required before these standards become mandatory).

Over time we anticipate that Australia will align requirements with major global markets such as the United Kingdom and the European Union, and that the standards will become mandatory. In the near term, adoption will be driven by market practice and rapidly evolving stakeholder expectations that leading organisations comply.



What are the ISSB standards?

The ISSB standards consist of a base standard IFRS S1 which covers general requirements for disclosure of sustainability-related financial information and a 'thematic' standard with IFRS S2 – focused on climate-related disclosure.

The key requirements of the current draft of the climate-related disclosures (IFRS S2) is outlined in the appendix (*see Figure 1*). The below summary also highlights how and where the proposed standard *extends beyond* the current TCFD requirements and seeks to incorporate industry specific guidance.

Governance: disclosures related to 'understanding the governance processes, controls and procedures used to monitor and manage climate-related risk and opportunities.'²

The standard requires extensive detail about:

- a. Exactly who (or which body) in an organisation will be responsible for managing climate-related risks and opportunities;
- b. How the organisation ensures this individual (or group) has the right skills and is subject to appropriate senior oversight and checks and balances (including in relation to the setting and monitoring of targets); and
- c. How the organisation incorporates the thinking of this individual (or group) into its broader strategic decision making.

Strategy: disclosures related to 'understanding an organisation's strategy for addressing significant climate-related risks and opportunities.'³

Like TCFD, the standards require an organisation to provide a full account of how climate-related risks and opportunities:

- a. Could 'affect business model, strategy, cash flows and access to capital' in the short, medium and long-term and in different scenarios;
- b. Have affected its 'financial position, financial performance and cash flows' in the reporting period, and the anticipated affects in the short, medium and long-term in different scenarios; and
- c. How an organisation is planning to respond to these risks and opportunities, including business transformation plans, and/or direct actions to improve resilience to physical and transition risks.

What are the ISSB standards?

The standard requires more detail than TCFD about how plans to respond to highlighted risks:

- a. Will be resourced; and
- b. The organisation's capacity to evolve and adapt these plans in response to changing events (physical risks) and circumstances (transition risks).

There are also new explicit requirements around disclosure of emission targets, how these will be reviewed and the proposed role of carbon offsets in achieving these targets.

Risk management: disclosures related to 'understanding the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.'⁴

Unlike TCFD, the standard is explicit about the methodology used for outlining how climate-related opportunities have been prioritised, what inputs are used when thinking about climate-related risk, how this methodology is applied and reviewed and an obligation to disclose if there are any changes to the application of this methodology between reporting periods.

Metrics and targets: disclosures related to 'understanding how an organisation, measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the organisation assesses its performance, including progress, towards the target it has set.'⁵

The proposed standard expects:

1. Most notably, a requirement of separate disclosures of Scope 1 and 2⁶ carbon emissions and the addition of Scope 3 carbon emissions (emissions from an organisation's supply and value chains). Scope 3 is recognised as one of the most challenging areas in this domain and it is likely that additional guidance and phase-in provisions will be incorporated to support organisations to meet this potential Scope 3 disclosure requirement; and
2. That an organisation contextualises its disclosures using appropriate industry-based metrics (drawing from SASB).



Why are the ISSB standards important?

In recent years there have been calls to improve the global consistency and comparability of sustainability reporting, with companies facing increasing pressure to disclose their sustainability and climate risks, and strategies for combatting climate change and responding to ESG demands. ISSB advances this critical cause.

As outlined, the draft standards ask preparers to disclose the affects of climate-related risks and opportunities on their financial position, financial performance and cash flows, along with how they expect their organisation's financial position and financial performance to change over time, given an organisation's decarbonisation strategy. This would include capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements.

There has been pressure from investors, financial institutions and customers on the need for more consistent and comparable data across all sectors and industries to support investment and purchase decision making.

The extent and nature of the financial disclosures outlined above will facilitate this, and provide the verifiable information required to make decisions with greater confidence. This is even more important as regulators around the world are focusing on 'greenwashing' and looking to ensure claims made and ESG data are robust.

From an operational perspective, the integration of ESG data into financial statements poses important considerations about the assurance of such data. It will likely have implications for the internal systems, processes and controls in place for collating ESG data.



What do the changes mean for Australian business?

A number of bodies including IOSCO⁷ and ASIC⁸ have supported the publication of the two exposure drafts, with ASIC Deputy Chair Karen Chester⁹ saying they represent "a major step towards setting global sustainability and climate-related disclosure standards". However, **no decision has been made at this point on how to give these standards authority in Australia.** The timing of any application of the standards is currently uncertain.

The Australian Accounting Standards Board (AASB)¹⁰ has expressed support for the scope and direction of the ISSB's work. In the past the Australian Prudential Regulatory Authority (APRA)¹¹ has been supportive of efforts to raise awareness of climate-related risks for the financial sector.

Deloitte anticipates that assurance over sustainability-related disclosures will become mandatory in time, starting with limited assurance and then moving to reasonable assurance, given that it is proposed that sustainability-related disclosures would form part of general purpose financial reporting, therefore increasing the scope of auditors. Such an approach would be consistent with proposals in the United States and the European Union and helps build further trust in and credibility of the disclosure.

In Australia currently, voluntary sustainability reporting using TCFD and Global Reporting Initiative (GRI) Standards¹² is commonplace amongst larger listed entities, but reporting using SASB standards is less so. Larger Australian companies are therefore better positioned to adopt the proposed ISSB standards, but many – particularly smaller listed entities – are less well placed. As such, education, tools and clear guidance will be required to upskill Australian report preparers on the implementation of ISSB Standards and in the use of SASB standards in particular.

Existing voluntary sustainability disclosures continue to evolve as they address a wider range of sustainability issues and stakeholders than ISSB. Over time, however, we expect increased integration and alignment between ISSB and GRI to coordinate work programs and support harmonisation of the sustainability reporting landscape.¹³

The ISSB has announced its intention to develop further topic-specific standards in addition to climate change over time. These are likely to include nature (leveraging the new Taskforce on Nature-related Financial Disclosures (TNFD¹⁴)) and human rights, but a detailed work program has yet to be confirmed.

What is Deloitte's view of the ISSB initiative?

Tangible steps on climate action should be a priority for all organisations. To that end, we propose organisations follow five steps for climate-led transformation:

- 1 **Commit** to a climate change and sustainability aspiration
- 2 **Develop** a climate change and sustainability strategy
- 3 **Align** your organisational model
- 4 **Enhance** organisational capability
- 5 **Regularly** monitor and report

The proposed ISSB standard supports these steps. Its adoption and application will bring greater transparency, organisational maturity and clarity to climate and sustainability disclosures, fundamental to both aspiration and strategy setting (Step 1) and, of course, appropriate and timely monitoring and reporting (Step 5). For most Australian organisations, meeting these reporting standards will require a significant change in how they measure, model, assess and report – which in itself can be a catalyst for change.

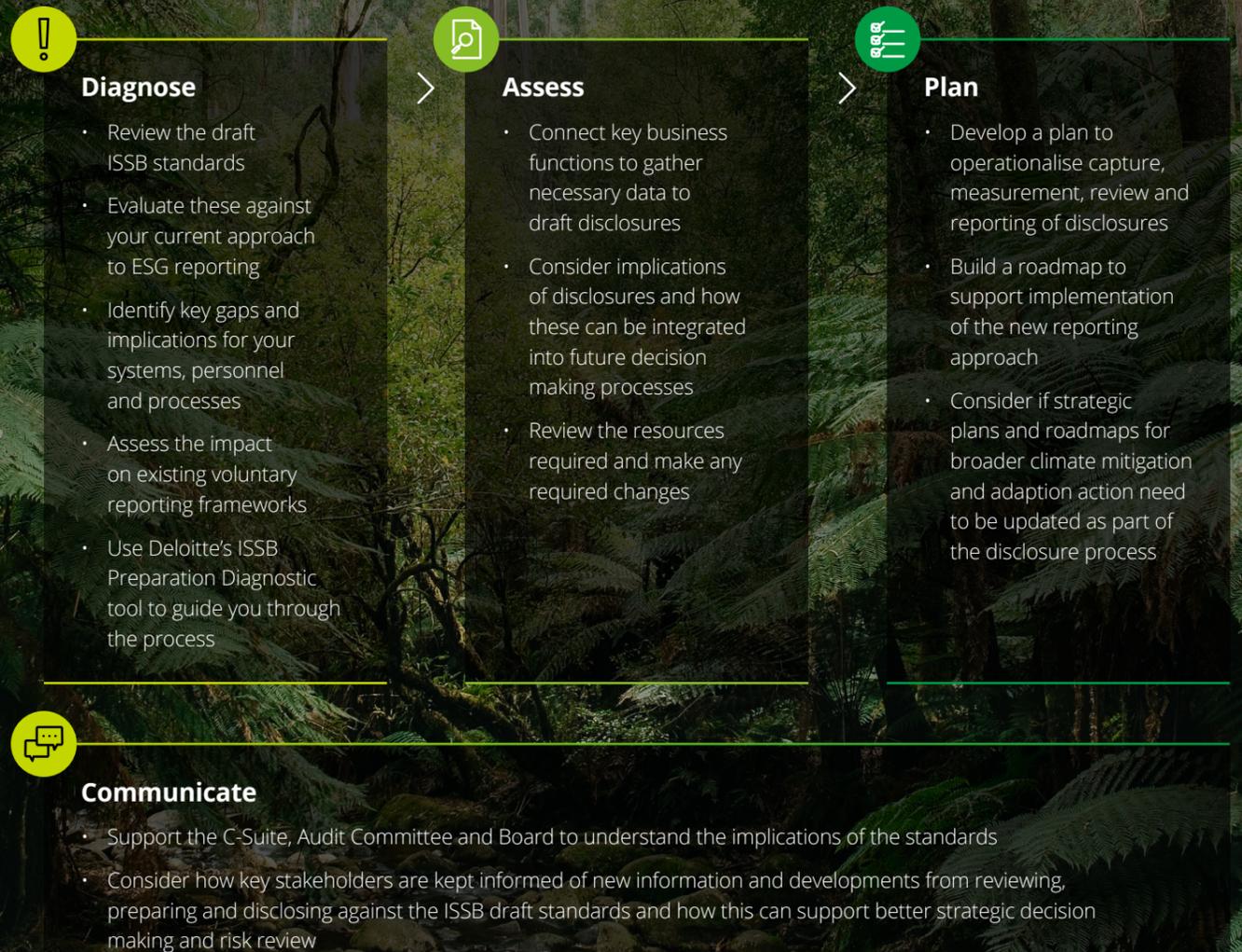
Tackling climate change and material sustainability issues will deliver significant economic benefit, but this cannot be realised without significant re-allocation of capital and new investment. Standardising sustainability and climate disclosures provides more consistent and comparable information to better facilitate this shift and future investment.

And the standards are about so much more than disclosure – with an emphasis on future and most material risks to enterprise value – ISSB is fundamentally about strategy. It will support continued access to capital and improved decision making in assessing the impact of climate and other material sustainability risks on the business. It also provides the opportunity to integrate these considerations into existing governance mechanisms and capital allocation decisions. It will require a commensurate investment in systems to support better and more timely access to climate and sustainability data.

Organisations should invest now to get ISSB ready, which in many cases can begin by leveraging existing sustainability and TCFD reporting processes.



We believe organisations should focus on investing in four priorities:





About us

Our Deloitte authors



Paul Dobson
Partner, Climate & Sustainability
padobson@deloitte.com.au



Jacquie Fegent-McGeachie
Partner, Climate & Sustainability
jfegent-mcgeachie@deloitte.com.au



Wibishana Rockwood
Partner, Climate & Sustainability
wrockwood@deloitte.com.au



Chi Woo
Partner, Climate & Sustainability
chimunwoo@deloitte.com.au

Deloitte Climate & Sustainability is a team of 250 dedicated experts in Australia supporting our clients in business, government and our communities to take practical action to decarbonise, become climate resilient and invest in the economic opportunity of Australia's transition to a net zero economy. Deloitte has been a leader in identifying a coordinated climate transition as an enormous economic opportunity for Australia. Our recent *The Turning Point*¹⁵ report estimated this opportunity at \$890b over 50 years. To help businesses seize that opportunity, we helped establish the **Climate Leader's Coalition** and provided the economic modelling for **the Business Council of Australia's Net Zero 2050** commitment.

Our track record of helping our clients tackle climate transformation and our data-driven research, modelling assets and technology capabilities underpin our practical guidance to Executives, Non-Executive Directors, and Audit & Risk Committees – and their ability to prepare for the ISSB and this significant sustainability reporting change (whether that be strategic review, compliance advisory or assurance). We have been supporting clients over many years with the evolving sustainability reporting landscape from greenhouse gas reporting, GRI to TCFD¹⁶ and now the emerging TNFD framework.

It's now time to get ISSB ready.

Appendix

		Standards (EDs)
		IFRS
Guiding requirements	Type	Standards to be jurisdictionally regulated, developed by ISSB
	Scope	Sustainability (S1) and climate-related (S2) disclosures (industry-specific)
	Materiality	Investor-focused: Omitting, misstating, or obscuring information could be reasonably expected to influence decisions that primary users make on an entity's enterprise value
	Assurance	Subject to jurisdictional requirements
Climate-related disclosure	Governance	<ul style="list-style-type: none"> Review risks and opportunities within board mandates and policies Climate-related remuneration policies
	Strategy (climate risks, opportunities)	<ul style="list-style-type: none"> Direct and indirect responses to climate risk Changes to financial position and resourcing impacts Assets aligned with risks and opportunities Resiliency of strategy informed by scenario analysis
	Risk management	<ul style="list-style-type: none"> Processes to identify, assess and manage climate-related risks Extent of integration into overall risk management processes
Climate-related metrics	Financial	Impact of climate-related risks and opportunities on financial position, performance and cash flows for reporting period and anticipated impacts over short, medium and long term
	GHG emissions	Scope 1, Scope 2 and Scope 3 GHG emissions required
	Targets and other metrics	<ul style="list-style-type: none"> Metrics used to assess climate risks and opportunities Targets, performance and approach to target setting Industry-based metrics

Figure 1 Current draft of climate-related disclosures (IFRS2)

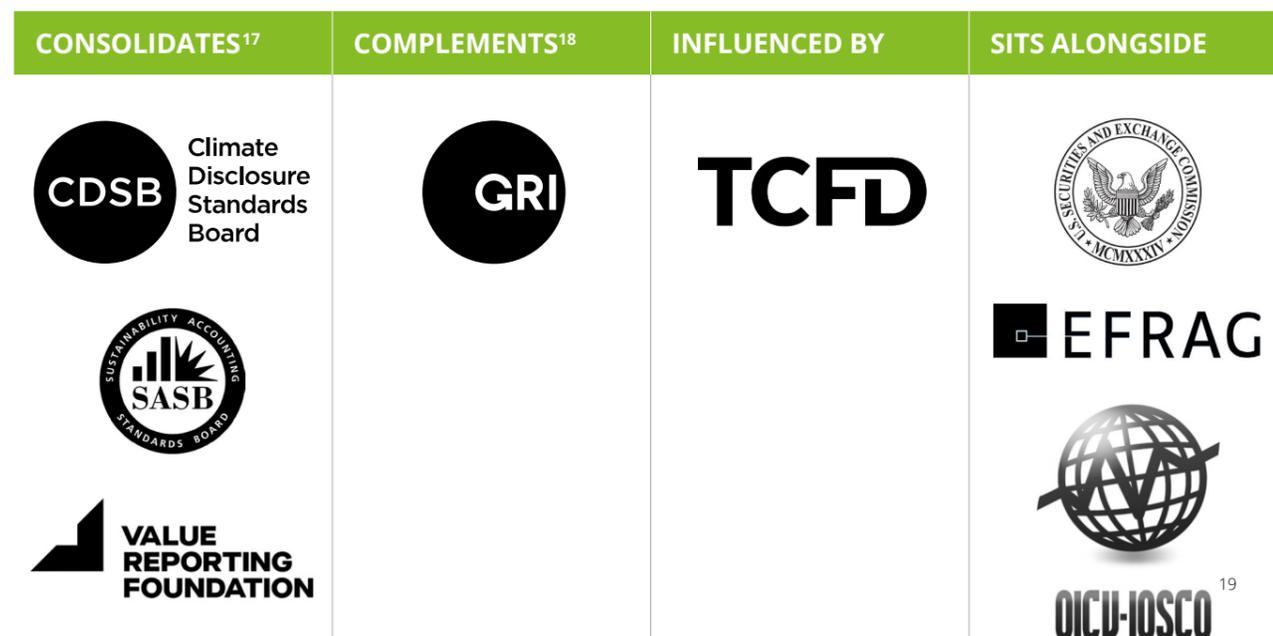


Figure 2 Relationship between ISSB and existing voluntary frameworks



Footnotes

- Taskforce of Climate-related Financial Disclosures www.fsb-tcf.org
- ISSB. (2022). Comparison [Draft] IFRS S2 Climate-related Disclosures with the TCFD Recommendations. IFRS. www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/comparison-draft-ifrs-s2-climate-related-disclosures-with-the-tcfd-recommendations.pdf Pg 3
- Ibid, Pg 4
- Ibid, Pg 6
- Ibid, Pg 7
- www.cleanenergyregulator.gov.au/NGER/About-the-National-Greenhouse-and-Energy-Reporting-scheme/Greenhouse-gases-and-energy
- www.iosco.org/
- <https://asic.gov.au/>
- <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-161mr-asic-encourages-submissions-to-the-international-sustainability-standards-board-consultation-on-global-baseline-climate-and-sustainability-disclosures/>
- https://aasb.gov.au/media/gjpbg5xr/issb_submission_ifrs_s1_and_s2a.pdf
- www.apra.gov.au/news-and-publications/apra-releases-guidance-on-managing-financial-risks-of-climate-change
- GRI – Global Reporting Initiative www.globalreporting.org
- www.ifrs.org/news-and-events/news/2022/06/issb-and-gri-provide-update-on-ongoing-collaboration/
- TNFD – Taskforce on Nature-related Financial Disclosures <https://tnfd.global/>
- www2.deloitte.com/au/en/pages/about-deloitte/articles/asia-pacifics-turning-point-deloitte-australia.html
- <https://tnfd.global/>
- Two leading international sustainability standard-setters – the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF) – have merged into the IFRS Foundation
- The IFRS Foundation and the GRI have signed an MOU whereby their respective standard-setting boards – the ISSB and the Global Sustainability Standards Board (GSSB) – will seek to coordinate their work programs and standard-setting activities. See: www.ifrs.org/news-and-events/news/2022/06/issb-and-gri-provide-update-on-ongoing-collaboration/
- IOSCO has committed to work with the IFRS Foundation to develop a systems architecture for setting sustainability reporting standards under the ISSB.



This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organisation”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organisation”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

About Deloitte

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organisation”) serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 312,000 people make an impact that matters at www.deloitte.com.

About Deloitte Asia Pacific

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

About Deloitte Australia

The Australian partnership of Deloitte Touche Tohmatsu is a member of Deloitte Asia Pacific Limited and the Deloitte organisation. As one of Australia’s leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, risk advisory, and financial advisory services through approximately 8,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at <https://www2.deloitte.com/au/en.html>.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

© 2022 Deloitte Touche Tohmatsu

867594661_Designed and produced by The Agency | Deloitte Australia_09/22