

MEMO# 35360

June 28, 2023

ISSB Publishes Inaugural Sustainability and Climate Disclosure Standards

[35360]

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TO: ICI Members

ICI Global Members

Asia Regulatory and Policy Committee

ESG Advisory Group

Europe Regulatory and Policy Committee

SUBJECTS: ESG
International/Global RE: ISSB Publishes Inaugural Sustainability and Climate Disclosure Standards

On June 26, 2023, the International Sustainability Standards Board (ISSB) published [\[1\]](#) its first set of sustainability and climate disclosure standards, aiming at creating a common language for corporate disclosure of climate and sustainability-related information. A company using the ISSB standards will report the material impacts of sustainability-related and climate-related risks and opportunities on its cash flows and its access to finance or cost of capital over the short, medium, or long term.

Endorsement, Adoption, and Potential Use of the ISSB Standards

There are potentially two ways that the ISSB standards may be used - by companies choosing to voluntarily report information using the ISSB standards, and by policymakers who elect to incorporate the ISSB standards, in part or in whole, into their regulatory reporting frameworks.

The ISSB promotes a "building blocks" approach where the ISSB standards act as a global baseline. This approach allows jurisdictions to adopt the baseline and layer on additional standards as needed. The ISSB is working closely with other international organizations and individual jurisdictions to support the use of its standards in regulatory requirements. The International Organization of Securities Commissions (IOSCO) is conducting an independent assessment of the ISSB standards, and is expected to encourage widespread adoption of the standards by its member jurisdictions.

The following jurisdictions, among others, are considering incorporating the ISSB standards into local reporting requirements in various ways:

- **United Kingdom.** The UK Government recently announced that it would be

establishing a mechanism for formal UK endorsement and adoption of the ISSB standards.[\[2\]](#) Once the standards are endorsed, the UK Financial Conduct Authority (FCA) will update its climate-related disclosure rules to reference the ISSB standards.

- **Hong Kong.** The Hong Kong Government is considering alignment of the local requirements with the ISSB standards in a proportionate approach.[\[3\]](#) The Stock Exchange of Hong Kong Limited (HKEX) recently consulted on introducing new climate disclosure provisions for listed issuers, which would be consistent with the ISSB Climate Standard.[\[4\]](#)
- **Australia.** The Australian Treasury is consulting on a policy framework for climate-related disclosure for large companies and financial institutions. The Australian Accounting Standard Board (AASB) will develop the detailed disclosure standards, intended to align as far as practicable with the ISSB Standards.[\[5\]](#)
- **Singapore.** The Monetary Authority of Singapore (MAS) is working with the Singapore Exchange and other government agencies to set out a roadmap for implementing ISSB-aligned disclosures on a risk-proportionate basis for companies and financial institutions.[\[6\]](#)
- **Japan.** In a meeting with the ISSB, the Sustainability Standards Board of Japan (SSBJ) noted its commitment to develop Japanese sustainability disclosure standards based on the ISSB standards. The draft Japanese sustainability disclosure standards are anticipated to be issued before March 31, 2024.[\[7\]](#)

We do not expect the United States or the European Union to adopt the ISSB standards. The US Securities and Exchange Commission (SEC) has proposed a regulatory framework for public company reporting, which is expected to be finalized this year. In response to the SEC's request for feedback, ICI encouraged the SEC to look closely at the work of the ISSB and actively engage the ISSB to ensure comparability of the SEC framework with any final ISSB standards.[\[8\]](#) Meanwhile, the EU has proposed its own reporting standards, the European Sustainability Reporting Standards (ESRS). [\[9\]](#) The ISSB is working with the European Commission to ensure a high level of interoperability between the ISSB standards and the ESRS, but it remains to be seen how comparable the information reported using these different standards will be for investors. ICI has actively engaged the European Commission and the European Financial Reporting Advisory Group (EFRAG) to urge better alignment between the ISSB and ESRS.[\[10\]](#) Interoperability will ensure investors are not left to resolve impractical inconsistencies in reported information.

Key Aspects of the ISSB Standards

Materiality Assessment. Companies reporting using the ISSB standards will only be required to report information that is material for investors. The ISSB uses the same definition of "material" that is used in IFRS Accounting Standards - "information is material if omitting, obscuring or misstating it could be reasonably expected to influence investor decisions."

Effective Date and Transition Relief. The ISSB standards are effective for annual reporting periods beginning on or after January 1, 2024. In the first year of reporting, companies could disclose information on only climate-related risks and opportunities, in accordance with the ISSB Climate Standard, and apply the requirements in the ISSB General Sustainability Standard only to the extent that they relate to the disclosure of information on climate-related risks and opportunities. Companies are also exempt from Scope 3 greenhouse gas emissions (GHG) disclosure in the first year of reporting.

Disclosure on Scope 3 and Financed Emissions. Acknowledging the data and methodological challenges regarding Scope 3 GHG emissions, the ISSB nevertheless will

require all companies to report their Scope 3 GHG emissions after the one-year relief period. The ISSB introduces a Scope 3 measurement framework that categorizes and prioritizes the inputs used to measure Scope 3 GHG emissions, including the use of estimates. With respect to financed emissions, asset managers will be required to disclose the absolute gross financed emissions attributable to their assets under management disaggregated by Scope 1, Scope 2, and Scope 3, and the total assets under management for each disaggregated metric. Asset managers must also disclose the percentage total assets under management that are included in the financed emissions calculation. If the percentage is less than 100%, the asset manager must disclose information that explains the exclusions, including types and associated amounts of assets.^[11]

ICI Global submitted a response^[12] to the ISSB Exposure Drafts in August 2022,^[13] opposing the approach taken by the ISSB on Scope 3 GHG reporting and the reporting of financed emissions by asset management companies. We recommended that Scope 3 GHG emissions disclosure should be limited to companies that have set targets or goals related to Scope 3 GHG emissions reduction. We also suggested that reporting standards for asset managers as public companies should be calibrated to serve the intended audience (i.e., disclosures for the benefit of their shareholders), and that any mandatory GHG reporting in this context should exclude assets managed on behalf of clients.

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Notes

^[1] ISSB issues inaugural global sustainability disclosure standards, dated June 26, 2023, available at <https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/>. See also IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ("ISSB General Sustainability Standard"), June 2023, available at <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>; and IFRS S2 Climate-related Disclosure ("ISSB Climate Standard"), June 2023, available at <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>.

^[2] HM Government report Mobilising Green Investment: 2023 Green Finance Strategy, dated March 2023, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1149690/mobilising-green-investment-2023-green-finance-strategy.pdf.

^[3] Cross-Agency Steering Group welcomes publication of IFRS Sustainability Disclosure Standards, dated June 27, 2023, available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=23PR69>.

^[4] See ICI Memorandum [35261], dated April 25, 2023, available at <https://www.ici.org/memo35261>.

- [5] Climate-related financial disclosure: Second consultation, June 27, 2023, available at <https://treasury.gov.au/consultation/c2023-402245>.
- [6] DPM Lawrence Wong at the Official Launch of the Sustainable and Green Finance Institute (SGFIN), dated April 20, 2023, available at <https://www.pmo.gov.sg/Newsroom/DPM-Lawrence-Wong-at-the-Official-Launch-of-the-Sustainable-and-Green-Finance-Institute>.
- [7] Representatives of the ISSB and the Sustainability Standards Board of Japan hold inaugural bilateral meeting in Japan, dated March 2, 2023, available at <https://www.ifrs.org/news-and-events/news/2023/03/representatives-of-the-issb-and-the-ssb-j-hold-inaugural-bilateral-meeting-in-japan/>.
- [8] See ICI Memorandum [34185], dated June 16, 2022, available at <https://www.ici.org/memo34185>.
- [9] Companies under the scope of the EU Corporate Sustainability Reporting Directive (CSRD) will be required to report sustainability information in accordance with the ESRS. The European Commission launched a consultation on the draft Delegated Act for the first set (sector-agnostic) ESRS on June 9, 2023. See European sustainability reporting standards - first set, available at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13765-European-sustainability-reporting-standards-first-set_en.
- [10] See ICI Memorandum [34246], dated August 10, 2022, available at <https://www.ici.org/memo34246>.
- [11] See the ISSB Climate Standard, *supra* note 1, at paragraph B61.
- [12] See ICI Memorandum [34244], dated August 8, 2022, available at <https://www.ici.org/memo34244>.
- [13] See ICI Memorandum [34115], dated April 19, 2022, available at <https://www.ici.org/memo34115>. See also [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, March 2022, available at <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf>; and [Draft] IFRS S2 Climate-related Disclosures, March 2022, available at <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf>.