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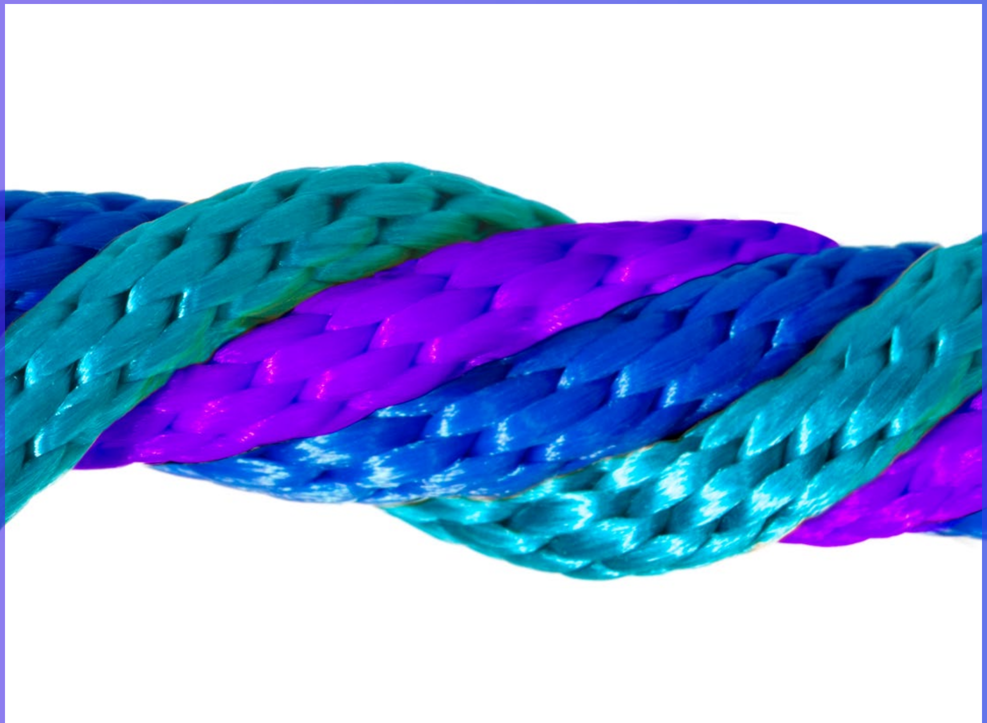
Comparing sustainability reporting requirements



ISSB, EU and US SEC

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May 2024

10 questions

to assess how the requirements compare

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Comparing sustainability reporting requirements

What's the issue?

Sustainability reporting is developing quickly, with new requirements from the ISSB, EU and the US SEC[1].

There is some commonality among the requirements – including that the TCFD framework forms a shared input.

However, there are also areas where they are not aligned, which will create practical challenges for companies trying to design coherent and consistent reporting that is internationally comparable, but also meets local needs.

In addition to points of detail, differences include the greater scope and scale of the ESRSs with their wider stakeholder focus.

[1] On 4 April 2024, the SEC stayed the climate rule pending judicial review.

What's the impact?

The requirements are ambitious and will have a significant impact on companies. For multinationals and others needing to apply multiple frameworks, there are many potential challenges.

For companies, interoperability is going to be a real challenge for those preparing a coherent narrative on what is important to their business.

Companies may also have to provide different and more detailed information depending on the frameworks applicable to them.

For investors and other stakeholders, the differing requirements will make comparisons between companies and decision making more challenging.

What's next?

1. Understand if and when the requirements apply to you, or whether you will choose to apply them voluntarily.
2. Understand where similarities and differences exist between the requirements that may affect you.
3. Identify the information you will need to disclose to provide a coherent narrative.
4. Prepare for fast adoption of multiple sets of requirements that may affect your company.

Abbreviations and key terms ▶

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01 At a glance, how do they compare?

Two ISSB™ Standards

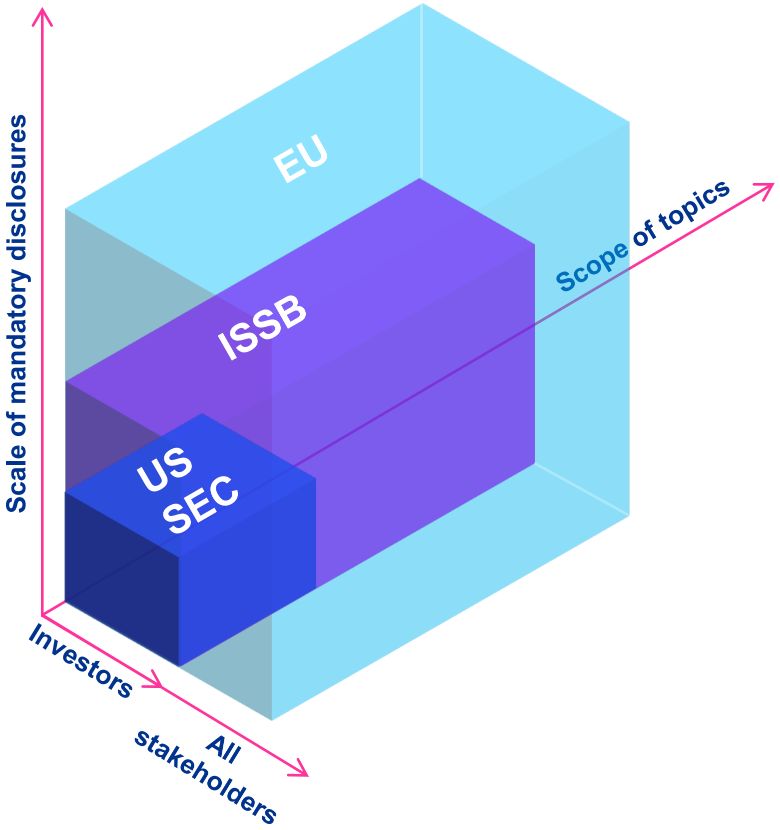
- Investor focus
- General principles, including requirement to report across all sustainability-related risks and opportunities
- Topic-specific standard on climate[1]
- Climate-first option is available in the first year of reporting

Twelve ESRSs

- Multi-stakeholder focus, including investors
- Core principles for disclosure
- Granular requirements published for sustainability-related impacts, risks and opportunities

One US SEC climate rule

- Investor focus
- Requirements to report on climate-related risks only
- Future proposals expected (e.g. human capital)



There is some commonality among the requirements – including that the TCFD framework forms a shared input. However, in this document we highlight areas where the requirements are not aligned. In addition to points of detail, differences include the greater scope and scale of the ESRSs with their wider stakeholder focus.

[1] Additional detailed guidance on other topics is planned for the future. The ISSB plans to publish its work plan in Q2 2024.

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02 Who will be in scope?

ISSB

- As determined by individual jurisdictions – e.g. based on listing status. Some have already indicated that these ISSB Standards will form a key part of future requirements; others plan to develop national requirements based on the ISSB Standards.

EU

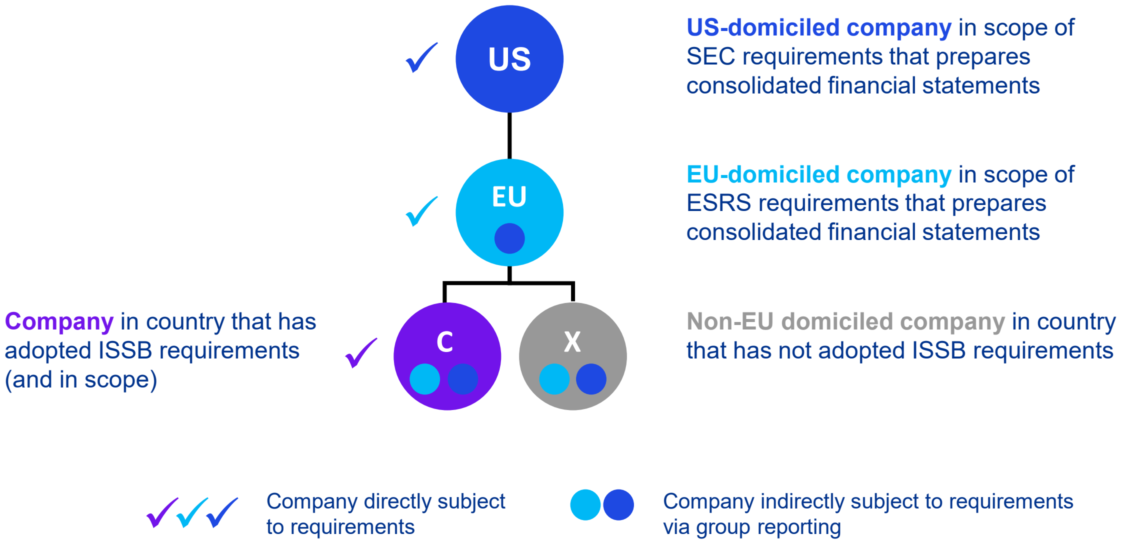
- A broad range of listed and private EU companies or groups,[1] and non-EU companies or groups with significant operations in the EU[2].

US SEC

- Nearly all US SEC registrants, including foreign private issuers[3].

As the starting point for disclosures, all three requirements use the same reporting entity as the financial statements. However, companies will need to carefully consider their broader value chain for at least some sustainability disclosures.

A US-listed and domiciled parent with global subsidiaries[4]



1 EU: ESRSs will apply to all large companies (including large subsidiaries of non-EU parents) and all companies listed in the EU other than micro-companies. Large companies meet two of the following criteria: >250 employees; turnover (revenue) of EUR 50m (formerly EUR 40m); or total assets of EUR 25m (formerly EUR 20m).

2 Non-EU: ESRSs will apply to non-EU companies or groups with an aggregated revenue within the EU of more than EUR 150m if there is at least one branch in the EU with revenue of more than EUR 40m or one large EU subsidiary. See this high-level guide for more information.

3 Registrants with Exchange Act reporting obligations pursuant to Exchange Act Section 13(a) or Section 15(d), and companies filing a Securities Act or Exchange Act registration statement; **including** foreign private issuers and **excluding** Canadian issuers reporting under the Multijurisdictional Disclosure System and asset-backed issuers.

4 This example assumes that the aggregated revenue in the EU is less than EUR 150m.

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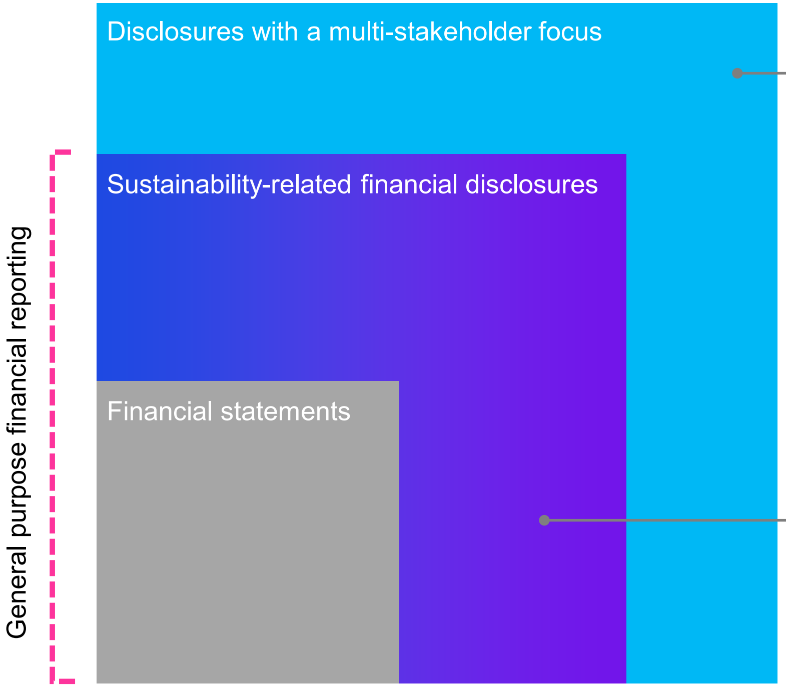
03 What materiality lens will apply?

The needs of users of sustainability reporting information may differ. Materiality provides the filter that helps companies focus on what matters to users.



Impact materiality (required by EU)

Impact materiality requires disclosures about sustainability-related matters that relate to a company's actual or potential positive or negative impacts on people or the environment.

Some of these disclosures may also be financially material.

The principles are consistent with reporting under GRI Standards.

Financial materiality (required by all)

Information that would influence an investor's decisions – e.g. by affecting their assessment of the company's cash flow prospects.

Double materiality

The EU adopts 'double materiality' principles – aiming to report on all significant impacts by considering both the investor and wider stakeholder lenses.

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04 Where and when will information be disclosed?

	ISSB	EU	US SEC
Required in the audited financial statements?	No, but permitted via cross-referencing	No	Yes, certain quantitative and qualitative information about severe weather events and other natural conditions, material effects on financial estimates/ assumptions, and carbon offsets or renewable energy credits
Required in the annual report?	Yes, with flexible location requirements	Yes, in the management report	Yes, in a separate section (climate-related disclosure) or incorporated by reference from another section (e.g. MD&A)
Cross-referencing permitted?	Yes, to documents outside general purpose financial reports, subject to conditions	Yes, to a limited extent, within specific locations and subject to conditions	Yes, within the annual report
At the same time as the financial statements?	Yes, subject to short-term transition reliefs[1]	Yes	Yes, with some relief for GHG emissions

Under the ISSB Standards, information included outside the annual report via cross-referencing to other documents – e.g. in a separate sustainability report – will need to be prepared on the same terms as the annual report, including being released at the same time.

[1] The ISSB Standards include transition reliefs to support companies. Read our article for further details.

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05 How do the requirements align with the TCFD?

TCFD	Governance Strategy Risk management		Metrics and targets	
ISSB	Governance Strategy Risk management	Mostly aligned. Builds on TCFD – including descriptions of transition plans and requiring scenario analysis.	Metrics and targets	Mostly aligned because it directly reflects the seven categories of cross-industry metrics included in the TCFD 2021 update. Builds on TCFD with industry-specific metrics.
EU	Governance Strategy Impact, risk and opportunity management	Largely aligned – differences arise because the EU uses double materiality principles (see Question 3).	Metrics and targets	The requirements are significantly more prescriptive and address EU policy objectives, including alignment with the Paris Agreement.
US SEC	Governance Strategy Risk management	Disclosures are not as extensive as the TCFD and are subject to a materiality assessment. Some are only required if the company uses the item (e.g. scenario analysis); reporting of climate-related opportunities is not required.	Metrics and targets	Disclosures are not as extensive as the TCFD. Only material targets are required to be disclosed; reporting of climate-related opportunities is not required.

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06 What industry-specific disclosures will be required?

ISSB

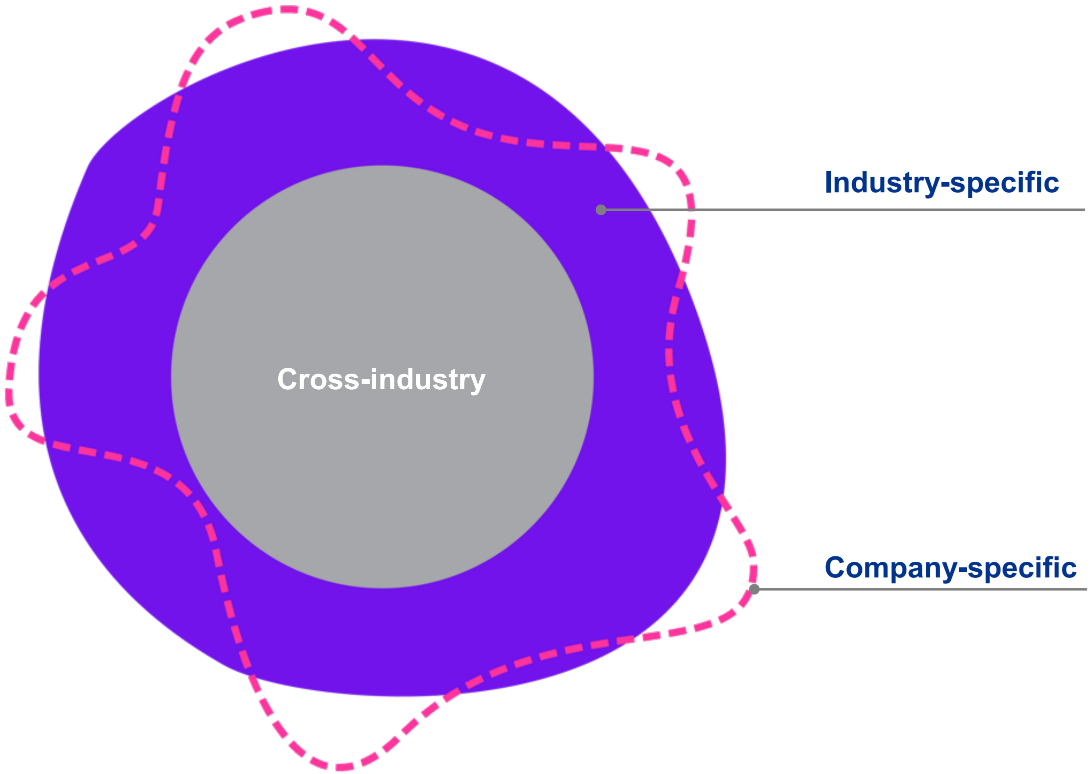
- Climate standard includes industry-specific disclosures
- Companies will need to consider SASB Standards for other topics – based on 77 industry-specific SASB Standards

EU

- No industry-specific requirements, but the EU plans to release industry-specific standards in the future

US SEC

- No industry-specific disclosures required



The SICS® industry classification system used by the ISSB is inconsistent with the EU's intention to use NACE codes. Multinational groups will need to map between the two systems, particularly if they operate in more than one industry.

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07 What GHG emissions reporting will be required?

	ISSB	EU	US SEC
Scope 1 and/or 2?	Yes, both scopes	Yes, both scopes	Yes[1], if material
Scope 3?	Yes, if material[2]	Yes	Not required
Basis for organisational boundaries	GHG Protocol – operational or financial control, or equity share	Operational control	Not prescribed
Intensity metrics?	Not required	Yes, based on net revenue for the **total** of Scope 1, 2 and 3 emissions	Not required
Disclose targets?	Yes, if used or required	Yes, if used	Yes, if material

The GHG Protocol is used by many companies to measure GHG emissions. The underlying guidance was largely developed in the early 2000s; following a consultation, a project is being undertaken to update the guidance.

Read our guide to help you understand the fundamentals of the protocol.

The three sets of requirements have different bases for the organisational boundary, with consequential practical implications for companies subject to multiple frameworks.

[1] Non-accelerated filers, smaller reporting companies and emerging growth companies are exempt.

[2] The ISSB's climate standard provides support for companies disclosing Scope 3 emissions to help address data availability and quality challenges. Read our article on applicable reliefs.

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08 When will they be effective?

ISSB

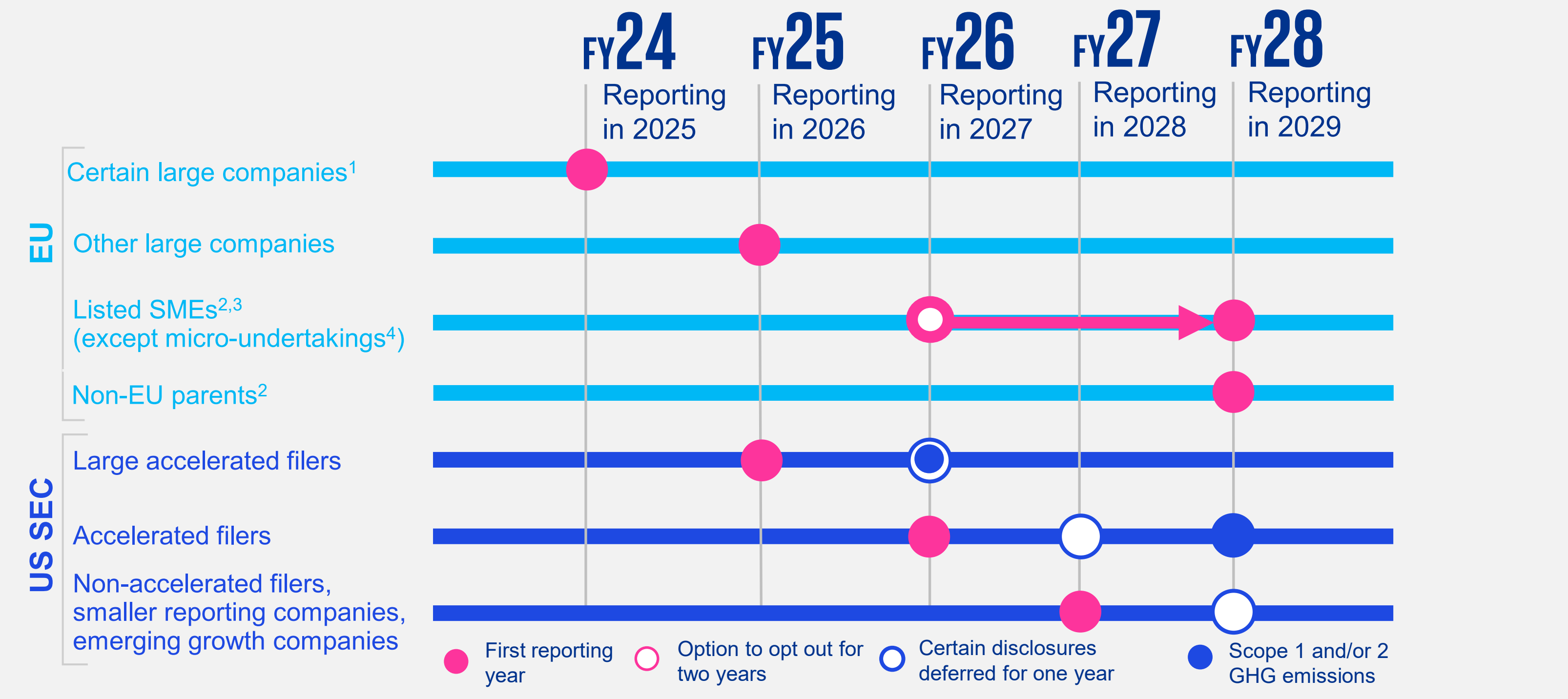
- Effective date of 1 January 2024 – i.e. reporting in 2025
- However, local jurisdictions are to decide when the requirements would apply
- A climate-first option is available in the first year of reporting

EU

- First applies for years beginning on or after 1 January 2024 – i.e. reporting in 2025
- Phased introduction has started for certain large companies[1] with listed securities in the EU

US SEC

- First applies for large accelerated filers for fiscal years beginning in calendar year 2025
- Disclosure of certain information outside the financial statements (including GHG emissions) is deferred for at least one year



[1] Certain large companies with listed securities on EU-regulated markets and more than 500 employees.

[2] Separate standards will be developed for SMEs and non-EU parent companies.

[3] Small and non-complex institutions and captive insurers are treated like listed SMEs (opt-out option until 2028 does not apply unless they also meet the definition of SME).

[4] Micro-undertakings are companies that do not exceed two of the following three criteria (including subsidiaries): 10 employees, net revenue of EUR 0.9m (formerly EUR 0.7m); or total assets of EUR 0.45m (formerly EUR 0.35m).

Adoption of ISSB Standards will be mandated by local jurisdictions. As such, the effective date may vary by location.

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09 What assurance will be required?

ISSB

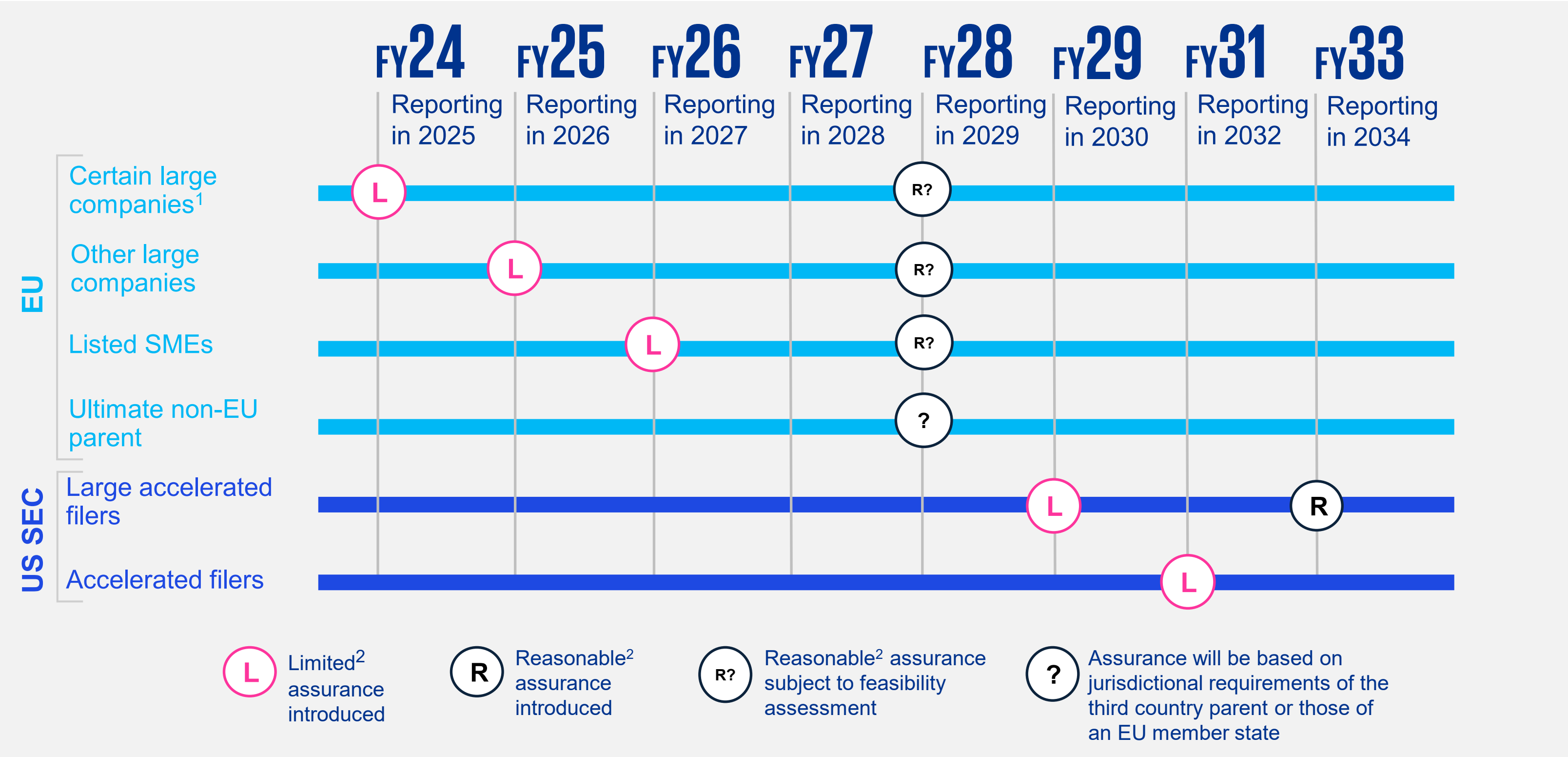
- Does not have the mandate to require assurance
- Instead, information is designed to be verifiable
- Local jurisdictions could choose to require either limited or reasonable assurance

EU

- EU requires limited assurance initially, moving to reasonable assurance over time
- Limited assurance standards to be adopted no later than 1 October 2026
- Reasonable assurance standards to be adopted after feasibility assessment no later than 1 October 2028

US SEC

- US SEC climate rule requires assurance only on Scope 1 and 2 GHG emissions



The US SEC climate rule requires some disclosures in the audited financial statements (see Question 4), in addition to requiring assurance over GHG metrics.

[1] Certain large companies with listed securities on EU-regulated markets and more than 500 employees.

[2] Read more about ESG Assurance in Audit. The assurance requirements will have no bearing on a company's responsibility to report accurate information from the first reporting year – e.g. limited assurance does not mean limited reporting (see Question 8).

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10 What do you need to do now?

1 Understand the impact

- Understand which requirements will impact your company and wider group.
- Understand how the requirements differ from your current reporting.

2 Determine what is material

- Understand the scope and breadth of your value chain.
- Undertake a materiality assessment to determine which topics are relevant to report on under both ESRSs and ISSB Standards.
- Decide what information is material under each of the requirements.

3 Assess maturity

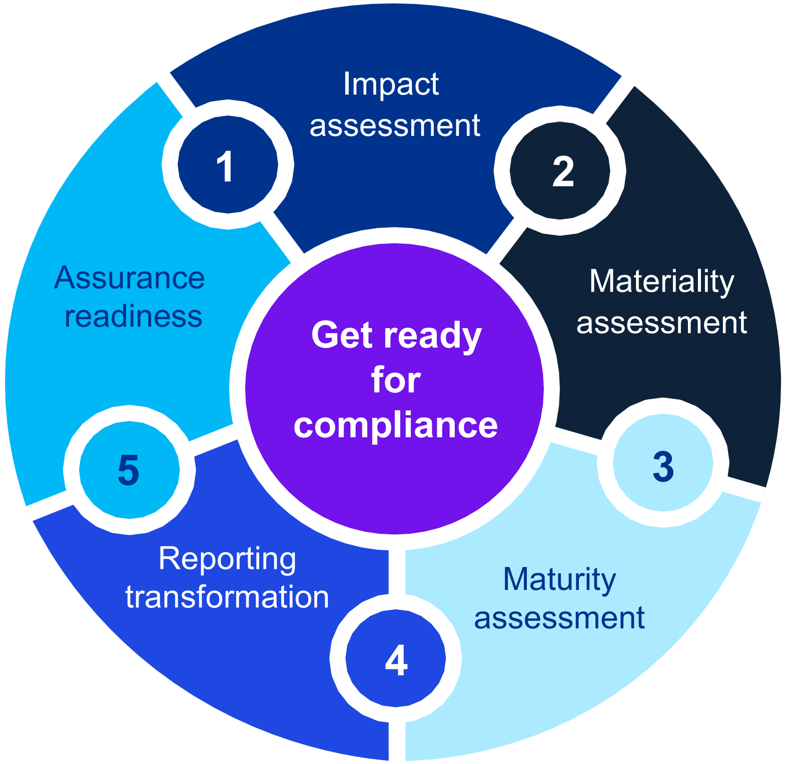
- Assess the maturity of processes, the control environment, data model and policies.
- Understand the current distribution of roles, available knowledge and capacity.

4 Transform reporting

- Design the future state of your reporting – including designing the most efficient reporting structure to meet group and individual company needs.
- Develop and deploy your target operating model, including training as well as support for change management.

5 Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation to support assurance.
- Rectify issues ahead of the formal assurance process.



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Abbreviations and key terms

ESRS
European Sustainability Reporting Standards

EU
European Union

GHG Protocol
The Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard

GRI
Global Reporting Initiative

ISSB
International Sustainability Standards Board

MD&A
Management Discussion and Analysis

NACE
Statistical Classification of Economic Activities in the European Community

SASB Standards
Sustainability Accounting Standards Board Standards

SEC
US Securities and Exchange Commission

SICS
Sustainable Industry Classification System

TCFD
Task Force on Climate-related Financial Disclosures

In this document, we use the term ‘requirements’ to refer collectively to:

- IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, referred to individually as IFRS® Sustainability Disclosure Standards or ISSB™ Standards;
- the final text of the first set of ESRSs from the EU, referred to as European Sustainability Reporting Standards (ESRSs); and
- SEC Release Nos. 33-11275; 34-99678 The Enhancement and Standardization of Climate-Related Disclosures for Investors, referred to as the US SEC climate rule.

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ISSB Standards

Insight, high-level guides and detailed analysis of the IFRS Sustainability Disclosure Standards

ESG Reporting

US resources for financial reporting professionals

First Impressions – IFRS S1 and IFRS S2

Insights and illustrative examples

SEC on Climate

SEC mandates climate disclosures and assurance

Get ready for IFRS Sustainability Disclosure Standards

A high-level summary

Ready for ESG reporting?

Insight and analysis on global sustainability reporting standards

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