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International Sustainability Standards Board overview

Background

The formation of the International Sustainability Standards Board (ISSB) was announced by the International Financial Reporting Standard (IFRS) Foundation at the 2021 United Nations Climate Change Conference (COP26). The ISSB sits alongside the International Accounting Standards Board which issues IFRS Accounting Standards that are used in 145 jurisdictions. As part of the move to develop global sustainability standards, the Sustainability Accounting Standards Board (SASB) Standards and Integrated Reporting Framework have been consolidated into the IFRS Foundation.

Objectives

The ISSB issues IFRS Sustainability Disclosure Standards to meet the sustainability information needs of investors. Its goal is that its standards are used to form a global baseline of sustainability information.

Adoption

The ISSB and its objectives have been welcomed by 41 jurisdictions at COP 26 and subsequently by G7 and G20. Australia, Brazil, Canada, Singapore, Turkey, the UK and other jurisdictions in Asia, Africa and Latin America are planning adoption of the ISSB standards. Japan has announced it will base its sustainability standards on ISSB.

The International Organization of Securities Commissions (IOSCO) has endorsed the ISSB standards, calling on its member regulators to consider how they might ‘adopt, apply or otherwise be informed’ by the standards within their jurisdictional contexts. The Financial Stability Board (FSB) has stated that the ISSB standards should serve as a global framework for sustainability disclosures and transferred the monitoring of the progress of companies’ climate-related disclosures from the Task Force on Climate-related Financial Disclosures (TCFD) to the IFRS Foundation.

Structure and core elements of the standards

General requirements
Concepts and principles are set out in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

Topical Standards
IFRS S2 *Climate-related Disclosures*
The ISSB is considering standards on biodiversity, human capital and human rights.

Industry-specific requirements

The ISSB has drawn on existing standards and frameworks that are used widely by companies, including IFRS Accounting Standards, the TCFD Recommendations and the SASB Standards. In addition, the ISSB has taken steps further to internationalize metrics in the SASB Standards.

ISSB standards require a company to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect its prospects – its cash flows, its access to finance or cost of capital over the short, medium or long term.

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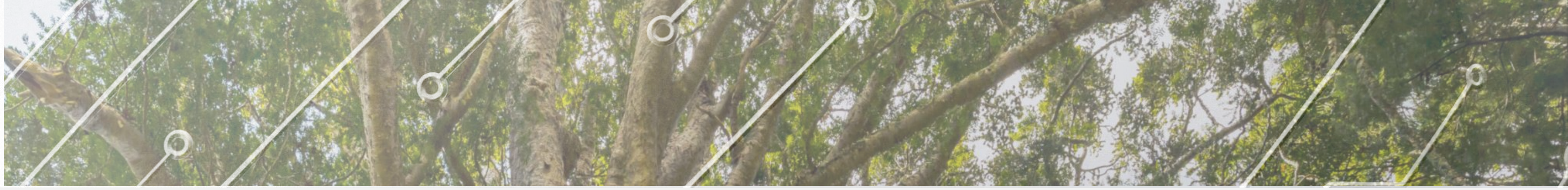

IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

Effective date: For annual reporting periods beginning on or after 1 January 2024

Applicability: Jurisdictions to decide whether, when and how to make the standards mandatory

Objective

To require a company to disclose information about its sustainability-related risks and opportunities that is useful to existing and potential investors, lenders and other creditors (the primary users) in making decisions relating to providing resources to the company.

The objective recognizes that:

- A company's ability to generate cash flows over the short, medium and long term is inextricably linked to its interactions with its stakeholders, society, the economy and the natural environment throughout its value chain
- A company's dependencies and impacts on resources and relationships give rise to sustainability-related risks and opportunities for the company

Overview

A company is required to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect its prospects – its cash flows, its access to finance or cost of capital over the short, medium or long term. The core content a company should address is as follows:

Governance – The governance processes, controls, and procedures a company uses to monitor and manage sustainability-related risks and opportunities

Strategy – The approach a company uses to manage sustainability-related risks and opportunities

Risk Management – The processes a company uses to identify, assess, prioritize and monitor sustainability-related risks and opportunities

Metrics & targets – A company's performance in relation to its sustainability-related risks and opportunities, including progress towards any targets it has set or is required to meet by law or regulation

Connected information: Companies must explain the connections across their sustainability-related risks and opportunities and the information in related corporate reports, including financial statements. The intent is to promote an integrated approach to reporting on sustainability matters.

Identifying sustainability-related risks and opportunities and material information

Identifying sustainability-related risks and opportunities

A company must identify sustainability-related risks and opportunities that could reasonably be expected to affect its prospects, including across the value chain

Identifying material information for disclosure

The company must disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects

Information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of corporate reporting make on the basis of those reports. This is consistent with the definition in IFRS Accounting Standards

A company needs to consider its value chain, which encompasses the full range of interactions, resources and relationships related to a company's business model and the external environment in which it operates, including its products or services from conception to delivery, consumption and end-of-life; and the financing, geographical, geopolitical and regulatory environments in which it operates.

Guidance is provided when there is not a specific ISSB standard on a relevant sustainability matter, including a requirement to consider the sustainability disclosure topics and related metrics in the SASB Standards that are relevant to the company's activities.

Reporting – timing and location

Sustainability-related disclosures should be made in corporate reporting as part of the same package that includes the financial statements and published for the same reporting period, at the same time. (In the first year of application, later publication is permitted; and a company may also limit its reporting to climate-related disclosures.)

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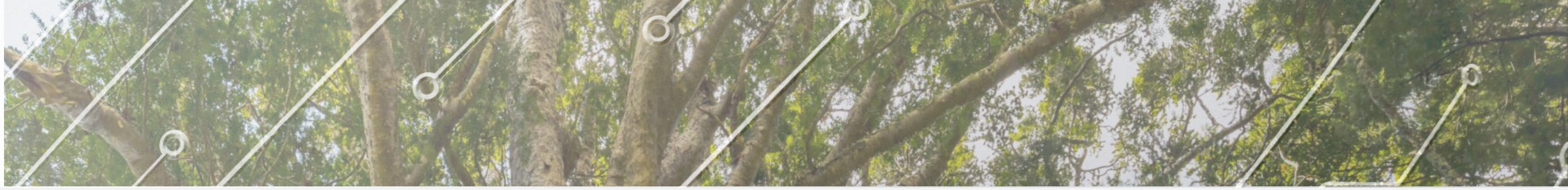

IFRS S2 *Climate-related Disclosures*

Effective date: For annual reporting periods beginning on or after 1 January 2024

Applicability: Jurisdictions to decide whether, when and how to make the standard mandatory

Objective and overview

To require a company to disclose information about its climate-related risks and opportunities that is useful to investors and other providers of financial capital in making decisions relating to providing resources to the company. The standard addresses:

Physical risks
(e.g. flooding)

Transition risks
(e.g. regulatory change)

Climate-related opportunities
(e.g. new technology)

The standard incorporates and builds on the TCFD Recommendations and should be applied alongside IFRS S1 which sets out general requirements for reporting using the ISSB standards.

Disclosure requirements

Climate-related disclosures should address the following:

Governance

The governance processes, controls, and procedures a company uses to monitor, manage and oversee climate-related risks and opportunities.

Strategy

A company's strategy for managing climate-related risks and opportunities.

- The **climate-related risks and opportunities** that could reasonably be expected to affect the company's prospects
- The current and anticipated effects of those climate-related risks and opportunities on the company's **business model and value chain**
- The effects of those climate-related risks and opportunities on the company's:
  - **strategy and decision-making**, including information about its climate-related transition plan
  - **financial position, financial performance and cash flows** for the reporting period, and the anticipated effects over the short, medium and long term (subject to relief if a company is unable to provide quantitative information)
- The **climate resilience** of the company's strategy and its business model to climate-related changes, developments and uncertainties, using scenario analysis that is appropriate to the company's circumstances

Risk Management

The processes used to identify, assess, prioritize and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the company's overall risk management process.

Metrics & Targets

A company's performance in relation to its climate-related risks and opportunities, including progress towards any targets it has set or is required to meet by law or regulation.

Companies must disclose information in relation to the following metric categories:

- Greenhouse gas emissions (GHG) (Scopes 1, 2, and 3) in accordance with the GHG Protocol. Guidance is included to support the measurement of Scope 3 emissions, recognizing the level of estimation involved
- Financial metrics related to climate-related transition and physical risks, climate-related opportunities, and capital deployment
- Internal carbon prices used and their role in decision-making
- Whether and how climate-related considerations are factored into executive remuneration and the related percentage

Companies are also required to disclose industry-specific metrics. Illustrative guidance is provided, derived from the SASB Standards. Companies with activities in asset management, commercial banking and insurance must disclose financed emissions.

Companies must disclose any targets set to monitor progress towards achieving strategic goals, including greenhouse gas emissions targets, together with:

- The base period from which progress is measured
- Any milestones or interim targets
- The planned use of carbon credits

Notes: In the first year of application, Scope 3 emissions do not have to be disclosed. If a company is using a different methodology other than the GHG Protocol, it may continue to do so in the first year of application of this standard. It may also apply a different methodology if it is required in its jurisdiction(s).

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Key Contacts

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