



Asia Pacific's Response to the International Sustainability Standards Board (ISSB)'s Finalised IFRS S1 and IFRS S2 Standards

July 2023



Overview

The global environmental, social, and governance (ESG) landscape is rapidly taking shape. On 26 June 2023, the International Sustainability Standards Board (ISSB) issued its first two standards, IFRS S1¹ and IFRS S2², with modifications from the exposure drafts (EDs) in response to stakeholder feedback. These standards address disclosure requirements related to an entity's governance, strategy, risk management, and sustainability-related metrics and targets and mark an important milestone in the standardisation of global corporate sustainability reporting. IFRS S1 and IFRS S2 are intended to improve the alignment and interoperability of global ESG standards, reducing the reporting burden for preparers and enhancing the usefulness of sustainability disclosures for investors in making decisions.

The interoperability between IFRS S1 and IFRS S2 and other emerging global standards means that companies can now take action to apply the ISSB standards to accelerate preparedness for regulatory requirements around the world. It is expected that IFRS S1 and IFRS S2 will inform many local jurisdictions that codify the global standards or supplement them with additional jurisdictional requirements.

This report provides an overview of the finalised standards and explores how regulators and other key stakeholders in Asia Pacific have reacted. It also provides a roadmap for how companies in the region can get prepared for ISSB-aligned disclosures.

¹ <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf?bypass=on>

² <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf?bypass=on>



Background

At the 26th United Nations Conference of the Parties in November 2021, in light of strong market demand for convergence and rationalisation of the various sustainability standards, the IFRS Foundation trustees announced the formation of the ISSB to act as the authoritative standard setter in the market and to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. The trustees also announced their intended consolidation of the Value Reporting Foundation (formerly the Sustainability Accounting Standards Board [SASB]) and the Climate Disclosure Standards Board into the IFRS Foundation, which was made official in August 2022.

In March 2022, the ISSB released EDs on general requirements for sustainability disclosures (IFRS S1) and climate-related disclosures (IFRS S2). After a consultation period of 120 days, the ISSB redeliberated and finalised the proposals, which were published on 26 July 2023.



IFRS S1 and IFRS S2 - Selected Provisions

IFRS S1 and IFRS S2 create a global baseline for sustainability disclosures. Beyond the general sustainability reporting requirements in IFRS S1, the standards' first thematic area of focus is climate-related disclosures through IFRS S2. Together, the two standards are intended to meet the information needs of the capital markets and function as a starting point for securities regulators around the world that choose to adopt them to advance their rulemaking. The objective of the standards is to require an entity to disclose decision-useful information about its climate- and sustainability-related risks and opportunities to primary users of general purpose financial reports, including those that may be providing resources to the entity.

IFRS S1 and IFRS S2 require an entity to disclose information about all material sustainability-related and climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to financing, or cost of capital over the short, medium, or long term. However, in a June 2023 feedback statement³, the ISSB provides an exemption that allows an entity "to omit commercially sensitive information about a sustainability-

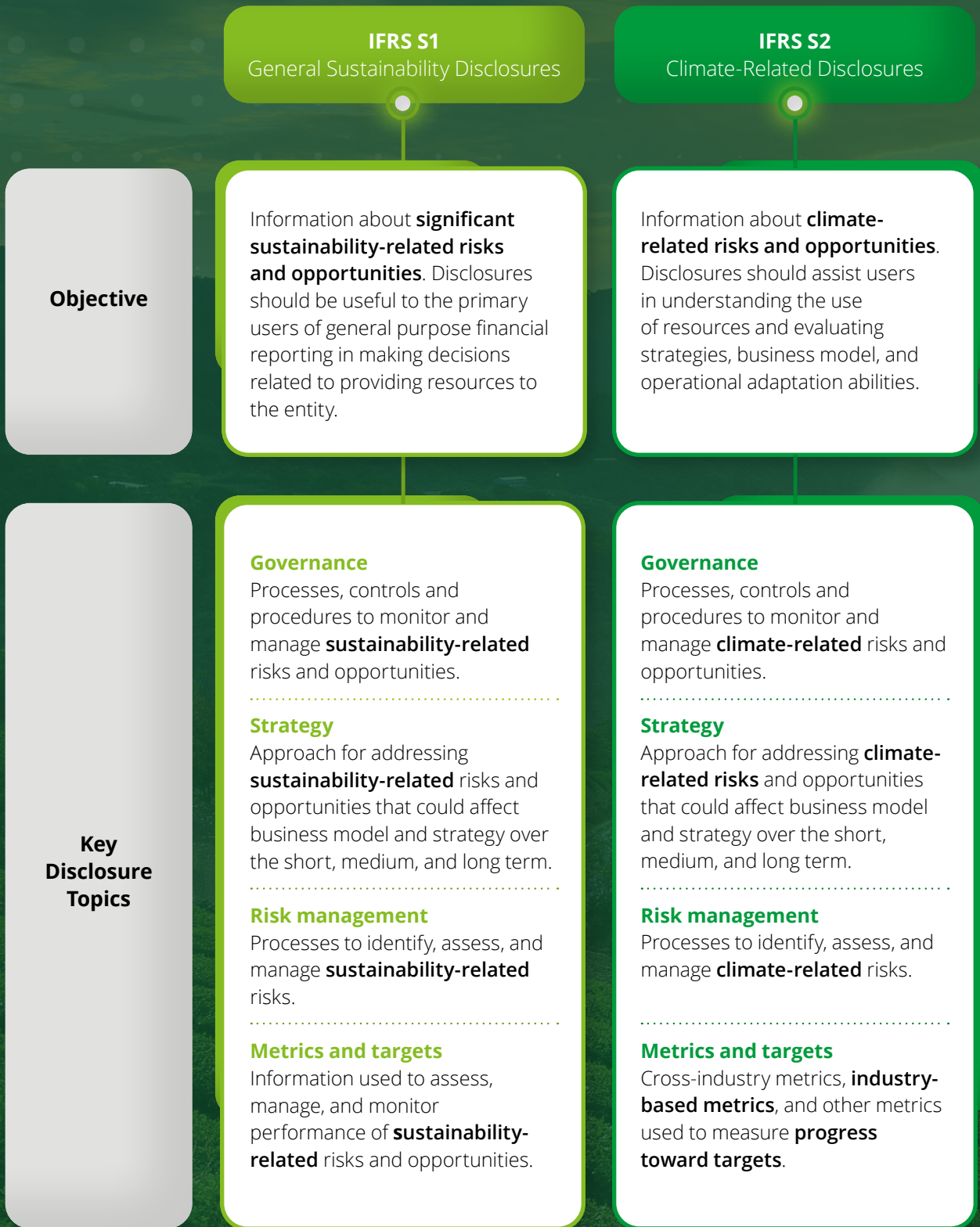
related opportunity from its sustainability-related financial disclosures under specific conditions." An entity applying the exemption must disclose that fact. The ISSB also notes that an entity "would not be permitted to use commercial sensitivity as a broad justification for non-disclosure nor to omit information about sustainability-related risks."

In the context of sustainability-related financial disclosures, IFRS S1 defines material information in alignment with the International Accounting Standards Board's (IASB) definition, which states that information is considered material if omitting, misstating, or obscuring it could be reasonably expected to influence decisions that primary users make on the basis of that reporting.

As summarised in the graphic below, the core content of the disclosures should include information on an entity's governance processes and controls, strategy, risk management practices, and metrics and targets used to monitor, manage, and report performance in relation to the identified risks and opportunities.



³ <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/feedback-statement.pdf>






IFRS S1 sets out general requirements for the content and presentation of an entity's sustainability-related financial disclosures. Such disclosures must pertain to the same reporting entity as the related financial statements, and the entity is required to identify the financial statements to which the sustainability-related financial disclosures are related. In addition, the financial data and assumptions included in the disclosures must be consistent with the corresponding financial data and assumptions applied in the preparation of the entity's financial statements, to the extent possible, including consideration of the requirements of IFRS Accounting Standards or other applicable generally accepted accounting principles (GAAP) or practices. Any judgments made by the entity in preparing its disclosures, including the sources of guidance it used, must be identified.

IFRS S2 requires specific metric category disclosures, including Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions generated during the reporting period. When disclosing GHG emissions in accordance with the Greenhouse Gas Protocol — A Corporate Accounting and Reporting Standard (“GHGP Standard”) under IFRS S2,

an entity must disclose the approach used (i.e., the equity share or control approach) and the consolidated accounting group to which the emissions pertain (e.g., for an entity applying IFRS Accounting Standards, this group would comprise the parent and its consolidated subsidiaries).

The ISSB introduced several relief measures aimed at reducing the burden of reporting GHG emissions⁴, which include:

-  Temporary relief from using the GHGP Standard in the first annual reporting period an entity applies IFRS S2 if it has previously used another GHG measurement method.
-  Relief that allows an entity to use an alternative GHG measurement method if it is required, in its jurisdiction, to do so.
-  Temporary relief from disclosing Scope 3 emissions in the first annual reporting period an entity applies IFRS S2.



⁴ <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/feedback-statement.pdf>

The IFRS S2 also requires an entity to provide disclosures related to its climate-related physical and transition risks and opportunities, internal carbon prices, capital deployment (including the amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities), and remuneration (including whether and how climate-related considerations are factored into executive remuneration). The standard is also accompanied by industry-based guidance on implementation⁵, which suggests ways to identify, measure, and disclose this information associated with particular business models, activities, or other common features that characterise participation in an industry. This industry-based guidance was derived from SASB standards, which are maintained by the ISSB. While IFRS S1 requires an entity to consider the applicability of SASB disclosure topics, the entity is not required to apply them if it determines that such topics do not result in disclosures that meet the requirements of IFRS S1.

Similarly, under IFRS S2, entities are required to consider the applicability of the industry-based guidance but are not required to apply the particular metrics included in the guidance.

Note that assurance requirements applied to IFRS S1 and IFRS S2 are subject to jurisdictional regulation. By contrast, other proposed global ESG reporting standards such as the European Sustainability Reporting Standards (ESRS)⁶ and the U.S. Securities and Exchange Commission's (SEC's) proposed rule on climate-related disclosures⁷ would both require limited assurance followed by reasonable assurance on certain mandated disclosures. For more details on ESRS and SEC, see Deloitte's January 9, 2023⁸, and March 29, 2022⁹, Heads Up newsletters.



5 <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/sustainability-pdf-collection/>

6 https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13765-European-sustainability-reporting-standards-first-set_en

7 <https://www.sec.gov/news/press-release/2022-46>

8 <https://dart.deloitte.com/USDART/home/publications/deloitte/heads-up/2023/esg-eu-corporate-sustainability-reporting>

9 <https://dart.deloitte.com/USDART/home/publications/deloitte/heads-up/2022/sec-analysis-climate-disclosures>






Application Timeline

An entity is required to apply both IFRS S1 and IFRS S2 for annual reporting periods beginning on or after January 1, 2024, but the specific application date for the standards will vary as jurisdictions move to adopt them. Early application of the standards is permitted. In such a case, the entity is required to disclose that it is applying the standards early and to apply both standards at the same time. Alternatively, an entity may elect to apply the transition relief described below for sustainability-related disclosures (IFRS S1). If transition relief is applied, the “date of initial application is the beginning of the annual reporting period in which an entity first applies [the standards].”

The ISSB provides entities with transition relief to give them more time to prepare as they align their reporting of sustainability-related financial disclosures with their financial statements. As a part of that relief, an entity is not required to provide the disclosures specified in IFRS S1 or IFRS S2 for any period before the date of initial application. Accordingly, comparative information is not required to be disclosed in the first annual reporting period in which an entity applies the standards.

In addition, in the first annual reporting period in which an entity applies IFRS S1, it is permitted to report its sustainability-related financial disclosures after it publishes its related general purpose financial statement. In accordance with IFRS S1, an entity applying this relief should report its sustainability-related financial disclosures at one of the following times:

-  Concurrently with “its next second-quarter or half-year interim general purpose financial report, if the entity is required to provide such an interim report.”
-  Concurrently with “its next second-quarter or half-year interim general purpose financial report, but within nine months of the end of the annual reporting period in which the entity first applies this Standard, if the entity voluntarily provides such an interim report.”
-  “Within nine months of the end of the annual reporting period in which the entity first applies this Standard, if the entity is not required to and does not voluntarily provide an interim general purpose financial report.”

Moreover, in the first annual reporting period in which an entity applies IFRS S1 and IFRS S2, the entity is permitted to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) and to apply the requirements in IFRS S1 (on sustainability-related information) only to the extent that they are related to the disclosure of information on climate-related risks and opportunities. In accordance with IFRS S1, if an entity uses this transition relief, it must disclose that fact, and it is “not required to disclose comparative information about its climate-related risks and opportunities” (emphasis added) in the first annual reporting period in which it applies the standard. In the second annual reporting period, the entity is “not required to disclose comparative information about its sustainability-related risks and opportunities, other than its climate-related risks and opportunities” (emphasis added). IFRS S2 includes additional transition-relief provisions regarding GHG emissions. For additional details, see Deloitte’s June 2023 iGAAP in Focus¹⁰.

¹⁰ <https://www.iasplus.com/en/publications/global/igaap-in-focus/2023/sustainability-disclosure-standards>

Reactions in Asia Pacific

Since the ISSB was first announced at COP21 in 2021, there has been significant interest from regulators, industry associations, investors, and corporates alike in Asia Pacific.

In **Southeast Asia**, several regulators have expressed their support for the new standards. The **Singapore** Exchange Regulation (SGX RegCo) and the Accounting and Corporate Regulatory Authority (ACRA) issued a comment letter in 2022 where they welcomed the ISSB's initiative to develop a comprehensive global baseline of sustainability disclosure standards¹¹. In July 2023, ACRA and SGX RegCo launched a public consultation to advance climate reporting in Singapore. The recommendations would require listed issuers to report in alignment with the ISSB starting from financial year 2025¹².



The Institute of **Indonesia** Chartered Accountants (IAI) also shared its support for the ISSB and expressed in a comment letter that they “support the aspiration for a comprehensive global baseline for the disclosure of sustainability-related financial information and climate-related disclosures”¹³.

¹¹ <https://www.acra.gov.sg/docs/default-source/news-events-documents/2022/issb-ed-response---acra-sgx-regco-comment-letter-2022.pdf>

¹² <https://www.sgx.com/regulation/public-consultations/20230706-consultation-paper-recommendations-sustainability>

¹³ https://web.iaiglobal.or.id/Berita-IAI/detail/iai_support_issbs_proposed_standards_for_disclosure_of_sustainability-related_and_climate-related_information

In **Malaysia**, the Deputy Chief Executive of the Securities Commission stated during a session on the ISSB exposure drafts that “discussions on the proposed standards are already underway between the Securities Commission, Bank Negara Malaysia, Bursa Malaysia and the MASB [Malaysian Accounting Standards Board]”¹⁴.



In **Japan**, the ISSB and the Sustainability Standards Board of Japan (SSBJ) have been working closely, and in April 2023, SSBJ indicated its timeline for the domestic development of the ISSB standards. SSBJ will issue draft sustainability disclosure standards based on the ISSB standards by 31 March 2024 and will finalise the standards by 31 March 2025¹⁵. Early adoption will be permitted from financial years starting on or after 1 April 2025.

¹⁴ <https://www.sc.com.my/resources/speeches/opening-remarks-at-the-outreach-session-on-the-issbs-ifrs-sustainability-disclosure-exposure-drafts>
¹⁵ Japan Sets Timeline for Domestic Implementation of ISSB Standards - Regulation Asia



Although there are no concrete plans for ISSB-implementation in **Mainland China** at the time of writing, the IFRS Foundation opened its ISSB office in Beijing in March 2023 following the signing of a memorandum of understanding between the IFRS Foundation and the Ministry of Finance of China¹⁶. According to ESG Investor, Fang Xinghai, Vice Chairman of the China Securities Regulatory Commission stated that the ISSB standards will likely have a significant impact on the future development of Chinese companies¹⁷.

The **Hong Kong SAR** Stock Exchange became one of the first in the world to announce plans to align ESG disclosure requirements with the ISSB standards. The Exchange launched a public consultation in April 2023 with an ambitious timetable for ISSB mandates as soon as 2024¹⁸.

Other Green and Sustainable Finance Cross Agency Working Group members in Hong Kong, led by the Hong Kong Monetary Authority and the Securities and Futures Commission, have also pledged to introduce reporting based on the TCFD recommendations by 2025. With the ISSB standards following the same architecture as the TCFD recommendations, it is anticipated that these bodies will align with the ISSB's reporting requirements as the Hong Kong Stock Exchange rolls out its new requirements¹⁹.

The Financial Supervisory Commission (FSC) in **Taiwan (China)** also announced plans to enhance sustainability-disclosures among its listed companies. This included the establishment of a Sustainability Standards Committee under the Accounting Research and Development Foundation to develop plans for future alignment with the ISSB standards²⁰. As of writing, the FSC is consulting with various stakeholders and the tentative plan is to implement the ISSB standards in stages, starting from financial year 2026-2027.



¹⁶ <https://www.ifrs.org/news-and-events/news/2023/06/ifrs-foundation-opens-issb-office-in-beijing/#:~:text=IFRS%20%2D%20IFRS%20Foundation%20opens%20ISSB,accounting%20and%20sustainability%20disclosure%20standards>

¹⁷ <https://www.esginvestor.net/china-plans-adoption-of-issb-standards/>

¹⁸ https://www.hkex.com.hk/News/Regulatory-Announcements/2023/230414news?sc_lang=en

¹⁹ <https://www2.deloitte.com/cn/en/pages/hot-topics/topics/climate-and-sustainability/dcca/thought-leadership/tackling-the-challenges-of-transitioning-to-issb> <https://www.fsc.gov.tw/en/>

²⁰ https://www.fsc.gov.tw/en/home.jsp?id=54&parentpath=0,2&mcustomize=multimessage_view.jsp&dataserno=202304210003&dtable=News



In **Australia**, the Commonwealth Treasury is currently working on the implementation of mandatory climate-related financial disclosure requirements for Australian companies. In a consultation paper released in June 2023, the government is seeking views on the design and implementation of standardised and internationally-aligned reporting requirements. The consultation paper stated their intention for the Australian requirements to align with the ISSB standards as far as practicable²¹. These requirements could apply as soon as financial year 2024-2025 for large corporations, with smaller entities being phased in over a subsequent three-year period.

In **Korea**, the Korea Accounting Institute (KAI) and the Korea Sustainability Standards Board (KSSB) are currently assessing the feasibility of adopting the ISSB standards domestically. Discussions are also underway between key stakeholders such as the Financial Supervisory Service and the Korea Corporate Governance Service on whether to introduce the standards.



21 <https://treasury.gov.au/sites/default/files/2023-06/c2023-402245.pdf>

In **New Zealand**, climate-related reporting in alignment with the TCFD recommendations is already mandatory for certain large entities.



The Institute of Chartered Accountants of **India** (ICAI) is actively considering global reporting developments and have already converged to the IFRS. ICAI along with other regulators is expected to vet the ISSB requirements for local applicability before deciding on implementation for Indian corporates.

With a strong market response across the region, and with the TCFD recommendation having gained significant traction in recent years, Deloitte firms across Asia Pacific expect the ISSB standards to be mandated by several jurisdictions by 2025 and that many larger listed companies will voluntarily adopt the standards from as early as 2024.

Getting ready for ISSB reporting – what companies can do today

With the effective date for application set for annual reporting periods beginning on or after 1 January 2024, the time to act is now. The transition relief is not an extension of the effective date; while preparers are not required to disclose comparative information for the first annual reporting period, they will still be required to report information on climate-related risks and opportunities.

If an entity applies the transition relief, it should not delay taking the next steps to prepare. This may include performing or refreshing a materiality analysis to identify sustainability-related risks and opportunities, establishing or enhancing governance and controls related to ESG data and disclosures, performing an assessment to understand risks and impacts across the value chain, and establishing a plan to integrate assurance into the reporting process.

With the ESG regulatory landscape taking shape, companies should devote attention to rapidly accelerating their preparedness for sustainability-related financial reporting, including enhancing governance and data management practices. As local jurisdictions begin to adopt the ISSB standards, it is imperative from both a regulatory compliance and value creation perspective to integrate financial metrics with nonfinancial disclosure across governance, risk management, and strategy. Outlined below are a few considerations for companies as they take action to align their disclosures with global and local ESG standards.



Begin where you are with consideration of:

- Climate-specific disclosures (e.g. TCFD, CDP [formerly Carbon Disclosure Project], or GHG emissions).
- Industry-specific disclosures (e.g. SASB).
- General sustainability and other disclosures (e.g. GRI, sustainability Web site, annual reports, or policies).



Understand what you are missing

- Perform a sustainability materiality assessment refresh that includes both impact and financial materiality considerations.
- Clarify reporting requirements, priorities, timelines, and stakeholder expectations.
- Identify and assess reporting gaps compared with ISSB standards requirements.
- Communicate data requirements with relevant internal stakeholders and process owners.

Asses governance, data management and assurance

- Evaluate current systems of internal control and data governance; define data owners' roles and responsibilities.
- Establish board oversight and top-down accountability mechanisms to support a robust control environment and establish a plan to prepare for regulation.
- Consider the role of assurance as one of the tools to improve transparency and accountability to external stakeholders.



Educate, upskill and take action

- Build organisational capacity, enhance operating models and strategic change management activities, and upskill board and management around strategic ESG priorities.
- Connect relevant stakeholders, including financial reporting and sustainability teams.

With extensive experience and expertise across Asia Pacific, Deloitte partners with businesses to take practical steps to decarbonise, become climate resilient and unlock the economic opportunity of the region's transition to a low-carbon economy. Contact us below to learn more about how we can support your organisation prepare for new reporting standards, stay ahead of the regulatory curve and align with global best practices.



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An aerial photograph of a lush green landscape. A light-colored gravel path winds through the grassy fields, intersecting at several points. There are clusters of trees and bushes scattered throughout the scene. The lighting is bright, suggesting a sunny day. The overall tone is natural and serene.

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